

LEVY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Cameron A. Asbell	1
Beth Davis, Vice Chair to 11-16-09, Chair from 11-17-09	2
G. Frank Etheridge, Chair to 11-16-09	3
Paige S. Brookins	4
Rick Turner, Vice Chair from 11-17-09	5

Robert O. Hastings, 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 John Davisson, CPA, and the audit was supervised by Philip B. Ciano, 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.

**LEVY COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	10
Statement of Net Assets	10
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	21
Notes to Financial Statements	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds	40
Schedule of Funding Progress – Other Postemployment Benefits Plan	42
Notes to Required Supplementary Information	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	46
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 <i>CIRCULAR A-133</i>	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	54
EXHIBIT A MANAGEMENT'S RESPONSE	55

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

ADDITIONAL MATTERS

Finding No. 1: District records did not sufficiently evidence that instructional personnel and school administrators were evaluated based primarily on student performance.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; State Federal Stabilization Fund Cluster; and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-118.

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

substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Levy County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 25 percent of the assets and 76 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

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

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 40 through 43) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA
January 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Levy County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on the following pages.

FINANCIAL HIGHLIGHTS

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

- The District's total net assets increased by \$491,805.44, which represents a 0.8 percent increase from the 2008-09 fiscal year.
- During the current fiscal year, General Fund revenues exceeded expenditures by \$286,175.83. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by \$1,206,522.94. Overall, after considering the effects of interfund transfers and insurance proceeds, the General Fund fund balance increased from last fiscal year by \$1,467,143.17.

OVERVIEW OF THE 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 financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – Includes the Levy County Public Facilities Finance Authority, Inc. (Authority), which was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the School Board and the Authority, the financial activities of the Authority are blended in the accompanying basic financial statements.

In addition, the District presents two separate legal entities in this report as discretely presented component units: Whispering Winds Charter School, Inc., and Nature Coast Middle School, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the District.

Fund Financial Statements

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Other Federal Programs Fund, Special Revenue – ARRA Economic Stimulus Fund, Debt Service - Other Fund, and Capital Projects - Local Capital Improvement 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 and to account for the activity of the employee medical and dependent care reimbursement program.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-10	6-30-09
Current and Other Assets	\$ 13,338,636.18	\$ 11,509,865.85
Capital Assets	63,529,973.21	65,055,123.48
Total Assets	76,868,609.39	76,564,989.33
Long-Term Liabilities	14,640,989.48	14,744,663.06
Other Liabilities	1,513,579.45	1,598,091.25
Total Liabilities	16,154,568.93	16,342,754.31
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	52,709,435.86	53,940,123.48
Restricted	9,226,853.15	8,151,381.57
Unrestricted (Deficit)	(1,222,248.55)	(1,869,270.03)
Total Net Assets	\$ 60,714,040.46	\$ 60,222,235.02

The total net assets increased \$491,805.44 over the previous fiscal year. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$60,714,040.46 at the close of the fiscal year. By far, the largest portion of the District's net assets (86.8 percent) reflects investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The District uses these assets to educate the students of Levy County; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets represents resources that are subject to external restrictions such as debt service, capital projects, State required carryover programs, and other purposes. Compensated absences of \$3,624,520.13 and other postemployment benefits payable of \$195,932 reduce the remaining balance of the unrestricted portion and is recognized as amounts that may be needed to meet future obligations.

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

	Operating Results for the Year	
	Governmental	
	Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 521,942.53	\$ 638,016.94
Operating Grants and Contributions	3,842,521.13	3,939,134.24
Capital Grants and Contributions	470,223.03	5,896,032.02
General Revenues:		
Property Taxes, Levied for Operational Purposes	13,350,357.10	13,999,891.92
Property Taxes, Levied for Capital Projects	3,232,085.43	4,129,544.36
Grants and Contributions Not Restricted to Specific Programs	33,493,020.22	31,826,779.88
Unrestricted Investment Earnings	16,213.41	51,760.18
Miscellaneous	1,032,212.82	1,338,708.21
Total Revenues	55,958,575.67	61,819,867.75
Functions/Program Expenses:		
Instruction	28,518,925.21	28,617,043.27
Pupil Personnel Services	1,917,544.61	2,371,471.19
Instructional Media Services	672,010.19	943,413.01
Instruction and Curriculum Development Services	1,064,920.36	1,201,013.09
Instructional Staff Training	952,063.42	993,491.74
Instruction Related Technology	212,290.37	171,227.16
School Board	225,974.27	236,171.35
General Administration	1,883,315.26	1,252,815.33
School Administration	2,938,553.38	3,111,862.57
Facilities Acquisition and Construction	915,513.01	860,468.91
Fiscal Services	423,948.34	464,704.66
Food Services	2,593,830.68	2,717,563.55
Central Services	349,749.58	372,254.16
Pupil Transportation Services	4,091,599.56	4,146,451.06
Operation of Plant	3,813,624.51	3,722,370.50
Maintenance of Plant	1,043,392.67	1,026,545.90
Administrative Technology Services	584,030.80	552,981.91
Community Services		5,702.11
Unallocated Interest on Long-Term Debt	437,149.09	471,177.37
Unallocated Depreciation Expense	2,828,334.92	2,548,948.75
Total Functions/Program Expenses	55,466,770.23	55,787,677.59
Increase in Net Assets	\$ 491,805.44	\$ 6,032,190.16

Governmental activities increased the District's net assets by \$491,805.44 during the 2009-10 fiscal year, compared to an increase of \$6,032,190.16 during the 2008-09 fiscal year. Significant changes in revenues and expenses that contributed to the smaller increase net assets during the 2009-10 fiscal year than from the 2008-09 fiscal year are as follows:

- Capital grants and contributions decreased by \$5,425,808.99, primarily the result of decreased new construction capital appropriations.
- Property taxes decreased by \$1,546,993.75 due to declining property values.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The District receives funding for current education from local, State, and Federal sources. Revenue from local sources is primarily generated by ad valorem property taxes. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. Federal awards are received for the enhancement of various educational programs, including Title I, National School Lunch, and others. Funding received from local, State, and Federal sources totaled \$55,713,399.17. Local revenue collections were \$18,051,528.57 (32.4 percent), State receipts amounted to \$27,232,508.83 (48.9 percent), and Federal collections were \$10,429,361.77 (18.7 percent).

General Fund revenues and other sources were greater than expenditures and other uses by \$1,467,143.17, increasing our General Fund fund balance to \$3,660,036.05 at June 30, 2010. State revenues decreased \$1,921,543.59, and local property taxes decreased \$941,769.99. In response, the District reduced expenditures by \$4,052,236.05, mainly by decreasing staff and implementing other cost containment measures (e.g., reducing supplies expense, limiting travel, etc.).

The total fund balance represents 9 percent of total General Fund revenues. Some of that balance is restricted for special purposes: State required carryover programs, \$830,673.19, State fuel tax refunds, \$240,790.80, and encumbrances, \$357,910.51. An additional \$521,298.84 is designated for special programs, which leaves an unreserved, undesignated fund balance of \$1,709,362.71 or 4.2 percent of revenues.

The Special Revenue – Other Federal Programs Fund showed revenues and expenditures of \$4,690,637.50, and ended the year with no fund balance. The expenditures were for ongoing Federally-funded educational programs, primarily the Title I and the Special Education programs.

The Special Revenue – ARRA Economic Stimulus Fund showed revenues and expenditures of \$3,266,327.73, and ended the year with no fund balance. The expenditures were for authorized purposes under the American Recovery and Reinvestment Act, primarily for the Title I and Special Education programs as well as personal services related expenditures as permitted under the Stabilization funding program.

The Debt Service – Other Fund showed other financing sources and expenditures of \$656,920.04 each, and ended the year with a fund balance of \$4.72. The expenditures were for principal and interest payments on the District's certificates of participation.

The Capital Projects – Local Capital Improvement Fund showed revenues and other sources and expenditures and other uses of \$3,748,398.84 and \$3,056,207.07, respectively, and ended the year with a fund balance of \$7,039,426.41. The expenditures were primarily for the purchase of school related data processing equipment, enterprise software, school busses, and for debt service.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Florida law and is prepared on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the course of the 2009-10 fiscal year the District amended its General Fund budget as needed. The District uses school-based budgeting for nonpersonnel, nonenergy, and nonfixed cost items. Schools are allocated budgets based on student enrollment.

For the General Fund, differences between the final budgeted revenues and final budgeted expenditures as compared to the original budget were insignificant. Similarly, the final revenues actually collected and the final expenditures actually incurred were not significantly different from the original and final budgets. None of these differences are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of the 2009-10 fiscal year, the District had \$63,529,973.21 invested in capital assets, net of depreciation. The following table compares balances at June 30, 2010, with those of the prior year:

Capital Assets (Net of Depreciation)		
	<u>6-30-10</u>	<u>6-30-09</u>
Land	\$ 1,501,926.07	\$ 1,501,926.07
Improvements Other than Buildings	2,784,572.33	1,150,979.34
Buildings and Fixed Equipment	56,469,395.15	55,208,151.50
Furniture, Fixtures, and Equipment	517,601.61	619,723.72
Motor Vehicles	1,744,359.81	1,341,017.74
Construction in Progress		5,128,575.99
Property Under Capital Lease	407,641.27	
Computer Software	<u>104,476.97</u>	<u>104,749.12</u>
Total Capital Assets	<u><u>\$ 63,529,973.21</u></u>	<u><u>\$ 65,055,123.48</u></u>

Long-Term Debt

As of June 30, 2010, the District had long-term debt of \$10,820,537.35. The year-end balance consists of \$7,320,000 in certificates of participation payable, \$3,230,000 in bonds payable, and \$270,537.35 in capital lease payable. During the fiscal year, retirement of debt amounted to \$939,014.24.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The primary source of revenue from the State for the School Board of Levy County is based on the number of full time equivalent students (FTE). A student count is taken twice a year in October and February. The FTE for the District is relatively stable, except that it has declined during the two most recent years. Outlined below is a five-year history of our FTE information:

	Fiscal Year				
	2005-06	2006-07	2007-08	2008-09	2009-10
FTE	6,165	6,161	6,165	5,973	5,819

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School Board of Levy County, Director of Finance, at P.O. Box 129, Bronson, Florida 32621. Our physical address is 480 Marshburn Drive, Bronson, Florida.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 11,641,783.34	\$ 451,191.00
Cash with Fiscal Agent	508,460.02	
Investments	91,943.99	
Taxes Receivable	52,000.90	
Accounts Receivable	4,031.08	48,217.00
Due from Other Agencies	911,158.77	
Deposits Receivable	20,000.00	830.00
Prepaid Items		6,678.00
Inventories	109,258.08	
Capital Assets:		
Nondepreciable Capital Assets	1,501,926.07	69,505.00
Depreciable Capital Assets, Net	62,028,047.14	724,484.00
TOTAL ASSETS	\$ 76,868,609.39	\$ 1,300,905.00
LIABILITIES		
Salaries and Benefits Payable	\$ 411,445.86	\$ 7,870.00
Accounts Payable	513,398.33	41,727.00
Due to Other Agencies	427.00	
Deferred Revenue	79,848.24	
Matured Certificates of Participation Payable	360,000.00	
Matured Interest Payable	148,460.02	
Long-Term Liabilities:		
Portion Due Within One Year	1,165,937.79	16,725.00
Portion Due After One Year	13,475,051.69	313,142.00
Total Liabilities	16,154,568.93	379,464.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	52,709,435.86	464,122.00
Restricted for:		
State Required Carryover Programs	830,673.19	
Debt Service	38,419.41	
Capital Projects	7,839,909.40	2,182.00
Food Service	277,060.35	
Other Purposes	240,790.80	77,197.00
Unrestricted	(1,222,248.55)	377,940.00
Total Net Assets	60,714,040.46	921,441.00
TOTAL LIABILITIES AND NET ASSETS	\$ 76,868,609.39	\$ 1,300,905.00

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 28,518,925.21	\$	\$	
Pupil Personnel Services	1,917,544.61			
Instructional Media Services	672,010.19			
Instruction and Curriculum Development Services	1,064,920.36			
Instructional Staff Training Services	952,063.42			
Instruction Related Technology	212,290.37			
School Board	225,974.27			
General Administration	1,883,315.26			
School Administration	2,938,553.38			
Facilities Acquisition and Construction	915,513.01			279,123.45
Fiscal Services	423,948.34			
Food Services	2,593,830.68	512,425.84	2,225,475.13	
Central Services	349,749.58			
Pupil Transportation Services	4,091,599.56	9,516.69	1,617,046.00	
Operation of Plant	3,813,624.51			
Maintenance of Plant	1,043,392.67			
Administrative Technology Services	584,030.80			
Unallocated Interest on Long-Term Debt	437,149.09			191,099.58
Unallocated Depreciation/Amortization Expense *	2,828,334.92			
Total Primary Government	\$ 55,466,770.23	\$ 521,942.53	\$ 3,842,521.13	\$ 470,223.03
Component Units:				
Charter Schools	\$ 1,450,860.00	\$ 19,733.00	\$ 4,556.00	\$ 103,731.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		Component
Governmental		Units
Activities		
\$	(28,518,925.21)	\$
	(1,917,544.61)	
	(672,010.19)	
	(1,064,920.36)	
	(952,063.42)	
	(212,290.37)	
	(225,974.27)	
	(1,883,315.26)	
	(2,938,553.38)	
	(636,389.56)	
	(423,948.34)	
	144,070.29	
	(349,749.58)	
	(2,465,036.87)	
	(3,813,624.51)	
	(1,043,392.67)	
	(584,030.80)	
	(246,049.51)	
	(2,828,334.92)	
	(50,632,083.54)	
		(1,322,840.00)
	13,350,357.10	
	3,232,085.43	
	33,493,020.22	1,402,444.00
	16,213.41	372.00
	1,032,212.82	
	51,123,888.98	1,402,816.00
	491,805.44	79,976.00
	60,222,235.02	841,465.00
\$	60,714,040.46	\$ 921,441.00

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 3,709,375.55	\$	\$ 1,544.48	\$ 4.72
Cash with Fiscal Agent				508,460.02
Investments	48,223.48			
Taxes Receivable	38,922.77			
Accounts Receivable	4,031.08			
Due from Other Funds	426,294.85	29,842.97	26,318.95	
Deposits Receivable	20,000.00			
Due from Other Agencies	195,682.06	256,919.45	251,151.28	
Inventories				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 4,442,529.79	\$ 286,762.42	\$ 279,014.71	\$ 508,464.74
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 411,445.86	\$	\$	\$
Accounts Payable	334,124.82	101,055.78	10,899.72	
Due to Other Funds	36,496.06	177,845.72	268,114.99	
Due to Other Agencies	427.00			
Deferred Revenue		7,860.92		
Matured Certificates of Participation Payable				360,000.00
Matured Interest Payable				148,460.02
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	782,493.74	286,762.42	279,014.71	508,460.02
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Reserved for State Required Carryover Programs	830,673.19			
Reserved for Encumbrances	357,910.51			
Reserved for Debt Service				
Reserved for Fuel Tax Refunds	240,790.80			
Unreserved:				
Designated, Reported in General Fund:				
Designated for Special Programs	521,298.84			
Undesignated, Reported in:				
General Fund	1,709,362.71			
Special Revenue Funds				
Debt Service Funds				4.72
Capital Projects Funds				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	3,660,036.05			4.72
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,442,529.79	\$ 286,762.42	\$ 279,014.71	\$ 508,464.74
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 7,060,924.11	\$ 869,934.48	\$ 11,641,783.34
		508,460.02
130.13	43,590.38	91,943.99
13,078.13		52,000.90
		4,031.08
20,263.93	13,483.94	516,204.64
		20,000.00
	207,405.98	911,158.77
	109,258.08	109,258.08
<u>\$ 7,094,396.30</u>	<u>\$ 1,243,672.86</u>	<u>\$ 13,854,840.82</u>
\$ 45,623.11	\$ 21,694.90	\$ 411,445.86
9,346.78	24,401.09	513,398.33
		516,204.64
		427.00
	71,987.32	79,848.24
		360,000.00
		148,460.02
<u>54,969.89</u>	<u>118,083.31</u>	<u>2,029,784.09</u>
86,135.62	79,185.18	830,673.19
	38,419.41	523,231.31
		38,419.41
		240,790.80
		521,298.84
		1,709,362.71
	258,138.31	258,138.31
	9,626.80	9,631.52
6,953,290.79	740,219.85	7,693,510.64
<u>7,039,426.41</u>	<u>1,125,589.55</u>	<u>11,825,056.73</u>
<u>\$ 7,094,396.30</u>	<u>\$ 1,243,672.86</u>	<u>\$ 13,854,840.82</u>

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

Total Fund Balances - Governmental Funds \$ 11,825,056.73

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. 63,529,973.21

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

Certificates of Participation Payable	\$ (7,320,000.00)	
Bonds Payable	(3,230,000.00)	
Capital Lease Payable	(270,537.35)	
Compensated Absences Payable	(3,624,520.13)	
Other Postemployment Benefits Payable	(195,932.00)	
	(14,640,989.48)	(14,640,989.48)

Total Net Assets - Governmental Activities \$ 60,714,040.46

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 47,880.69	\$	\$
Federal Through State and Local	322,354.92	4,690,637.50	3,266,327.73
State	26,269,614.97		
Local:			
Property Taxes	13,058,211.93		
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	1,003,891.13		
Total Revenues	<u>40,701,953.64</u>	<u>4,690,637.50</u>	<u>3,266,327.73</u>
Expenditures			
Current - Education:			
Instruction	22,196,208.31	3,287,954.88	2,919,308.20
Pupil Personnel Services	1,740,266.08	115,789.99	53,600.90
Instructional Media Services	664,942.88	4,088.32	
Instruction and Curriculum Development Services	522,752.04	480,722.98	56,740.36
Instructional Staff Training Services	508,521.76	421,514.69	18,657.25
Instruction Related Technology	155,071.10	56,539.36	
School Board	225,159.71		
General Administration	1,708,376.21	128,222.97	42,567.37
School Administration	2,922,905.13	1,766.21	
Facilities Acquisition and Construction	13,740.29		67,635.60
Fiscal Services	421,927.20		
Food Services			
Central Services	343,724.04	4,432.07	
Pupil Transportation Services	3,504,872.90	104,506.95	7,661.84
Operation of Plant	3,805,597.13		
Maintenance of Plant	1,024,968.84		
Administrative Technology Services	582,822.84		
Fixed Capital Outlay:			
Other Capital Outlay	73,921.35	85,099.08	100,156.21
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>40,415,777.81</u>	<u>4,690,637.50</u>	<u>3,266,327.73</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>286,175.83</u>		
Other Financing Sources (Uses)			
Transfers In	984,352.28		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Bond Escrow Agent			
Inception of Capital Lease			
Insurance Loss Recoveries	196,615.06		
Transfers Out			
Total Other Financing Sources (Uses)	<u>1,180,967.34</u>		
Net Change in Fund Balances	1,467,143.17		
Fund Balances, Beginning	2,192,892.88		
Fund Balances, Ending	<u>\$ 3,660,036.05</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Debt Service - Other Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		2,102,160.93	47,880.69
		962,893.86	10,381,481.08
	3,132,967.91		27,232,508.83
		94,054.17	16,191,179.84
		512,425.84	94,054.17
	105,879.34	144,098.25	512,425.84
			1,253,868.72
	3,238,847.25	3,815,633.05	55,713,399.17
			28,403,471.39
			1,909,656.97
			669,031.20
			1,060,215.38
			948,693.70
			211,610.46
			225,159.71
			1,879,166.55
	253,465.92	580,671.20	2,924,671.34
			915,513.01
			421,927.20
		2,586,876.22	2,586,876.22
			348,156.11
			3,617,041.69
			3,805,597.13
			1,024,968.84
			582,822.84
	1,311,047.31	161,940.50	1,732,164.45
360,000.00	239,014.24	205,000.00	804,014.24
296,920.04	9,170.76	131,058.29	437,149.09
656,920.04	1,812,698.23	3,665,546.21	54,507,907.52
(656,920.04)	1,426,149.02	150,086.84	1,205,491.65
656,920.04			1,641,272.32
		135,000.00	135,000.00
		12,689.40	12,689.40
		(146,463.57)	(146,463.57)
	509,551.59		509,551.59
		398.00	197,013.06
	(1,243,508.84)	(397,763.48)	(1,641,272.32)
656,920.04	(733,957.25)	(396,139.65)	707,790.48
	692,191.77	(246,052.81)	1,913,282.13
4.72	6,347,234.64	1,371,642.36	9,911,774.60
\$ 4.72	\$ 7,039,426.41	\$ 1,125,589.55	\$ 11,825,056.73

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

Net Change in Fund Balances - Governmental Funds **\$ 1,913,282.13**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period.

Fixed Capital Outlay - Other Capital Outlay	\$ 1,732,164.45	
Depreciation Expense	<u>(3,304,252.33)</u>	(1,572,087.88)

The donation of capital assets is not reported in the governmental funds. However, in the statement of activities, the acquisition of the assets is reported as revenue and the value at the date acquired is allocated over their estimated useful lives as depreciation expense. 46,937.61

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. (135,000.00)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details long-term debt payments in the current period:

Certificates of Participation Retired	\$ 360,000.00	
Bonds Payable Retired and Refunded	340,000.00	
Capital Lease Payments	<u>239,014.24</u>	939,014.24

The cost of an asset at inception of a capital lease is reported as an other financing source in the governmental funds and contributes to the change in fund balance. In the statement of net assets, however, acquiring debt also increases long-term liabilities and does not affect total net assets. This is the cost of the asset acquired. (509,551.59)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (91,408.07)

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. (99,381.00)

Change in Net Assets - Governmental Activities **\$ 491,805.44**

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 444,740.54
LIABILITIES	
Accounts Payable	\$ 22,576.00
Deposits Payable	18,095.54
Internal Accounts Payable	404,069.00
TOTAL LIABILITIES	\$ 444,740.54

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

- **Blended Component Unit.** The Levy County Public Facilities Finance Authority, Inc. (Authority), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. Due to the substantive economic relationship between the Board and the Authority, the financial activities of the Authority are included in the accompanying basic financial statements. Separate financial statements for the Authority are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of two charter schools: Whispering Winds Charter School, Inc., and Nature Coast Middle School, Inc.

The charter schools are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Board, and are considered to be component units of the District since they cannot levy taxes and are financially dependent on the District for their support. The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2010, which are on file at the District's administrative office.

➤ **Basis of Presentation**

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

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

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 and maintenance departments are allocated to the pupil transportation services and the maintenance of plant functions, 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.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – Other Fund – to account for the financial resources used for the payment of debt service requirements on the District's certificates of participation that have been issued for capital construction.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities; and to account for the activities of the medical and dependent reimbursement program, which is administered by a third-party administrator and available to employees through the District's cafeteria plan.

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, 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.

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash deposits in demand accounts and short-term, highly liquid investments with original maturities of three months or less.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, and amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes, and are reported at fair value, which is amortized cost.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These amounts 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 .67353149 at June 30, 2010. 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

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

record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within Florida Prime.

Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District food service operations. Inventories are stated at cost based on the last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000 for vehicles and equipment and \$10,000 for buildings and improvements, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the composite method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings Including Portable Classrooms	20 years
Buildings and Fixed Equipment	40 years
Furniture, Fixtures, and Equipment	5 years
Motor Vehicles	8 years
Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, as well as the premiums on debt issued are reported as other financing sources. Issuance costs,

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

whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

➤ **State Revenue Sources**

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

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

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

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

➤ **District Property Taxes**

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

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

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

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of

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

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 Levy 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.

➤ **Educational Impact Fees**

Levy County imposes an educational impact fee based on an ordinance adopted by the County Commission (County) in January 2008. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fee shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses of the fee include, but are not limited to, land acquisition; facility design and construction costs; acquisition of furniture, equipment, and busses; and payment of principal, interest, and related costs of indebtedness. Because the fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements.

➤ **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

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

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

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the State Board of Administration Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a

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

nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices, and does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash and cash equivalents, with a fair value of \$207,656.18 at June 30, 2010, are in Florida PRIME with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity 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. The District's investment in Florida PRIME is rated AAAm by Standard & Poor's.

Investments with a fair value of \$53,524.58 at June 30, 2010, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL. The District's investment in Fund B is unrated.

In addition, the District reports investments totaling \$38,419.41 at June 30, 2010, in the SBA Debt Service accounts to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District relies on policies developed by SBA for managing credit risk for this account.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,501,926.07	\$	\$	\$ 1,501,926.07
Construction in Progress	5,128,575.99		5,128,575.99	
Total Capital Assets Not Being Depreciated	6,630,502.06		5,128,575.99	1,501,926.07
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	2,864,039.77	1,834,522.78		4,698,562.55
Buildings and Fixed Equipment	79,530,880.84	3,340,990.82		82,871,871.66
Furniture, Fixtures, and Equipment	5,997,484.45	254,140.75	35,626.00	6,215,999.20
Motor Vehicles	6,459,548.40	904,860.95	296,643.85	7,067,765.50
Property Under Capital Lease		509,551.59		509,551.59
Computer Software	691,789.62	63,611.16		755,400.78
Total Capital Assets Being Depreciated	95,543,743.08	6,907,678.05	332,269.85	102,119,151.28
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,713,060.43	200,929.79		1,913,990.22
Buildings and Fixed Equipment	24,322,729.34	2,079,747.17		26,402,476.51
Furniture, Fixtures, and Equipment	5,377,760.73	356,262.86	35,626.00	5,698,397.59
Motor Vehicles	5,118,530.66	501,518.88	296,643.85	5,323,405.69
Property Under Capital Lease		101,910.32		101,910.32
Computer Software	587,040.50	63,883.31		650,923.81
Total Accumulated Depreciation	37,119,121.66	3,304,252.33	332,269.85	40,091,104.14
Total Capital Assets Being Depreciated, Net	58,424,621.42	3,603,425.72		62,028,047.14
Governmental Activities Capital Assets, Net	\$ 65,055,123.48	\$ 3,603,425.72	\$ 5,128,575.99	\$ 63,529,973.21

Depreciation expense was charged to functions as follows:

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

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 462,039.90
Maintenance of Plant	13,877.51
Unallocated	2,828,334.92
Total Depreciation Expense - Governmental Activities	\$ 3,304,252.33

5. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement, which was characterized as a lease-purchase agreement, with the Levy County Public Facilities Finance Authority, Inc., (Authority) whereby the District secured financing in the amount of \$8,995,000 for various educational facilities and to advance-refund outstanding certificates of participation. The financing was accomplished through the issuance of Certificates of Participation, Series 2005, by the Authority to third-party investors. The certificates are to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Authority with a rental fee of \$10 per year. The initial term of the lease agreement commenced on July 1, 2005, and is automatically renewable for successive one-year periods thereafter; the final lease term will expire on June 30, 2025. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term of the lease, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates.

The District properties included in the ground lease under this arrangement include an auditorium and administrative building at Chiefland High School, a gymnasium at Chiefland Middle School, a media center and cafetorium at Williston Middle School, a media center at Yankeetown School, and a food service building at Cedar Key School.

The lease payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.125 to 4.25 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 660,220.02	\$ 375,000.00	\$ 285,220.02
2012	658,501.26	385,000.00	273,501.26
2013	660,507.52	400,000.00	260,507.52
2014	661,507.52	415,000.00	246,507.52
2015	661,463.76	430,000.00	231,463.76
2016-2020	3,294,213.80	2,395,000.00	899,213.80
2021-2025	3,296,918.78	2,920,000.00	376,918.78
Total Minimum Lease Payments	<u>\$ 9,893,332.66</u>	<u>\$ 7,320,000.00</u>	<u>\$ 2,573,332.66</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2010, 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 2009A, Refunding	\$ 120,000	3.00 - 5.00	2019
Series 2005B, Refunding	1,165,000	5.0	2018
District Revenue Bonds:			
Series 2005	<u>1,945,000</u>	3.25 - 4.50	2031
Total Bonds Payable	<u>\$ 3,230,000</u>		

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

➤ State School Bonds

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

➤ District Revenue Bonds

These bonds are authorized by Chapter 70-781, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Levy County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. These funds accrue annually to the Levy County District School Board, after the first \$12,000 has been paid to the Levy County Board of County Commissioners pursuant to Chapter 65-1217, Laws of Florida. All such money not needed for the payment of principal, interest, and handling charges becoming due during the current fiscal year may be used for any lawful purpose. The District is not required to

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

retain excess sinking fund balances or reserves over the amounts needed to make the required fiscal year payments.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 193,700.00	\$ 130,000.00	\$ 63,700.00
2012	192,500.00	135,000.00	57,500.00
2013	200,850.00	150,000.00	50,850.00
2014	198,500.00	155,000.00	43,500.00
2015	200,750.00	165,000.00	35,750.00
2016-2019	608,750.00	550,000.00	58,750.00
Total State School Bonds	1,595,050.00	1,285,000.00	310,050.00
District Revenue Bonds:			
2011	143,481.25	65,000.00	78,481.25
2012	141,368.75	65,000.00	76,368.75
2013	139,215.63	65,000.00	74,215.63
2014	141,937.51	70,000.00	71,937.51
2015	139,531.26	70,000.00	69,531.26
2016-2020	699,953.13	395,000.00	304,953.13
2021-2025	696,587.50	480,000.00	216,587.50
2026-2030	699,987.50	600,000.00	99,987.50
2031	138,037.50	135,000.00	3,037.50
Total District Revenue Bonds	2,940,100.03	1,945,000.00	995,100.03
Total	\$ 4,535,150.03	\$ 3,230,000.00	\$ 1,305,150.03

7. CAPITAL LEASE PAYABLE

Enterprise resource software costing \$509,551.59 was acquired under capital lease at an imputed interest rate of 3.5 percent. Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 207,339.00	\$ 199,713.20	\$ 7,625.80
2012	72,662.00	70,824.15	1,837.85
Total Minimum Lease Payments	\$ 280,001.00	\$ 270,537.35	\$ 9,463.65

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

8. 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					
Certificates of Participation Payable	\$ 7,680,000.00	\$	\$ 360,000.00	\$ 7,320,000.00	\$ 375,000.00
Bonds Payable	3,435,000.00	135,000.00	340,000.00	3,230,000.00	195,000.00
Capital Lease Payable		509,551.59	239,014.24	270,537.35	199,713.20
Compensated Absences Payable	3,533,112.06	1,874,347.17	1,782,939.10	3,624,520.13	396,224.59
Other Postemployment Benefits Payable	96,551.00	99,381.00		195,932.00	
Total Governmental Activities	<u>\$ 14,744,663.06</u>	<u>\$ 2,618,279.76</u>	<u>\$ 2,721,953.34</u>	<u>\$ 14,640,989.48</u>	<u>\$ 1,165,937.79</u>

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

9. 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	\$ 426,294.85	\$ 36,496.06
Special Revenue:		
Other Federal Programs	29,842.97	177,845.72
ARRA Economic Stimulus	26,318.95	268,114.99
Capital Projects:		
Local Capital Improvement	20,263.93	9,346.78
Nonmajor Governmental	13,483.94	24,401.09
Total	<u>\$ 516,204.64</u>	<u>\$ 516,204.64</u>

Interfund balances generally arise due to expenditures being adjusted between funds. All balances are expected to be repaid in less than one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 984,352.28	\$
Debt Service:		
Other	656,920.04	
Capital Projects:		
Local Capital Improvement		1,243,508.84
Nonmajor Governmental		397,763.48
Total	<u>\$ 1,641,272.32</u>	<u>\$ 1,641,272.32</u>

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

Interfund transfers are used primarily when revenues are recognized in one fund but are used to pay expenses in another. Local Capital Improvement funds were used to pay Certificates of Participation debt, property casualty insurance, and maintenance and repair expenditures. Racetrack revenues and charter school capital outlay funds were also transferred to the General Fund.

10. RESERVE FOR ENCUMBRANCES

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

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

Because revenues of grants accounted for in the Special Revenue – Other Federal Programs Fund and Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Federal Programs Fund and Special Revenue – ARRA Economic Stimulus Fund total \$22,324.47, and \$93,611.22, respectively, at June 30, 2010.

11. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 19,617,090.00
Categorical Educational Program - Class Size Reduction	6,014,158.00
School Recognition	269,880.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	233,165.52
Gross Receipts Tax (Public Education Capital Outlay)	146,460.00
Charter School Capital Outlay	103,731.00
Food Service Supplement	47,756.00
Mobile Home License Tax	17,333.37
Discretionary Lottery Funds	15,493.00
Miscellaneous	767,441.94
Total	<u>\$ 27,232,508.83</u>

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

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

12. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.253	\$ 11,354,718
Basic Discretionary Local Effort	0.748	1,616,853
Discretionary Critical Needs	0.250	540,392
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	3,242,352
Total	<u>7.751</u>	<u>\$16,754,315</u>

13. FLORIDA RETIREMENT SYSTEM

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

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

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 91 District participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$298,465.90.

FRS Retirement Contribution Rates

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$2,922,795.81, \$2,836,815.63, and \$2,705,917.59, respectively, which were equal to the required contributions for each fiscal year.

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

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's plan for medical insurance

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

coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at the blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. 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 Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 76 retirees received other postemployment benefits. The District provided required contributions of \$154,608 toward the annual OPEB cost. Plan members receiving benefits contributed \$377,737, through their required contributions ranging from \$377.60 to \$482.56 per month for retiree-only coverage and from \$775.04 to \$974.40 per month for retiree and spouse coverage, depending on the health plan selected.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 118,327
Amortization of Unfunded Actuarial Accrued Liability	<u>137,383</u>
Annual Required Contribution	255,710
Interest on Net OPEB Obligation	3,862
Adjustment to Annual Required Contribution	<u>(5,583)</u>
Annual OPEB Cost (Expense)	253,989
Contribution Toward the OPEB Cost	<u>(154,608)</u>
Increase in Net OPEB Obligation	99,381
Net OPEB Obligation, Beginning of Year	<u>96,551</u>
Net OPEB Obligation, End of Year	<u><u>\$ 195,932</u></u>

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0%	\$ 0
2008-09	251,159	61.6%	96,551
2009-10	253,989	60.9%	195,932

Funded Status and Funding Progress. As of June 30, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$2,375,637, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,375,637, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,712,663, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.5 percent.

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

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

The District's initial OPEB actuarial valuation as of June 30, 2008, used the projected unit credit actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2010, and the 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 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 an annual healthcare cost trend rate of 10 percent initially for the 2008-09 fiscal year, grading down to 5 percent over 20 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2010, was 28 years.

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

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 Levy County District School Board is a member of the North East Florida Educational 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, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Consortium is governed by a board of directors composed of the superintendents of the participating school districts. The Consortium offices are located in Putnam County, and the Putnam County District School Board is the fiscal agent.

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

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 35,000.00	\$ 43,006.00	\$ 47,880.69	\$ 4,874.69
Federal Through State and Local	50,000.00	309,508.29	322,354.92	12,846.63
State	27,672,627.00	26,292,399.75	26,269,614.97	(22,784.78)
Local:				
Property Taxes	12,896,156.00	13,058,212.00	13,058,211.93	(0.07)
Miscellaneous	305,825.50	875,204.89	1,003,891.13	128,686.24
Total Revenues	40,959,608.50	40,578,330.93	40,701,953.64	123,622.71
Expenditures				
Current - Education:				
Instruction	23,967,350.02	22,791,612.06	22,196,208.31	595,403.75
Pupil Personnel Services	1,887,748.56	1,823,356.80	1,740,266.08	83,090.72
Instructional Media Services	800,045.23	798,441.95	664,942.88	133,499.07
Instruction and Curriculum Development Services	651,847.85	603,843.99	522,752.04	81,091.95
Instructional Staff Training Services	640,479.03	614,274.03	508,521.76	105,752.27
Instruction Related Technology	198,096.83	198,096.83	155,071.10	43,025.73
School Board	259,691.52	259,691.52	225,159.71	34,531.81
General Administration	1,222,555.51	1,715,365.46	1,708,376.21	6,989.25
School Administration	2,741,856.84	2,923,612.00	2,922,905.13	706.87
Facilities Acquisition and Construction	219,860.88	58,092.53	13,740.29	44,352.24
Fiscal Services	430,064.96	422,064.96	421,927.20	137.76
Central Services	319,310.92	346,110.92	343,724.04	2,386.88
Pupil Transportation Services	3,280,199.43	3,510,199.43	3,504,872.90	5,326.53
Operation of Plant	3,650,712.61	3,830,612.61	3,805,597.13	25,015.48
Maintenance of Plant	941,368.44	1,030,558.62	1,024,968.84	5,589.78
Administrative Technology Services	588,127.87	608,127.87	582,822.84	25,305.03
Community Services	20,471.00			
Fixed Capital Outlay:				
Other Capital Outlay		73,921.35	73,921.35	
Debt Service:				
Interest and Fiscal Charges		8,471.00		8,471.00
Total Expenditures	41,819,787.50	41,616,453.93	40,415,777.81	1,200,676.12
Excess (Deficiency) of Revenues Over Expenditures	(860,179.00)	(1,038,123.00)	286,175.83	1,324,298.83
Other Financing Sources (Uses)				
Transfers In	1,252,733.50	1,259,062.50	984,352.28	(274,710.22)
Insurance Loss Recoveries	25,000.00	196,615.00	196,615.06	0.06
Transfers Out	(100,000.00)	(100,000.00)		100,000.00
Total Other Financing Sources (Uses)	1,177,733.50	1,355,677.50	1,180,967.34	(174,710.16)
Net Change in Fund Balances	317,554.50	317,554.50	1,467,143.17	1,149,588.67
Fund Balances, Beginning	2,192,892.88	2,192,892.88	2,192,892.88	
Fund Balances, Ending	\$ 2,510,447.38	\$ 2,510,447.38	\$ 3,660,036.05	\$ 1,149,588.67

Special Revenue - Other Federal Programs Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 4,191,793.73	\$ 5,916,482.32	\$ 4,690,637.50	\$ (1,225,844.82)	\$ 4,080,806.81	\$ 4,381,441.81	\$ 3,266,327.73	\$ (1,115,114.08)
4,191,793.73	5,916,482.32	4,690,637.50	(1,225,844.82)	4,080,806.81	4,381,441.81	3,266,327.73	(1,115,114.08)
2,753,271.48	4,003,228.26	3,287,954.88	715,273.38	3,693,656.55	3,886,226.28	2,919,308.20	966,918.08
136,518.27	156,220.69	115,789.99	40,430.70	57,382.73	71,027.45	53,600.90	17,426.55
1,500.00	4,500.00	4,088.32	411.68				
483,506.70	488,485.73	480,722.98	7,762.75	49,021.96	62,530.22	56,740.36	5,789.86
522,706.03	680,113.23	421,514.69	258,598.54	54,104.11	83,702.91	18,657.25	65,045.66
18,879.95	64,003.95	56,539.36	7,464.59				
76,590.40	158,008.37	128,222.97	29,785.40	79,987.65	91,176.18	42,567.37	48,608.81
2,000.00	2,000.00	1,766.21	233.79	146,653.81	68,879.56	67,635.60	1,243.96
	58,454.01	4,432.07	54,021.94				
104,517.90	216,369.00	104,506.95	111,862.05		17,743.00	7,661.84	10,081.16
92,303.00							
	85,099.08	85,099.08			100,156.21	100,156.21	
4,191,793.73	5,916,482.32	4,690,637.50	1,225,844.82	4,080,806.81	4,381,441.81	3,266,327.73	1,115,114.08
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**LEVY 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) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2008	\$ 0	\$ 2,375,637	\$ 2,375,637	0.0%	\$ 22,712,663	10.5%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

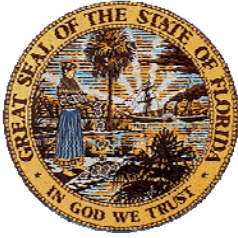
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 421,173.00
National School Lunch Program	10.555	300	1,477,794.44
Summer Food Service Program for Children	10.559	323	24,875.10
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	74,008.04
Total Child Nutrition Cluster			1,997,850.58
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	75,558.20
Total United States Department of Agriculture			2,073,408.78
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,374,065.15
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	605,281.64
Total Title I, Part A Cluster			2,979,346.79
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,232,449.47
Special Education - Preschool Grants	84.173	267	59,526.28
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	558,839.02
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	4,588.47
Columbia County District School Board:			
Special Education - Grants to States	84.027	None	18,500.00
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	96,359.29
University of Florida:			
Special Education - Grants to States	84.027	None	1,500.00
Total Special Education Cluster			1,971,762.53
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	591	1,823,658.00
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397	592	182,229.46
Total State Stabilization Fund Cluster			2,005,887.46
Florida Department of Education:			
Career and Technical Education - Basic Grants to States	84.048	161	138,359.58
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	13,945.11
Twenty-First Century Community Learning Centers	84.287	244	128,650.71
Transition to Teaching	84.350	227	12,968.05
Rural Education	84.358	110	166,085.75
English Language Acquisition Grants	84.365	102	3,580.52
Improving Teacher Quality State Grants	84.367	224	409,467.57
School Improvement Grants	84.377	126	41,805.69
ARRA - Education of Homeless Children and Youth, Recovery Act	84.387	127	16,172.94
Alachua County District School Board:			
Migrant Education State Grant Program	84.011	None	7,318.33
Total United States Department of Education			7,895,351.03

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	<u>4,556.00</u>
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	<u>47,880.69</u>
Total Expenditures of Federal Awards			<u>\$ 10,021,196.50</u>

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

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Levy County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Levy County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

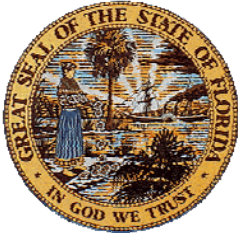
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
January 26, 2011



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

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 year ended June 30, 2010.

Internal Control Over Compliance

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

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

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.

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

Respectfully submitted,



David W. Martin, CPA
January 26, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	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 <i>Circular A-133</i> ?	No
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); Improving Teacher Quality State Grants (CFDA No. 84.367); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,635
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

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

The District established performance assessment procedures for instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that District records did not sufficiently evidence that these employees were evaluated primarily based on student performance. Instructional personnel typically maintain records, in consultation with their school principal or administrator, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they meet periodically with their school principal or administrator throughout the school year to assess the progress in meeting the projected goals. Similarly, school administrators meet with their immediate supervisors to assess their progress. Although student performance was a consideration in completion of each instructional and school administrator's summative evaluation forms, District records did not evidence a correlation between student performance and the employee's performance assessment, such as providing a numeric indicator that would directly link student achievement and employee performance.

Without measuring employee performance based primarily on consideration of student performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should enhance performance assessments of instructional personnel and school administrators to include indicators that directly link student performance with employee performance evaluations.

Finding No. 2: Compensation and Salary Schedules

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

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

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

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

The District's instructional personnel salary schedule and union contracts allowed for differentiated pay based on certain factors, including additional responsibilities beyond the standard work day, such as athletic coaches and student club directors; school demographics for teachers and teacher aides at the District's alternative schools; and level of job performance difficulties for certain peer teachers. However, neither the salary schedules nor the union contracts evidenced differentiated pay based on critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes. District personnel indicated that critical shortage areas are determined on an as needed basis and the District did not identify any of these areas for the 2009-2010 fiscal year. District personnel also indicated that criteria had not been established for determining critical shortage areas. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors demonstrating the difficulty in hiring and retaining instructional personnel.

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

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

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

FEDERAL AWARDS

There were no audit findings on Federal programs required to be reported under OMB *Circular A-133*, Section 510.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2010-118.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2010-118 (1)	Education for Homeless Children and Youth, Recovery Act (CFDA 84.387); Title I Grants to Local Educational Agencies, Recovery Act (DFDA 84.389); Special Education-Preschool Grants, Recovery Act (CFDA 84.392); State Fiscal Stabilization Fund-Education State Grants, Recovery Act (CFDA 84.394); State Fiscal Stabilization Fund-Government Services, Recovery Act (CFDA 84.397)/Reporting and Special Tests and Provisions.	Contrary to registration requirements for Federal awards, the District did not timely register in the Central Contractor Registration database.	Corrected.	The Central Contractor Registry requirements were monitored during the fiscal year and the registration was timely renewed. The need to renew has been noted on the Finance Officer's annual To Do Planner.

EXHIBIT A
MANAGEMENT'S RESPONSE

Robert O. Hastings
Superintendent

480 Marshburn Drive
P.O. Drawer 129
Bronson, FL 32621-0129



(352) 486-5231
SunCom 645-5231
Fax (352) 486-5237

December 22, 2010

David W. Martin
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin,

Finding No. 1: District records did not sufficiently evidence that instructional personnel and school administrators were evaluated primarily based on student performance.

Corrective Action:

The District will continue to enhance performance assessment procedures for instructional personnel and school administrators to include indicators that directly link student performance with employee performance evaluations.

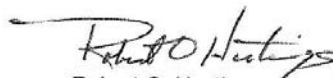
Finding No. 2: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and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

Corrective Action:

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

Let me know if you have any additional comments or questions.

Sincerely,


Robert O. Hastings, Superintendent

