

**UNION COUNTY  
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended  
June 30, 2010



## BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Allen Parrish, Vice Chair from 11-17-09	1
Alvin A. Griffis	2
Marsan H. Carr, Vice Chair to 11-16-09 Chair from 11-17-09	3
Sandra R. Floyd	4
George W. Green, Jr., Chair to 11-16-09	5

Carlton Faulk, 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 G. Christian Meyer, CPA, and the audit was supervised by Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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UNION 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 .....	9
Statement of Net Assets .....	9
Statement of Activities.....	10
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	18
Statement of Fiduciary Net Assets – Fiduciary Funds .....	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	20
Notes to Financial Statements .....	21
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds .....	38
Schedule of Funding Progress – Other Postemployment Benefits Plan .....	41
Notes to Required Supplementary Information .....	42
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	43
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> .....	44
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> .....	46
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	48
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS .....	56
EXHIBIT A MANAGEMENT'S RESPONSE .....	57

## EXECUTIVE SUMMARY

### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### MATERIAL WEAKNESSES

Finding No. 1: Improvements were needed in District procedures to ensure that account balances and transactions are properly reported on the financial statements.

Finding No. 2: At June 30, 2010, the District retained 2007-08 fiscal year State capital outlay appropriations, totaling approximately \$341,000, contrary to Section 216.301(2), Florida Statutes.

#### ADDITIONAL MATTERS

Finding No. 3: The District expended Qualified Zone Academy Bond proceeds for a project that was not identified as an allowable use, contrary to the District's lease-purchase agreement with the debt holder.

Finding No. 4: District performance assessments of school administrators were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 5: 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 administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 6: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

### Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: Required documentation to support personnel charges for employees in the Federal programs was not maintained, contrary to Federal regulations.

Federal Awards Finding No. 2: The District needed to establish procedures to monitor compliance with Federal Davis-Bacon Act and Buy American procurement requirements.

### Audit Objectives and Scope

Our audit objectives were to determine whether the Union 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. 2010-107.

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

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union 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 32 percent of the assets and 66 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Union 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 Union County District School Board's internal control over financial reporting and on our tests of its compliance with

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 38 through 42) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA  
March 8, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Union 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 pages 9 through 36.

### FINANCIAL HIGHLIGHTS

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

- General revenues total \$18,256,814.70, or 90.2 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$1,985,060.10, or 9.8 percent of all revenues.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$548,461.35 at June 30, 2010, or 3.2 percent of total General Fund expenditures.

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal

agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

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

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

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

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and the 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 a private-purpose trust fund to account for scholarship funds established by private donors.

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

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and the accompanying notes, the report also presents certain required supplementary information.

**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:

	<b>Net Assets, End of Year</b>	
	Governmental	
	Activities	
	6-30-10	6-30-09
Current Assets	\$ 4,623,230.42	\$ 5,655,721.88
Capital Assets	23,722,153.18	24,563,026.87
<b>Total Assets</b>	<b>28,345,383.60</b>	<b>30,218,748.75</b>
Long-Term Liabilities	4,335,861.79	4,180,905.64
Other Liabilities	394,388.45	322.90
<b>Total Liabilities</b>	<b>4,730,250.24</b>	<b>4,181,228.54</b>
Net Assets:		
Invested in Capital Assets - Net of Related Debt	22,249,951.08	22,977,517.03
Restricted	2,701,249.48	4,208,484.53
Unrestricted Deficit	(1,336,067.20)	(1,148,481.35)
<b>Total Net Assets</b>	<b>\$ 23,615,133.36</b>	<b>\$ 26,037,520.21</b>

The largest portion of the District’s net assets (94.2 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used. The change in the restricted net assets is directly related to the use of State required carryover funds in place of those funds available which are unrestricted as to use. Unrestricted net assets of \$834,794.59 (after exclusion of \$1,383,278.79 and \$787,583.00 of liabilities for accumulated employee annual and sick leave balances reported as compensated absences and other postemployment benefits, respectively) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

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

	<b>Operating Results for the Year</b>	
	Governmental	
	Activities	
	6-30-10	6-30-09
<b>Program Revenues:</b>		
Charges for Services	\$ 595,638.09	\$ 661,111.76
Operating Grants and Contributions	1,256,459.72	1,200,539.88
Capital Grants and Contributions	132,962.29	966,709.28
<b>General Revenues:</b>		
Property Taxes, Levied for Operational Purposes	1,549,331.09	1,427,245.40
Property Taxes, Levied for Capital Projects	366,292.88	424,208.62
Grants and Contributions Not Restricted to Specific Programs	15,955,358.60	16,053,822.77
Unrestricted Investment Earnings	(8,850.70)	5,542.06
Miscellaneous	394,682.83	362,993.98
<b>Total Revenues</b>	<b>20,241,874.80</b>	<b>21,102,173.75</b>
<b>Functions/Program Expenses:</b>		
Instruction	11,958,883.72	11,788,246.34
Pupil Personnel Services	880,917.75	873,234.86
Instructional Media Services	231,395.73	230,750.69
Instruction and Curriculum Development Services	317,448.73	537,814.85
Instructional Staff Training Services	503,206.89	869,722.11
Instruction Related Technology	130,973.22	131,583.14
School Board	256,298.36	225,557.56
General Administration	337,768.51	293,205.00
School Administration	878,712.29	904,065.04
Facilities Acquisition and Construction	1,187,458.03	144,395.18
Fiscal Services	419,941.56	406,698.26
Food Services	1,020,436.37	947,370.14
Central Services	172,887.30	65,332.45
Pupil Transportation Services	720,987.91	851,232.47
Operation of Plant	1,617,409.83	1,661,991.26
Maintenance of Plant	528,863.71	558,561.91
Administrative Technology Services	157,628.75	169,418.55
Community Services	282,830.73	281,573.17
Unallocated Interest on Long-Term Debt	47,881.88	51,129.59
Unallocated Depreciation Expense	1,012,330.38	986,868.09
<b>Total Functions/Program Expenses</b>	<b>22,664,261.65</b>	<b>21,978,750.66</b>
<b>Decrease in Net Assets</b>	<b>\$ (2,422,386.85)</b>	<b>\$ (876,576.91)</b>

The largest revenue source is the State of Florida (70 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Capital grants and contributions revenue decreased by \$833,746.99, or 86.2 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The decrease in funding is mainly due to completion of certain remodeling projects during the 2008-09 fiscal year and a decrease in State capital outlay appropriations.

Instruction expenses represent 52.8 percent of total governmental expenses in the 2009-10 fiscal year. Instruction expenses increased by \$170,637.38, or 1.5 percent, from the previous fiscal year due mainly to an instructional bonus and the recording of a proportionate share (\$258,335.10) of other postemployment benefits costs. Decreased

expenditures in the Instruction and Curriculum Development Services and Instructional Staff Training Services functions were primarily the result of the conclusion of a Mathematics and Science Partnerships grant in the preceding fiscal year. Facilities acquisition and construction expenditures increased by \$1,043,062.85 over the prior year due to roofing repairs and other non-capitalized repairs and maintenance costs.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Major Governmental Funds

**General Fund:** This fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$548,461.35, while the total fund balance is \$2,316,286.01. The unreserved fund balance decreased by \$129,028.60, while the total fund balance decreased by \$637,102.76 during the fiscal year. Key factors in this change are as follows:

- A decrease in State revenues of \$532,819.70 (3.7 percent) due primarily to decreased FEFP funding.
- Total expenditures decreased by \$538,962.66 (3.1 percent) due primarily to the Special Revenue - ARRA Economic Stimulus Fund assuming various costs, which in prior years, had been funded in the General Fund.
- Despite the offsetting decreases in revenues and total expenditures, the excess of expenditures over revenues remained relatively constant at \$769,991.92, compared to the previous fiscal year's \$860,652.22.
- Factors affecting the composition of total fund balance include a decrease of \$732,635.04 in the unexpended balance of State required educational program reserves required to be carried forward to the following fiscal year to be expended for specific educational programs.

**Special Revenue - Food Service Fund:** This fund accounted for total revenues of \$1,074,783.30 and total expenditures of \$1,003,499.23; therefore, the fund balance increased by \$71,284.07 to \$510,473.96 at June 30, 2010, due in part, to an increase in the number of meals served.

**Special Revenue - Other Fund:** This fund had total revenues of \$1,330,552.02 and total expenditures of \$1,341,662.86 for Federal grants administered primarily through the State cash advance system. Fund expenditures and revenues decreased more than \$0.5 million each from the 2008-09 fiscal year, primarily due to the conclusion of the Mathematics and Science Partnerships grant. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

**Special Revenue - ARRA Economic Stimulus Fund:** This fund had total revenues and expenditures of \$1,056,281.96 each, primarily for instructional costs and non-capitalized renovations. This fund is used to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

**Capital Projects - Public Education Capital Outlay Fund:** This fund had a total fund balance of \$444,671.68 at June 30, 2010, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased in the current fiscal year by \$661,506.48 due to the repairs of various facilities.

**Capital Projects - Other Fund:** This fund had a total fund balance of \$692,797.90 at June 30, 2010, which is restricted for the acquisition and construction of certain capital assets. The fund balance decreased in the current fiscal year by \$72,069.27 due primarily to the acquisition of technology-related assets.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the 2009-10 fiscal year, the District amended its General Fund budget several times. However, there were no significant variances between original and final budget amounts or between final budget and actual amounts. Budget revisions were due primarily to adjustments for unanticipated employee pay increases and bonuses.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$23,722,153.18 (net of accumulated depreciation). This investment in capital assets consists of land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software.

Additional information on the District's capital assets can be found in Note 4 to the financial statements.

### **Long-Term Debt**

The District did not issue any long-term debt during the 2009-10 fiscal year. Information on the District's long-term debt can be found in Notes 5 through 7 to the financial statements.

## **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, other required supplementary information, financial statements and notes thereto, or requests for additional financial information should be addressed to the Director of Finance, Union County District School Board, 55 SW 6<sup>th</sup> Street, Lake Butler, Florida 32054.

**BASIC FINANCIAL STATEMENTS**

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

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,473,335.30
Investments	60,739.48
Due from Other Agencies	811,612.31
Prepaid Items	224,041.04
Inventories	53,502.29
Capital Assets:	
Nondepreciable Capital Assets	517,173.45
Depreciable Capital Assets, Net	<u>23,204,979.73</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 28,345,383.60</u></b>
<b>LIABILITIES</b>	
Salaries and Benefits Payable	\$ 170,569.31
Accounts Payable	66,935.02
Construction Contracts Payable	109,176.40
Construction Contracts Payable - Retainage	12,130.72
Deferred Revenue	35,577.00
Long-Term Liabilities:	
Portion Due Within One Year	252,079.16
Portion Due After One Year	<u>4,083,782.63</u>
<b>Total Liabilities</b>	<b><u>4,730,250.24</u></b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	22,249,951.08
Restricted for:	
State Required Carryover Programs	1,523,329.44
Debt Service	13,247.55
Capital Projects	696,036.55
Food Service	468,635.94
Unrestricted Deficit	<u>(1,336,067.20)</u>
<b>Total Net Assets</b>	<b><u>23,615,133.36</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 28,345,383.60</u></b>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction	\$ 11,958,883.72	\$	\$	\$	\$ (11,958,883.72)
Pupil Personnel Services	880,917.75				(880,917.75)
Instructional Media Services	231,395.73				(231,395.73)
Instruction and Curriculum Development Services	317,448.73				(317,448.73)
Instructional Staff Training Services	503,206.89				(503,206.89)
Instruction Related Technology	130,973.22				(130,973.22)
School Board	256,298.36				(256,298.36)
General Administration	337,768.51				(337,768.51)
School Administration	878,712.29				(878,712.29)
Facilities Acquisition and Construction	1,187,458.03			7,557.49	(1,179,900.54)
Fiscal Services	419,941.56				(419,941.56)
Food Services	1,020,436.37	329,041.49	768,712.72		77,317.84
Central Services	172,887.30				(172,887.30)
Pupil Transportation Services	720,987.91	14,237.40	487,747.00		(219,003.51)
Operation of Plant	1,617,409.83				(1,617,409.83)
Maintenance of Plant	528,863.71			58,539.00	(470,324.71)
Administrative Technology Services	157,628.75				(157,628.75)
Community Services	282,830.73	252,359.20			(30,471.53)
Unallocated Interest on Long-Term Debt	47,881.88			66,865.80	18,983.92
Unallocated Depreciation Expense*	1,012,330.38				(1,012,330.38)
<b>Total Governmental Activities</b>	<b>\$ 22,664,261.65</b>	<b>\$ 595,638.09</b>	<b>\$ 1,256,459.72</b>	<b>\$ 132,962.29</b>	<b>(20,679,201.55)</b>
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					1,549,331.09
Property Taxes, Levied for Capital Projects					366,292.88
Grants and Contributions Not Restricted to Specific Programs					15,955,358.60
Unrestricted Investment Earnings					(8,850.70)
Miscellaneous					394,682.83
<b>Total General Revenues</b>					<b>18,256,814.70</b>
<b>Change in Net Assets</b>					<b>(2,422,386.85)</b>
Net Assets - Beginning					26,037,520.21
<b>Net Assets - Ending</b>					<b>\$ 23,615,133.36</b>

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

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

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,731,265.10	\$ 382,570.61	\$ 19,673.65	\$ 26,938.19
Investments	46,037.21	887.25		
Prepaid Items	224,041.04			
Due from Other Funds	394,424.91		11,110.84	
Due from Other Agencies	117,593.30	78,009.71	195,590.60	305,343.70
Inventories		53,502.29		
<b>TOTAL ASSETS</b>	<b>\$ 2,513,361.56</b>	<b>\$ 514,969.86</b>	<b>\$ 226,375.09</b>	<b>\$ 332,281.89</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Salaries and Benefits Payable	\$ 169,255.82	\$ 4,495.90	\$ 707.94	\$ 605.55
Accounts Payable	15,070.67		498.98	42,750.70
Construction Contracts Payable				109,176.40
Construction Contracts Payable - Retainage				12,130.72
Due to Other Funds	12,749.06		225,168.17	167,618.52
Deferred Revenue				
<b>Total Liabilities</b>	<b>197,075.55</b>	<b>4,495.90</b>	<b>226,375.09</b>	<b>332,281.89</b>
Fund Balances:				
Reserved for State Required Carryover Programs	1,523,329.44			
Reserved for Encumbrances	20,454.18	41,838.32		
Reserved for Prepaid Items	224,041.04			
Reserved for Debt Service				
Unreserved, Reported In:				
General Fund	548,461.35			
Special Revenue Funds		468,635.64		
Capital Projects Funds				
<b>Total Fund Balances</b>	<b>2,316,286.01</b>	<b>510,473.96</b>	<b>226,375.09</b>	<b>332,281.89</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,513,361.56</b>	<b>\$ 514,969.86</b>	<b>\$ 226,375.09</b>	<b>\$ 332,281.89</b>

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 368,736.47 555.98	\$ 604,056.97	\$ 340,094.31 13,259.04	\$ 3,473,335.30 60,739.48 224,041.04 494,276.68 811,612.31 53,502.29
115,075.00	88,740.93		
<u>\$ 484,367.45</u>	<u>\$ 692,797.90</u>	<u>\$ 353,353.35</u>	<u>\$ 5,117,507.10</u>
\$ 4,118.77			\$ 170,569.31 66,935.02 109,176.40 12,130.72 494,276.68 35,577.00
35,577.00		88,740.93	
<u>39,695.77</u>		<u>88,740.93</u>	<u>888,665.13</u>
444,671.68	692,797.90	251,364.87	1,523,329.44 62,292.50 224,041.04 13,247.55 548,461.35 468,635.64 1,388,834.45
444,671.68	692,797.90	264,612.42	4,228,841.97
<u>\$ 484,367.45</u>	<u>\$ 692,797.90</u>	<u>\$ 353,353.35</u>	<u>\$ 5,117,507.10</u>

**UNION 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** \$ 4,228,841.97

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. 23,722,153.18

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:

QZAB Lease-Purchase Payable	\$ 1,755,000.00	
Bonds Payable	410,000.00	
Other Postemployment Benefits Payable	787,583.00	
Compensated Absences Payable	1,383,278.79	
	(4,335,861.79)	

**Total Net Assets - Governmental Activities** \$ 23,615,133.36

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

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**UNION 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 - Food Service Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 62,745.05	\$	\$	\$
Federal Through State and Local	22,770.16	729,510.00	1,330,552.02	1,056,281.96
State	14,015,405.02	16,147.00		
Local:				
Property Taxes	1,549,331.09			
Charges for Services - Food Service		329,041.49		
Miscellaneous	629,510.43	84.81		
<b>Total Revenues</b>	<b>16,279,761.75</b>	<b>1,074,783.30</b>	<b>1,330,552.02</b>	<b>1,056,281.96</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	10,100,573.19		955,554.11	690,262.23
Pupil Personnel Services	792,304.82		54,598.20	16,384.00
Instructional Media Services	227,073.02			
Instruction and Curriculum Development Services	304,072.61		8,991.95	
Instructional Staff Training Services	201,492.68		239,916.97	52,417.64
Instruction Related Technology	128,985.46			
School Board	253,001.99			
General Administration	254,206.43		50,350.12	29,226.88
School Administration	860,271.15			
Facilities Acquisition and Construction	31,674.13			231,686.21
Fiscal Services	411,676.50			
Food Services		995,942.17		
Central Services	171,691.84			
Pupil Transportation Services	712,384.04			
Operation of Plant	1,609,464.92			
Maintenance of Plant	522,407.84			
Administrative Technology Services	154,304.99			
Community Services	279,223.51			
Fixed Capital Outlay:				
Other Capital Outlay	34,944.55	7,557.06	32,251.51	36,305.00
Debt Service:				
Principal				
Interest and Fiscal Charges				
<b>Total Expenditures</b>	<b>17,049,753.67</b>	<b>1,003,499.23</b>	<b>1,341,662.86</b>	<b>1,056,281.96</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(769,991.92)</b>	<b>71,284.07</b>	<b>(11,110.84)</b>	
<b>Other Financing Sources (Uses)</b>				
Transfers In	144,000.00		11,110.84	
Transfers Out	(11,110.84)			
<b>Total Other Financing Sources (Uses)</b>	<b>132,889.16</b>		<b>11,110.84</b>	
<b>Net Change in Fund Balances</b>	<b>(637,102.76)</b>	<b>71,284.07</b>		
Fund Balances, Beginning	2,953,388.77	439,189.89		
<b>Fund Balances, Ending</b>	<b>\$ 2,316,286.01</b>	<b>\$ 510,473.96</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
58,539.00		73,264.48	62,745.05 3,139,114.14 14,163,355.50
		366,292.88	1,915,623.97 329,041.49 631,994.65
	2,039.69	359.72	
<u>58,539.00</u>	<u>2,039.69</u>	<u>439,917.08</u>	<u>20,241,874.80</u>
			11,746,389.53 863,287.02 227,073.02 313,064.56 493,827.29 128,985.46 253,001.99 333,783.43 860,271.15 1,113,317.75 411,676.50 995,942.17 171,691.84 712,384.04 1,609,464.92 522,407.84 154,304.99 279,223.51
720,045.48	16,865.00	113,046.93	1,113,317.75 411,676.50 995,942.17 171,691.84 712,384.04 1,609,464.92 522,407.84 154,304.99 279,223.51
	57,232.47	92,131.78	260,422.37
		170,000.00	170,000.00
		47,912.43	47,912.43
<u>720,045.48</u>	<u>74,097.47</u>	<u>423,091.14</u>	<u>21,668,431.81</u>
<u>(661,506.48)</u>	<u>(72,057.78)</u>	<u>16,825.94</u>	<u>(1,426,557.01)</u>
		11.49	155,122.33
	(11.49)	(144,000.00)	(155,122.33)
	(11.49)	(143,988.51)	
(661,506.48)	(72,069.27)	(127,162.57)	(1,426,557.01)
1,106,178.16	764,867.17	391,774.99	5,655,398.98
<u>\$ 444,671.68</u>	<u>\$ 692,797.90</u>	<u>\$ 264,612.42</u>	<u>\$ 4,228,841.97</u>

**UNION 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** \$ (1,426,557.01)

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

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

Current Year Capital Asset Additions	\$ 260,422.37	
Depreciation Expense	<u>(1,101,296.06)</u>	(840,873.69)

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 repayments in the current period:

Principal Repayment - QZAB Lease-Purchase Payable	\$ 125,000.00	
Principal Repayment - Bonds Payable	<u>45,000.00</u>	170,000.00

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

70,103.85

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.

(395,060.00)

**Change in Net Assets - Governmental Activities** \$ (2,422,386.85)

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

**UNION COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
June 30, 2010**

	Private-Purpose Trust Fund	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,952.02	\$ 169,945.90
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>		
Internal Accounts Payable	\$	\$ 169,945.90
	<u>                    </u>	<u>                    </u>
<b>NET ASSETS</b>		
Assets Held in Trust for Scholarships and Other Purposes	1,952.02	
	<u>                    </u>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,952.02</b>	
	<u>                    </u>	

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

**UNION COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
For the Fiscal Year Ended June 30, 2010**

	Private-Purpose Trust Fund
<b>ADDITIONS</b>	
<b>Contributions:</b>	
Gifts, Grants, Endowments, and Bequests	\$ 27,716.00
<b>Investment Earnings:</b>	
Interest, Dividends, and Other	<u>12.05</u>
<b>Total Additions</b>	<u>27,728.05</u>
<b>DEDUCTIONS</b>	
Scholarship Payments	<u>48,440.80</u>
<b>Change in Net Assets</b>	(20,712.75)
Net Assets - Beginning	<u>22,664.77</u>
<b>Net Assets - Ending</b>	<u>\$ 1,952.02</u>

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

**UNION 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 Union County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Union 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 Union County.

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

➤ **Basis of Presentation**

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

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Food Service Fund – to account for the District’s food service operation resources.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects - Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriation of gross receipt taxes for the District. These funds are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, maintenance, repairs, and site improvements.
- Capital Projects - Other Fund – to account for the financial resources generated by the proceeds of the Series 2007 Qualified Zone Academy Bonds (QZAB) lease-purchase issued to finance improvements at designated schools, and for other miscellaneous projects.

Additionally, the District reports the following fiduciary fund types:

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

➤ **Basis of Accounting**

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

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

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

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

judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

➤ **Deposits and Investments**

The District's cash and cash equivalents consist of cash on hand and demand deposits.

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 State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys, and amounts placed with SBA for participation in the Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as 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 the District's food service operations. Inventories are stated at last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures during the year, and are adjusted at year-end to reflect year-end inventories.

➤ **Prepaid Items**

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the

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

governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	8 - 15 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	3 - 25 years
Motor Vehicles	5 - 10 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.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation 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 of or additions to 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 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

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Union County Property Appraiser, and property taxes are collected by the Union 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 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 property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest bearing tax certificates to satisfy unpaid taxes. These 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 and in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Union County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Federal Revenue Sources**

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

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

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

**3. INVESTMENTS**

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	46 Day Average	\$ 6,696.65
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	40,795.28
Debt Service Accounts	6 Months	13,247.55
Total Investments		\$ 60,739.48

**Interest Rate Risk**

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

**Credit Risk**

- Section 218.415(17), Florida Statutes, limits investments to the SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida

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

- Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.
- The District’s investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
  - As of June 30, 2010, the District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.

**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 517,173.45	\$	\$	\$ 517,173.45
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,327,020.28		97,765.44	1,229,254.84
Buildings and Fixed Equipment	32,345,069.85		1,194.93	32,343,874.92
Furniture, Fixtures, and Equipment	2,982,066.15	171,042.37		3,153,108.52
Motor Vehicles	1,582,969.65	89,380.00		1,672,349.65
Computer Software	403,684.58		895.00	402,789.58
Total Capital Assets Being Depreciated	38,640,810.51	260,422.37	99,855.37	38,801,377.51
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,221,960.29	55,191.18	97,765.44	1,179,386.03
Buildings and Fixed Equipment	10,234,562.29	619,910.59	1,194.93	10,853,277.95
Furniture, Fixtures, and Equipment	1,879,966.62	310,483.30		2,190,449.92
Motor Vehicles	977,774.92	88,965.68		1,066,740.60
Computer Software	280,692.97	26,745.31	895.00	306,543.28
Total Accumulated Depreciation	14,594,957.09	1,101,296.06	99,855.37	15,596,397.78
Total Capital Assets Being Depreciated, Net	24,045,853.42	(840,873.69)		23,204,979.73
Governmental Activities Capital Assets, Net	\$ 24,563,026.87	\$ (840,873.69)	\$ 0.00	\$ 23,722,153.18

Depreciation expense was charged to functions as follows:

Function	Amount
<b>GOVERNMENTAL ACTIVITIES</b>	
Pupil Transportation Services	\$ 88,965.68
Unallocated	1,012,330.38
Total Depreciation Expense - Governmental Activities	\$ 1,101,296.06

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

**5. QUALIFIED ZONE ACADEMY BONDS LEASE-PURCHASE PAYABLE**

The District entered into a financing arrangement dated December 13, 2007, under the Qualified Zone Academy Bonds (QZAB) program, characterized as a lease-purchase agreement, with a local bank whereby the District secured financing for various educational facilities’ repairs and improvements and technology equipment upgrades. The QZAB program provides low interest cost financing to purchase certain goods and services for schools located in eligible District areas (zones). The financing was accomplished through the issuance of the Series 2007 QZAB note.

The Series 2007 QZAB note was issued on December 13, 2007, in the original amount of \$2,000,000, and matures annually on December 13 each year over a 15-year term through December 13, 2022, at a stated interest rate of 1.3 percent. The interest rate is subsidized by the United States Government through the issuance of Federal income tax credits to the holder of the QZAB debt. The rate of return to the bank was established by the United States Government at the time of sale. The QZAB note is secured by the assets held under the lease-purchase agreement in the event of cancellation or default.

The schools designated for the improvements and equipment under the Series 2007 QZAB issue include:

- Lake Butler Elementary School
- Lake Butler Middle School
- Union County High School

The following is a schedule of future minimum lease payments under the lease-purchase agreement together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 147,815	\$ 125,000	\$ 22,815
2012	146,190	125,000	21,190
2013	149,565	130,000	19,565
2014	147,875	130,000	17,875
2015	146,185	130,000	16,185
2016-2020	739,860	685,000	54,860
2021-2023	441,245	430,000	11,245
<b>Total Minimum Lease Payments</b>	<b>\$ 1,918,735</b>	<b>\$ 1,755,000</b>	<b>\$ 163,735</b>

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

**6. BONDS PAYABLE**

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	\$ 140,000	4.000 - 5.375	2015
Series 2005B, Refunding	<u>270,000</u>	5.0	2020
<b>Total Bonds Payable</b>	<b><u>\$ 410,000</u></b>		

The various bonds were issued by the State Board of Education to finance capital outlay projects 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.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 65,612.50	\$ 45,000.00	\$ 20,612.50
2012	68,268.75	50,000.00	18,268.75
2013	61,068.75	45,000.00	16,068.75
2014	63,725.00	50,000.00	13,725.00
2015	66,112.50	55,000.00	11,112.50
2016-2020	<u>190,500.00</u>	<u>165,000.00</u>	<u>25,500.00</u>
<b>Total State School Bonds</b>	<b><u>\$ 515,287.50</u></b>	<b><u>\$ 410,000.00</u></b>	<b><u>\$ 105,287.50</u></b>

**7. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
QZAB Lease-Purchase Payable	\$ 1,880,000.00	\$	\$ 125,000.00	\$ 1,755,000.00	\$ 125,000.00
Bonds Payable	455,000.00		45,000.00	410,000.00	45,000.00
Compensated Absences Payable	1,453,382.64	28,539.02	98,642.87	1,383,278.79	82,079.16
Other Postemployment Benefits Payable	<u>392,523.00</u>	<u>516,220.00</u>	<u>121,160.00</u>	<u>787,583.00</u>	
<b>Total Governmental Activities</b>	<b><u>\$ 4,180,905.64</u></b>	<b><u>\$ 544,759.02</u></b>	<b><u>\$ 389,802.87</u></b>	<b><u>\$ 4,335,861.79</u></b>	<b><u>\$ 252,079.16</u></b>

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

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

**8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The following is a summary of interfund receivables and payables reported in the fund financial statements:

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 394,424.91	\$ 12,749.06
Special Revenue:		
Other	11,110.84	225,168.17
ARRA Economic Stimulus		167,618.52
Capital Projects:		
Other	88,740.93	
Nonmajor Governmental		88,740.93
Total	<u>\$ 494,276.68</u>	<u>\$ 494,276.68</u>

Interfund receivables and payables include indirect cost recoveries on Federal grants and amounts due for expenditures paid by a particular fund on behalf of another fund. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 144,000.00	\$ 11,110.84
Special Revenue:		
Other	11,110.84	
Capital Projects:		
Other		11.49
Nonmajor Governmental	11.49	144,000.00
Total	<u>\$ 155,122.33</u>	<u>\$ 155,122.33</u>

Interfund transfers represent the permanent transfer of moneys between funds. The above transfers were to reimburse the General Fund for allowable expenditures for risk management property and casualty insurance premiums, to eliminate negative cash balances on pooled accounts, and to transfer residual cash balances.

**9. RESERVE FOR ENCUMBRANCES**

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

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

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

Because revenues of grants accounted for in the Special Revenue - ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue - ARRA Economic Stimulus Fund total \$224,471.45 at June 30, 2010.

**10. SCHEDULE OF STATE REVENUE SOURCES**

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 10,912,903.00
Categorical Educational Program - Class Size Reduction	2,271,728.00
Workforce Development Program	150,495.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	74,423.29
Gross Receipts Tax (Public Education Capital Outlay)	58,539.00
Food Service Supplement	16,147.00
Discretionary Lottery Funds	6,031.00
Miscellaneous	673,089.21
Total	<u><u>\$ 14,163,355.50</u></u>

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

**11. PROPERTY TAXES**

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.356	\$ 1,347,673.32
Basic Discretionary Local Effort	0.736	185,191.92
Critical Operating Needs	0.250	62,904.86
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	377,429.18
Total	<u><u>7.842</u></u>	<u><u>\$ 1,973,199.28</u></u>

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

**12. FLORIDA RETIREMENT SYSTEM**

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

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

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

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

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

**FRS Retirement Contribution Rates**

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

Class	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
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$961,424.36, \$1,006,087.86, and \$984,517.93, respectively, which were equal to the required contributions for each fiscal year. There were 51 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$153,895.59.

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

**13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE**

***Plan Description.*** The other postemployment benefits plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District, and their eligible dependents, are eligible to participate in the District’s health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Additionally, the District pays a portion of health insurance (explicit subsidy) for retired employees, who were employed prior to July 1, 2000, and have at least 12 years of service with the District, until they reach 65 years of age. Retirees are assumed to enroll in the

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

Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

**Funding Policy.** Contribution requirements of the District and Plan members are established and may be amended through recommendations 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, 22 retirees received other postemployment benefits. The District provided required contributions, payments made on behalf of retirees, of \$121,160 toward the annual OPEB cost; retiree contributions totaled \$33,532, which represents 0.3 percent of covered payroll.

**Annual OPEB Cost and Net OPEB Obligation.** The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost 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)	\$ 260,726
Amortization of Unfunded Actuarial Accrued Liability	229,364
Interest on Normal Cost and Amortization	<u>10,429</u>
Annual Required Contribution	500,519
Interest on Net OPEB Obligation	<u>15,701</u>
Annual OPEB Cost (Expense)	516,220
Contribution Toward the OPEB Cost	<u>(121,160)</u>
Increase in Net OPEB Obligation	395,060
Net OPEB Obligation, Beginning of Year	<u>392,523</u>
Net OPEB Obligation, End of Year	<u><u>\$ 787,583</u></u>

**UNION 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%	\$ 0
2008-09	500,519	21.6%	392,523
2009-10	516,220	23.5%	787,583

***Funded Status and Funding Progress.*** As of July 1, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$3,966,161, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,966,161 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$11,061,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 35.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of a 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 substantive plan provisions, as understood by an 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 an employer and participating members. 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 July 1, 2008, used the projected unit credit cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the District’s 2008-09 fiscal year annual required contribution. The District used the same assumptions as the actuary for the determination of the estimated unfunded actuarial liability as of June 30, 2010, and the District’s 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 6.5 percent initially for the 2008-09 fiscal year, reduced to an ultimate rate of 4.5 percent after 76

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

years. The unfunded actuarial accrued liability is being amortized on a level dollar, closed basis. The remaining amortization period at June 30, 2010, was 28 years.

**14. RISK MANAGEMENT PROGRAMS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Union County District School Board is a member of the North East Florida Educational Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

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

Employee group health and hospitalization coverage is provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 53,000.00	\$ 53,000.00	\$ 62,745.05	\$ 9,745.05
Federal Through State and Local	50,000.00	50,000.00	22,770.16	(27,229.84)
State	13,866,155.28	13,829,159.52	14,015,405.02	186,245.50
Local:				
Property Taxes	1,310,220.00	1,310,220.00	1,549,331.09	239,111.09
Charges for Services - Food Service				
Miscellaneous	501,920.00	509,920.00	629,510.43	119,590.43
<b>Total Revenues</b>	<b>15,781,295.28</b>	<b>15,752,299.52</b>	<b>16,279,761.75</b>	<b>527,462.23</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	10,070,786.71	10,223,718.72	10,100,573.19	123,145.53
Pupil Personnel Services	717,873.06	792,304.82	792,304.82	
Instructional Media Services	234,126.99	235,472.61	227,073.02	8,399.59
Instruction and Curriculum Development Services	290,911.12	304,072.61	304,072.61	
Instructional Staff Training Services	226,945.10	226,945.10	201,492.68	25,452.42
Instruction Related Technology	115,509.66	128,985.46	128,985.46	
School Board	234,618.79	253,001.99	253,001.99	
General Administration	252,771.26	253,659.37	254,206.43	(547.06)
School Administration	871,088.72	897,459.60	860,271.15	37,188.45
Facilities Acquisition and Construction	86,464.88	71,688.03	31,674.13	40,013.90
Fiscal Services	414,840.39	416,889.28	411,676.50	5,212.78
Food Services				
Central Services	205,120.38	206,223.79	171,691.84	34,531.95
Pupil Transportation Services	782,450.00	796,438.13	712,384.04	84,054.09
Operation of Plant	1,530,724.34	1,610,350.25	1,609,464.92	885.33
Maintenance of Plant	564,808.88	567,880.05	522,407.84	45,472.21
Administrative Technology Services	162,512.50	163,361.33	154,304.99	9,056.34
Community Services	293,181.68	314,491.51	279,223.51	35,268.00
Fixed Capital Outlay:				
Other Capital Outlay		34,944.55	34,944.55	
<b>Total Expenditures</b>	<b>17,054,734.46</b>	<b>17,497,887.20</b>	<b>17,049,753.67</b>	<b>448,133.53</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,273,439.18)</b>	<b>(1,745,587.68)</b>	<b>(769,991.92)</b>	<b>975,595.76</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In			144,000.00	144,000.00
Transfers Out			(11,110.84)	(11,110.84)
<b>Total Other Financing Sources</b>			<b>132,889.16</b>	<b>132,889.16</b>
<b>Net Change in Fund Balances</b>	<b>(1,273,439.18)</b>	<b>(1,745,587.68)</b>	<b>(637,102.76)</b>	<b>1,108,484.92</b>
Fund Balances, Beginning	3,226,613.00	3,226,613.00	2,953,388.77	(273,224.23)
<b>Fund Balances, Ending</b>	<b>\$ 1,953,173.82</b>	<b>\$ 1,481,025.32</b>	<b>\$ 2,316,286.01</b>	<b>\$ 835,260.69</b>

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 554,140.00	\$ 554,140.00	\$ 729,510.00	\$ 175,370.00	\$ 1,379,305.46	\$ 1,494,827.62	\$ 1,330,552.02	\$ (164,275.60)
11,700.00	11,700.00	16,147.00	4,447.00				
381,160.00	381,160.00	329,041.49	(52,118.51)				
3,000.00	3,000.00	84.81	(2,915.19)				
<u>950,000.00</u>	<u>950,000.00</u>	<u>1,074,783.30</u>	<u>124,783.30</u>	<u>1,379,305.46</u>	<u>1,494,827.62</u>	<u>1,330,552.02</u>	<u>(164,275.60)</u>
				1,045,653.06	1,000,987.36	955,554.11	45,433.25
				58,186.47	70,270.17	54,598.20	15,671.97
				13,814.80	15,750.00	8,991.95	6,758.05
				206,821.23	319,542.71	239,916.97	79,625.74
				54,829.90	56,025.87	50,350.12	5,675.75
1,155,532.31	1,167,848.46	995,942.17	171,906.29				
	7,557.06	7,557.06			32,251.51	32,251.51	
<u>1,155,532.31</u>	<u>1,175,405.52</u>	<u>1,003,499.23</u>	<u>171,906.29</u>	<u>1,379,305.46</u>	<u>1,494,827.62</u>	<u>1,341,662.86</u>	<u>153,164.76</u>
(205,532.31)	(225,405.52)	71,284.07	296,689.59			(11,110.84)	(11,110.84)
						11,110.84	11,110.84
						11,110.84	11,110.84
(205,532.31)	(225,405.52)	71,284.07	296,689.59				
381,111.00	381,111.00	439,189.89	58,078.89				
<u>\$ 175,578.69</u>	<u>\$ 155,705.48</u>	<u>\$ 510,473.96</u>	<u>\$ 354,768.48</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

	Special Revenue - ARRA Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local	1,435,009.50	1,479,821.29	1,056,281.96	(423,539.33)
State	10,444.00	10,444.00		(10,444.00)
Local:				
Property Taxes				
Charges for Services - Food Service				
Miscellaneous				
<b>Total Revenues</b>	<u>1,445,453.50</u>	<u>1,490,265.29</u>	<u>1,056,281.96</u>	<u>(433,983.33)</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	947,177.81	984,897.83	690,262.23	294,635.60
Pupil Personnel Services	67,605.00	46,384.00	16,384.00	30,000.00
Instructional Media Services				
Instruction and Curriculum Development Services				
Instructional Staff Training Services	91,811.90	107,283.87	52,417.64	54,866.23
Instruction Related Technology				
School Board				
General Administration	68,597.82	67,686.70	29,226.88	38,459.82
School Administration				
Facilities Acquisition and Construction	240,999.99	247,707.89	231,686.21	16,021.68
Fiscal Services				
Food Services				
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Other Capital Outlay	21,750.00	36,305.00	36,305.00	
<b>Total Expenditures</b>	<u>1,437,942.52</u>	<u>1,490,265.29</u>	<u>1,056,281.96</u>	<u>433,983.33</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>7,510.98</u>			
<b>Other Financing Sources (Uses)</b>				
Transfers In				
Transfers Out				
<b>Total Other Financing Sources (Uses)</b>				
<b>Net Change in Fund Balances</b>	7,510.98			
Fund Balances, Beginning				
<b>Fund Balances, Ending</b>	<u>\$ 7,510.98</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**UNION 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]
July 1, 2008	\$ 0	\$ 3,966,161	\$ 3,966,161	0.0%	\$ 11,061,000	35.9%

**UNION 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**

**UNION 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)
<b>United States Department of Agriculture:</b>			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 135,025.93
National School Lunch Program	10.555	300	503,711.95
Summer Food Service Program for Children	10.559	323	15,333.12
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	89,579.00
<b>Total Child Nutrition Cluster</b>			<b>743,650.00</b>
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	15,239.72
<b>Total United States Department of Agriculture</b>			<b>758,889.72</b>
<b>United States Department of Education:</b>			
Direct:			
Impact Aid	84.041	N/A	1,529.03
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies			
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.010	212, 223, 228	507,537.71
	84.389	212, 223	73,756.37
<b>Total Title I, Part A Cluster</b>			<b>581,294.08</b>
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	511,107.70
Special Education - Preschool Grants	84.173	267	21,587.54
ARRA - Special Education Grants to States, Recovery Act	84.391	263	173,411.89
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	4,522.76
<b>Total Special Education Cluster</b>			<b>710,629.89</b>
Education of Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	13,648.89
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	16,384.00
<b>Total Education of Homeless Children and Youth Cluster</b>			<b>30,032.89</b>
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	3,617.99
ARRA - Education Technology State Grants, Recovery Act	84.386	121	6,500.31
<b>Total Educational Technology State Grants Cluster</b>			<b>10,118.30</b>
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	684,369.60
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	82,097.31
<b>Total State Stabilization Fund Cluster</b>			<b>766,466.91</b>
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	40,417.00
Career and Technical Education - Basic Grants to States	84.048	161	53,913.99
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	7,437.00
Rural Education	84.358	110	45,785.41
Improving Teacher Quality State Grants	84.367	224	136,069.28
Putnam County District School Board:			
Twenty-First Century Community Learning Centers	84.287	None	12,033.46
Early Reading First	84.359	None	68,414.42
<b>Total Indirect</b>			<b>2,462,612.63</b>
<b>Total United States Department of Education</b>			<b>2,464,141.66</b>
<b>United States Department of Defense:</b>			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	61,216.02
<b>Total Expenditures of Federal Awards</b>			<b>\$ 3,284,247.40</b>

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

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Union County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the 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. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 and 2 to be material weaknesses.

### Compliance and Other Matters

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

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

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

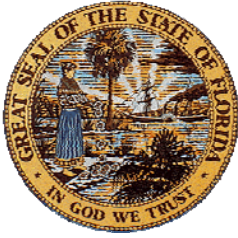
Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing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

Respectfully submitted,



David W. Martin, CPA

March 8, 2011



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the  
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Legislative Auditing Committee

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

### Compliance

We have audited the Union 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 fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

## 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Respectfully submitted,



David W. Martin, CPA

March 8, 2011

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

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); and State Fiscal Stabilization Funds Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESSES**

**Finding No. 1: Financial Reporting**

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District’s annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles.

As similarly noted in previous audit reports, most recently in our report No. 2010-107, the District’s 2009-10 fiscal year annual financial report, as presented for audit, contained certain reporting errors resulting from weaknesses in control procedures. For example, preparation of fund financial statements pursuant to generally accepted accounting principles (GAAP) require the District to determine the major funds that require separate columnar presentation. The District must report a fund as major when the fund’s assets, liabilities, revenues, or expenditures represent at least 10 percent of the total governmental funds for these respective classifications. For the 2009-10 fiscal year, the District moved expenditures, totaling \$139,217, from the Capital Projects – Other (CPO) Fund to the Capital Projects – Public Education Capital Outlay (PECO) Fund for roof repairs by incorrectly recording a transfer out for the CPO Fund and a transfer in for the PECO Fund. Following this approach, the District understated cash and overstated transfers out for the CPO Fund, and overstated cash and transfers in for the PECO Fund. In addition, as discussed in Additional Matter Finding No. 3, the District underreported due from other funds and overstated expenditures in the CPO Fund by \$88,740.93. Because of these misclassifications, the District did not report the CPO Fund as a major fund, contrary to GAAP. Separately reporting major funds allows financial statement users to readily identify the District’s most significant funds and their related balances and transactions and ensures compliance with GAAP. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District’s financial statements were materially correct, and District personnel accepted these changes. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting.

**Recommendation: The District should enhance procedures to ensure that the financial statement account balances and transactions are properly reported.**

**Finding No. 2: Public Education Capital Outlay Funds**

The State allocates Public Education Capital Outlay (PECO) funds to the District on an annual basis. The District’s annual PECO allocation consists of specific State-defined project categories and appropriation amounts, each of

which has its own restrictions governing use. Section 216.301(2), Florida Statutes, provides that the unexpended balance of any appropriation for fixed capital outlay for an educational facility that is not contracted, or committed to be expended, prior to February 1 of the third fiscal year, shall revert on February 1 of such year to the fund from which it was appropriated. Consequently, the 2007-08 fixed capital outlay appropriations for educational facilities were subject to reversion on February 1, 2010, if the Board had not approved a contract, received bids, issued notice of intent to award a contract, or issued a purchase order to accomplish the work with in-house staff.

During the 2007-08 fiscal year, the District received appropriations totaling \$647,206 for PECO Classroom For Kids construction, and \$268,927 for other PECO construction. In response to a memorandum dated December 16, 2009, from the Florida Department of Education - Office of Educational Facilities, the District reported that the full amount of each appropriation was under contract as of February 1, 2010, and, except for Classrooms for Kids funding of approximately \$15,000, fully expended as of March 31, 2010. We performed an analysis of the 2007-08 and subsequent fiscal year legislative appropriations, encumbrance authorizations, and the District's reported use of the appropriations over the past three fiscal years on a first-in, first-out basis. The results of our analysis disclosed that, as of June 30, 2010, approximately \$341,000 in unencumbered cash was on hand that was not committed under terms of a binding contract or otherwise committed to be expended.

The unspent and unreverted resources occurred, in part, because District records did not separately account for specific PECO appropriations and certain State capital outlay resources. Without proper accountability for individual appropriations and related expenditures and encumbrances, District records did not demonstrate compliance with spending timeframes for these resources and the District is at risk of losing this funding.

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**Recommendation:** The District should establish procedures to ensure adequate accountability for State appropriations subject to reversion pursuant to Section 216.301(2), Florida Statutes. In addition, the District should document compliance with this statute to the Florida Department of Education or restore \$341,000, to the State funds from which the moneys were appropriated.

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## ADDITIONAL MATTERS

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### **Finding No. 3: Qualified Zone Academy Bonds**

In December 2007, the District entered into a \$2 million financing arrangement with a local bank, characterized as a lease-purchase, under the Qualified Zone Academy Bonds (QZAB) program. The program provides low interest cost financing to purchase certain goods or services for qualified zone academies, which are schools with greater than 35 percent of students eligible for free or reduced-price meals under the National School Lunch Program. The Florida Department of Education administers the program Statewide and establishes the maximum amount of funding and eligibility for each project based on applications submitted by local school districts. The United States Government subsidizes interest on the debt through the issuance of Federal income tax credits to the holder of the QZAB debt (the bank). District schools approved as qualified zone academies included Lake Butler Elementary, Lake Butler Middle, and Union County High schools.

The District's lease-purchase agreement with the bank (lessor) lists the authorized purposes for the QZAB proceeds as technology and air conditioning upgrades at the District's three schools. The agreement allows the Board to make additions or modifications to the listed projects upon prompt written notice to the lessor. During the 2009-10 fiscal year, the District expended \$88,740.93 of the QZAB proceeds on reroofing Lake Butler Elementary School; however, this was not an authorized purpose according to the lease-purchase agreement. In addition, the Board did not amend

the authorized use of proceeds set forth in the agreement and did not notify the lessor of a change in the purposes in the original agreement, resulting in these expenditures representing questioned costs.

Subsequent to preparation of the annual financial report and our inquiries, to remedy the questioned costs totaling \$88,740.93, the District agreed to an audit adjustment to reclassify the expenditures to the Capital Projects - Local Capital Improvement Fund since District-wide reroofing was an allowable use of capital outlay millage proceeds. As of June 30, 2010, the unexpended balance of QZAB proceeds was \$692,797.90. Failure to use 95 percent of the proceeds for qualified purposes within five years of the debt's issuance may necessitate certain remedial actions by the lessor, such as redeeming a portion of the loan, to preserve the qualification of the debt.

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**Recommendation:** The District should ensure that future expenditures from QZAB proceeds are consistent with the lease-purchase agreement's authorized purposes.

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#### **Finding No. 4: Performance Assessments**

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

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes; however, District records did not evidence that performance assessments of school administrators were based primarily on student performance. For example, the administrators' evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate performance. Without measuring employee performance by the required criteria, performance assessments of school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

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

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#### **Finding No. 5: Compensation and Salary Schedules**

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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 differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule 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 provided 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 the District's "D" and "F" schools; level of job performance difficulties for high school academy directors; and critical shortage areas for exceptional student education teachers. However, criteria had not been established for documenting the determination of critical shortage areas. For example, to document the process of determining critical shortage areas, 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.** The school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas, contrary to Section 1012.22(1)(c)4., Florida Statutes.

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

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**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.

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#### **Finding No. 6: Collection of Social Security Numbers**

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity

verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

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

The District collected SSNs on various forms, such as those for employment application, fingerprinting and background checks, and new student enrollment. Also, the District indicated the general purposes for collecting SSNs in its employee handbook and on the notification of SSN collection and usage form provided to new hires. However, the notifications describing the reasons for collecting SSNs did not identify the specific Federal or State law governing the collection, use, or release of the SSN. Consequently, District records did not evidence proper notification for the collection of SSNs to new employees and parents or guardians enrolling their children. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

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

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**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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**Federal Awards Finding No. 1**  
**Federal Agency: United States Department of Education**  
**Pass-Through Entity: Florida Department of Education**  
**Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA) and Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA)**  
**Finding Type: Noncompliance and Significant Deficiency**  
**Questioned Costs: None**

**Allowable Costs/Cost Principles.** United States Office of Management and Budget (OMB) *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the unit. Where employees are expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be

supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of certification.

For the 2009-10 fiscal year, the District reported salaries and benefits expenditures totaling \$521,346.58 and \$432,922.26 for the Special Education and Title I programs, respectively. To determine the propriety of these charges, we tested expenditures totaling approximately \$254,000 and \$379,000, for 11 and 10 employees, respectively. While the District maintained documentation at the schools (i.e., daily sign-in rosters, leave records, payroll worksheets for additional hours) that generally corroborated the work time for Federally-funded employees, District records did not evidence certifications, personnel activity reports, or equivalent documentation for these programs. In December 2010, subsequent to our inquiries, the District provided documentation to support salary and benefit charges to the programs. When personnel activity reports or other evidence to delineate job responsibilities and work activities are not maintained, there is an increased risk that services may not be performed in accordance with grant terms and District intentions or personnel costs may be inappropriately charged to a Federal program.

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**Recommendation:** The District should establish procedures to ensure that employees who perform services for Federal programs maintain the required documentation to support salary and benefit charges.

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District Contact Person: Renae Prevatt, Director of Finance

**Federal Awards Finding No. 2**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Florida Department of Education

**Program:** ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394) and ARRA - State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act (CFDA No. 84.397)

**Finding Type:** Noncompliance and Significant Deficiency

**Questioned Costs:** None

**Davis-Bacon Act and Special Tests and Provisions.** The State Fiscal Stabilization Fund (SFSF), established by the American Recovery and Reinvestment Act (ARRA), provides funding, in part, to help stabilize the District’s budget, and for renovation and repair of school facilities. Title 29, Section 5.5, Code of Federal Regulations (Davis-Bacon Act), requires the District to ensure that contractors and subcontractors pay workers the prevailing wage rates established by the Department of Labor, and include the prevailing wage rate clauses in construction contracts exceeding \$2,000. In addition, Section 1605 of ARRA (Buy American Requirement) requires that the District use American iron, steel, and manufactured goods in the construction or repair of District facilities projects funded by SFSF, unless specific exceptions are identified.

During the 2009-10 fiscal year, the District incurred SFSF expenditures, totaling \$169,541 and \$46,905, for reroofing projects at the Union County High School (UCHS) and Lake Butler Elementary School (LBES), respectively. The UCHS expenditures were for labor charges and material costs, and the LBES expenditures were for material costs; however, for the UCHS project, the District did not monitor compliance with the Davis-Bacon Act or include prevailing wage rate clauses in the construction contracts and purchase orders, and the District did not monitor the Buy American procurement requirements for either project. Without procedures to ensure compliance with these requirements, Federal moneys used to fund construction projects could be subject to disallowance by grantors. Subsequent to our inquiry, the District obtained certified payrolls demonstrating the prevailing wage rates were paid for the UCHS project, and certifications that American products were used for these projects.

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**Recommendation:** The District should continue its efforts to ensure compliance with Federal Davis-Bacon Act and Buy American procurement requirements.

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District Contact Person: Renae Prevatt, Director of Finance

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**PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-107.

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**MANAGEMENT'S RESPONSE**

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Management's response is included as Exhibit A.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-110 (2) and 2009-058 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Suspension and Debarment	District records did not evidence compliance with suspension and debarment requirements for expenditures of Title I and Child Nutrition Cluster funds.	Corrected.	The District updated language on all purchase orders used for all expenditures to include the required language addressing suspension and debarment.
2010-107 (1)	Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394); SFSF– Government Services, Recovery Act (CFDA No. 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 District registered with the Central Contractor Registration database.
2010-107 (2)	Special Education – Grants to States (CFDA No. 84.027) / Procurement - Suspension and Debarment and Contract Provisions	The District did not verify that a vendor was not suspended or debarred from receiving Federal Special Education program moneys, and did not include Federally-required provisions in the vendor's contract.	Corrected.	The District updated language on all purchase orders used for all expenditures to include the required language addressing suspension and debarment in addition to Federally-required contract language.

EXHIBIT A  
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF UNION COUNTY  
Carlton Faulk, Superintendent  
55 SW 6<sup>th</sup> Street  
Lake Butler, FL 32054  
(386) 496-2045 FAX 386-496-4819

Board Members: Allen Parrish, District 1 Alvin Griffis, District 2 Curtis Clyatt, District 3 Sandra Floyd, District 4 Terra Johnson, District 5

March 3, 2011

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

Dear Mr. Martin:

Please accept the statements below as our official responses to the preliminary and tentative audit findings dated February 15, 2011 for the Union County District School Board for the fiscal year ending June 30, 2010.

**Finding No. 1:** Improvements were needed in District procedures to ensure that account balances and transactions are properly reported on the financial statements.

**District Response:** The District will ensure proper procedures for reporting by following generally accepted accounting principles (GAAP), Florida Administrative Code, State Board of Education Rules and Good Business Practices to accurately complete the District's financial reporting requirements.

**Finding No. 2:** At June 30, 2010, the District retained 2007-08 fiscal year State capital outlay appropriations, totaling approximately \$341,000, contrary to Section 216.301(2), Florida Statutes.

**District Response:** The District will continue a thorough review of all previous year's records relating to capital outlay appropriations and expenditures to determine proper treatment. The District will work with the Florida Department of Education Office of Educational Funding (FDOE OEF) to determine the correct amount of funds to be restored, if necessary, in order to be in compliance with Florida Statutes.

**Finding No. 3:** The District expended Qualified Zone Academy Bond proceeds for a project that was not identified as an allowable use, contrary to the District's lease-purchase agreement with the debt holder.

**District Response:** The District's Board approved an amendment to the Qualified Zone Academy Bond (QZAB) agreement on February 8, 2011 retroactive to July 1, 2009 to allow the funds to be used for the project cited. The lessor signed the Board-approved amendment on February 23, 2011. The District has retained the proceeds of the QZAB funds to date in preparation for funding shortfalls. The District intends to use the QZAB funds in full within the specified 60 month period.

All schools fully accredited by the Southern Association of Colleges and Schools  
Affirmative action/equal opportunity employer

## EXHIBIT A

## MANAGEMENT'S RESPONSE (CONTINUED)

**Finding No. 4:** District performance assessment procedures for school administrators were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

**District Response:** The District's Principal Evaluations are based on the State Board approved principal standards. There are thirteen competencies listed on the evaluation. A major focus on the evaluation is student achievement. Although there is not a numeric or percentage indicator to show that student achievement is the primary contributing factor used to evaluate performance, this section is heavily weighted. School grade and student achievement have an impact on the overall evaluation, i.e. if a school grade is a C the principal would receive no higher than a satisfactory. The District is revising the principal and teacher evaluations which will align with the State and Race To The Top criteria. The evaluations will be in place for the 2011-2012 school year.

**Finding No. 5:** 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 administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

**District Response:** The District participated in performance pay in 2006-2007. However, it was unanimously voted on by the Teachers' Union to not participate in performance base pay. Although 50% of the District teacher evaluation instrument, is tied to student achievement, compensation is not awarded based on performance. The District was awarded the Race To The Top grant this year. During the next four years the District will adopt procedures, as well as a teacher evaluation instrument for ensuring that a portion of each instructional employee's compensation is based on performance.

**Finding No. 6:** Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

**District Response:** The District is continuing efforts to improve notification to individuals regarding collection of social security numbers. In addition, the District continues to limit collection of social security numbers throughout district operations.

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

**Federal Awards Finding No. 1:**

Required documentation to support personnel charges for employees in the Federal programs was not maintained, contrary to Federal regulations.

**District Response:**

The District did obtain personnel activity reports (PAR's) for employees paid from Federal funds during the 2009-2010 fiscal year as stated in the finding. In addition, for the 2010-2011 fiscal year, the District has obtained PAR's for all employees paid from Federal funds for December 2010. The District intends to obtain the reports for future periods in accordance with Federal requirements.

**Federal Awards Finding No. 2:**

The District needed to establish procedures to monitor compliance with Federal Davis-Bacon Act and Buy American procurement requirements.

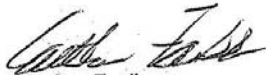
**District Response:**

The District has updated policies and procedures to ensure any construction project wholly or partially funded by Federal dollars will be monitored for compliance with all Federal requirements, including but not limited to the Davis-Bacon Act and Buy American procurement requirements.

It was a pleasure to work with Mr. Chris Meyer and Mr. Phil Ciano from the Gainesville section office. We would like to thank them for their assistance and technical advice during the audit.

If you have any questions or need further assistance please contact me.

Sincerely,



Carlton Faulk  
Superintendent  
Union County District School Board

Pc: Renae P. Prevatt