

**UNION COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2011



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Allen Parrish, Vice Chair to 11-15-10, Chair from 11-16-10	1
Alvin A. Griffis, Vice Chair from 11-16-10	2
Marsan H. Carr to 11-15-10, Chair	3
Curtis Clyatt from 11-16-10	3
Sandra R. Floyd to 2-11-11 (1)	4
Becky Raulerson from 6-22-11	4
George W. Green, Jr., to 11-15-10	5
Terra Johnson from 11-16-10	5

Carlton Faulk, Superintendent

Notes: (1) Board Member Floyd deceased February 11, 2011. Position remained vacant until Board Member Raulerson was appointed on June 22, 2011, to fill the remainder of the term.

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. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

UNION COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Controls over electronic funds transfers could be enhanced.

Finding No. 2: District records did not sufficiently evidence that performance assessments of school administrators included consideration of student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 3: 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 (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 4: As of June 30, 2011, the District held \$341,000 of 2007-08 Public Education Capital Outlay appropriations that were subject to reversion to the State.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 6: The District did not have a written security incident response plan.

Finding No. 7: The District's security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Title I, Part A Cluster; Special Education Cluster; State Fiscal Stabilization Funds Cluster; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on the major Federal programs tested.

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. 2011-148.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
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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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 41 percent of the assets and 100 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, 2011, 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, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN** and **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA
February 28, 2012

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, 2011. 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 37.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- In total, net assets decreased \$569,032.54, which represents a 2.4 percent decrease from the 2009-10 fiscal year.
- General revenues total \$18,425,172.29, 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 \$2,011,809.96, or 9.8 percent of all revenues.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$928,772.91 at June 30, 2011, or 5.9 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 District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

All of the District's 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 – Federal 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section is used to present condensed financial information from the government-wide statements that compares the current fiscal year to the prior fiscal year.

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, 2011, compared to net assets as of June 30, 2010:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	\$ 5,267,018.52	\$ 4,623,230.42
Capital Assets	22,680,532.37	23,722,153.18
Total Assets	27,947,550.89	28,345,383.60
Long-Term Liabilities	4,251,598.25	4,335,861.79
Other Liabilities	649,851.82	394,388.45
Total Liabilities	4,901,450.07	4,730,250.24
Net Assets:		
Invested in Capital Assets - Net of Related Debt	21,378,905.56	22,249,951.08
Restricted	2,626,664.87	2,701,249.48
Unrestricted Deficit	(959,469.61)	(1,336,067.20)
Total Net Assets	\$ 23,046,100.82	\$ 23,615,133.36

The largest portion of the District’s net assets (92.8 percent) reflects its investment in capital assets (e.g., land; buildings and fixed equipment; furniture, fixtures, and equipment), less any related debt still outstanding, offset by any significant unexpended debt resources. 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. Unrestricted net assets of \$1,297,128.64 (after excluding liabilities of \$1,398,593.25 and \$858,005.00 for accumulated employee annual and sick leave balances reported as compensated absences and for other postemployment benefits, respectively) may be used to meet the government’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, 2011, and June 30, 2010, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 562,723.85	\$ 595,638.09
Operating Grants and Contributions	1,200,956.86	1,256,459.72
Capital Grants and Contributions	248,129.25	132,962.29
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,623,475.35	1,549,331.09
Property Taxes, Levied for Capital Projects	374,323.43	366,292.88
Grants and Contributions Not Restricted to Specific Programs	15,809,160.66	15,955,358.60
Unrestricted Investment Earnings	14,716.46	(8,850.70)
Miscellaneous	603,496.39	394,682.83
Total Revenues	20,436,982.25	20,241,874.80
Functions/Program Expenses:		
Instruction	11,543,723.98	11,958,883.72
Pupil Personnel Services	875,050.08	880,917.75
Instructional Media Services	200,153.78	231,395.73
Instruction and Curriculum Development Services	245,408.50	317,448.73
Instructional Staff Training Services	353,788.93	503,206.89
Instruction Related Technology	127,681.68	130,973.22
School Board	244,710.30	256,298.36
General Administration	336,909.58	337,768.51
School Administration	820,545.02	878,712.29
Facilities Acquisition and Construction	195,147.88	1,187,458.03
Fiscal Services	410,335.11	419,941.56
Food Services	970,085.86	1,020,436.37
Central Services	280,683.14	172,887.30
Pupil Transportation Services	833,938.83	720,987.91
Operation of Plant	1,542,066.92	1,617,409.83
Maintenance of Plant	485,502.53	528,863.71
Administrative Technology Services	152,173.62	157,628.75
Community Services	270,051.92	282,830.73
Unallocated Interest on Long-Term Debt	43,795.59	47,881.88
Unallocated Depreciation Expense	1,034,612.54	1,012,330.38
Loss on Disposal of Assets	39,649.00	
Total Functions/Program Expenses	21,006,014.79	22,664,261.65
Decrease in Net Assets	\$ (569,032.54)	\$ (2,422,386.85)

The largest revenue source is the State of Florida (67.2 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.

Total revenues increased by \$195,107.45 (1 percent), primarily due to additional sources of miscellaneous local revenue.

Instruction expenses represent 55 percent of total governmental expenses in the 2010-11 fiscal year. Instruction expenses decreased by \$415,159.74, or 3.5 percent, from the previous fiscal year due mainly to a reduction in staffing levels, resulting in a decrease in salaries and related benefits.

Instructional staff training services expenses decreased by \$149,417.96 (29.7 percent) compared to the previous fiscal year due to a Districtwide reduction in nonessential staff development. Facilities acquisition and construction expenses decreased by \$992,310.15 compared to the previous fiscal year due to the absence of major construction, repairs, or other noncapitalized maintenance costs. Central services expenses increased \$107,795.84 over the previous fiscal year due to contracted personnel costs being moved from the instruction and curriculum development services function. Pupil transportation service expenses increased \$112,950.92 over the previous fiscal year, which is attributable to increased fuel costs and fleet repairs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

General Fund: This fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$928,772.91, while the total fund balance is \$2,583,753.13. Total fund balance increased by \$267,467.12 during the fiscal year. Key factors contributing to this change and other analyses are as follows:

- A decrease in State revenues of \$493,177.22 (3.5 percent) was due primarily to decreased FEFP funding and was replaced, in part, by Education Jobs Funds (EJF) resources in the Special Revenue – Federal Economic Stimulus Fund.
- A decrease in instruction expenditures of \$974,394.42 (9.6 percent) was due to a reduction in staff and the Special Revenue – Federal Economic Stimulus Fund assuming various costs, which in prior fiscal years had been funded in the General Fund.
- The excess of revenues over expenditures was \$149,387.12 compared to the previous fiscal year's deficit of \$769,991.92. This change is attributable, in part, to the aforementioned assumption of costs by the Special Revenue – Federal Economic Stimulus Fund.
- Another factor affecting the composition of total fund balance included a decrease of \$236,704.95 in the unexpended balance of State carryover program revenues, which is required to be carried forward to be expended for specific categorical educational programs.

Special Revenue – Food Service Fund: This fund is used to account for food service operation resources, and had total revenues and expenditures of \$1,027,221.43 and \$1,022,798.01, respectively, resulting in a fund balance increase of \$4,423.42 to \$514,897.38 at June 30, 2011.

Special Revenue – Other Fund: This fund had total revenues and expenditures of \$1,349,513.93 each for Federal grants administered primarily through the State cash advance system. Since Federal grant revenue is recognized to the extent that eligible expenditures have been incurred, this fund generally does not accumulate a fund balance.

Special Revenue – Federal Economic Stimulus Fund: This fund accounted for Federal stimulus money received, including State Fiscal Stabilization Fund, Title I, Special Education, and EJF program funds. This fund had total revenues and expenditures of \$1,416,898.50 each and expenditures were primarily for instructional costs for the Federal stimulus grants administered through the State's cash advance system. These represent increases of \$360,616.54 from the previous fiscal year, most of it attributable to the receipt of EJF resources. Since Federal grant revenue is recognized to the extent that eligible expenditures have been incurred, this fund generally does not accumulate a fund balance.

Capital Projects – Public Education Capital Outlay (PECO) Fund: This fund had a fund balance of \$538,047.28, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$93,375.60 in the current fiscal year due, in part, to an increase in the amount of PECO revenue

recognized. Additionally, expenditures decreased more than \$640,000 from the previous fiscal year because the District completed repairs of various facilities.

Capital Projects – Other Fund: This fund had a total fund balance of \$693,373.19, which is restricted for the acquisition and construction of certain assets. The fund balance remained essentially unchanged from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2010-11 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.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$22,680,532.37 (net of accumulated depreciation). This investment in capital assets includes 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 2010-11 fiscal year. Additional 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 or other required supplementary information, and 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 S.W. 6th Street, Lake Butler, Florida 32054.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 4,495,447.18
Investments	69,281.58
Due from Other Agencies	438,317.18
Prepaid Items	211,285.16
Inventories	52,687.42
Capital Assets:	
Nondepreciable Capital Assets	517,173.45
Depreciable Capital Assets, Net	<u>22,163,358.92</u>
TOTAL ASSETS	<u><u>\$ 27,947,550.89</u></u>
LIABILITIES	
Salaries and Benefits Payable	\$ 460,716.61
Accounts Payable	153,558.21
Deferred Revenue	35,577.00
Long-Term Liabilities:	
Portion Due Within One Year	211,911.16
Portion Due After One Year	<u>4,039,687.09</u>
Total Liabilities	<u>4,901,450.07</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	21,378,905.56
Restricted for:	
State Required Carryover Programs	1,286,624.49
Debt Service	12,051.07
Capital Projects	813,091.93
Food Service	514,897.38
Unrestricted	<u>(959,469.61)</u>
Total Net Assets	<u>23,046,100.82</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 27,947,550.89</u></u>

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, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets Governmental Activities
Governmental Activities:					
Instruction	\$ 11,543,723.98	\$	\$	\$	\$ (11,543,723.98)
Pupil Personnel Services	875,050.08				(875,050.08)
Instructional Media Services	200,153.78				(200,153.78)
Instruction and Curriculum Development Services	245,408.50				(245,408.50)
Instructional Staff Training Services	353,788.93				(353,788.93)
Instruction Related Technology	127,681.68				(127,681.68)
School Board	244,710.30				(244,710.30)
General Administration	336,909.58				(336,909.58)
School Administration	820,545.02				(820,545.02)
Facilities Acquisition and Construction	195,147.88				(195,147.88)
Fiscal Services	410,335.11				(410,335.11)
Food Services	970,085.86	314,900.12	712,313.86		57,128.12
Central Services	280,683.14				(280,683.14)
Pupil Transportation Services	833,938.83		488,643.00		(345,295.83)
Operation of Plant	1,542,066.92				(1,542,066.92)
Maintenance of Plant	485,502.53			172,671.00	(312,831.53)
Administrative Technology Services	152,173.62				(152,173.62)
Community Services	270,051.92	247,823.73			(22,228.19)
Unallocated Interest on Long-Term Debt	43,795.59			75,458.25	31,662.66
Unallocated Depreciation Expense *	1,034,612.54				(1,034,612.54)
Loss on Disposal of Assets	39,649.00				(39,649.00)
Total Governmental Activities	\$ 21,006,014.79	\$ 562,723.85	\$ 1,200,956.86	\$ 248,129.25	(18,994,204.83)
General Revenues:					
Taxes:					
					1,623,475.35
					374,323.43
					15,809,160.66
					14,716.46
					603,496.39
					<u>18,425,172.29</u>
					(569,032.54)
					<u>23,615,133.36</u>
					<u>\$ 23,046,100.82</u>

* This amount excludes the depreciation that is included in the direct expenses of 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, 2011**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS				
Cash	\$ 2,639,324.81	\$ 405,421.56	\$	\$ 8,636.16
Investments	55,775.79	887.25		
Due from Other Funds	96,044.23		11,110.84	
Due from Other Agencies	171,678.05	91,311.88	59,134.31	16,400.94
Prepaid Items	205,240.64	6,044.52		
Inventories		52,687.42		
TOTAL ASSETS	\$ 3,168,063.52	\$ 556,352.63	\$ 70,245.15	\$ 25,037.10
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 447,950.86	\$ 12,765.75	\$	\$
Accounts Payable	124,126.76	28,689.50	359.95	
Due to Other Funds	12,232.77		69,885.20	25,037.10
Deferred Revenue				
Total Liabilities	584,310.39	41,455.25	70,245.15	25,037.10
Fund Balances:				
Nonspendable:				
Inventories		52,687.42		
Prepaid Items	205,240.64	6,044.52		
Total Nonspendable Fund Balance	205,240.64	58,731.94		
Restricted for:				
State Required Carryover Programs	1,286,624.49			
Debt Service				
Capital Projects				
Food Service		456,165.44		
Total Restricted Fund Balance	1,286,624.49	456,165.44		
Assigned for:				
District Salary Supplement Obligations	144,251.00			
District Purchase Obligations	18,864.09			
Total Assigned Fund Balance	163,115.09			
Unassigned Fund Balance	928,772.91			
Total Fund Balances	2,583,753.13	514,897.38		
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,168,063.52	\$ 556,352.63	\$ 70,245.15	\$ 25,037.10

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
\$ 473,658.30	\$ 693,373.19	\$ 275,033.16	\$ 4,495,447.18
555.98		12,062.56	69,281.58
			107,155.07
99,792.00			438,317.18
			211,285.16
			52,687.42
<u>\$ 574,006.28</u>	<u>\$ 693,373.19</u>	<u>\$ 287,095.72</u>	<u>\$ 5,374,173.59</u>
\$ 382.00	\$	\$	\$ 460,716.61
			153,558.21
			107,155.07
<u>35,577.00</u>			<u>35,577.00</u>
<u>35,959.00</u>			<u>757,006.89</u>
			52,687.42
			211,285.16
			<u>263,972.58</u>
			1,286,624.49
		12,051.07	12,051.07
538,047.28	693,373.19	275,044.65	1,506,465.12
			456,165.44
<u>538,047.28</u>	<u>693,373.19</u>	<u>287,095.72</u>	<u>3,261,306.12</u>
			144,251.00
			18,864.09
			<u>163,115.09</u>
			<u>928,772.91</u>
<u>538,047.28</u>	<u>693,373.19</u>	<u>287,095.72</u>	<u>4,617,166.70</u>
<u>\$ 574,006.28</u>	<u>\$ 693,373.19</u>	<u>\$ 287,095.72</u>	<u>\$ 5,374,173.59</u>

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

Total Fund Balances - Governmental Funds \$ 4,617,166.70

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. 22,680,532.37

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

QZAB Lease-Purchase Payable	\$ 1,630,000.00	
Bonds Payable	365,000.00	
Other Postemployment Benefits Payable	858,005.00	
Compensated Absences Payable	<u>1,398,593.25</u>	<u>(4,251,598.25)</u>

Total Net Assets - Governmental Activities \$ 23,046,100.82

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, 2011**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 64,238.72	\$	\$	\$
Federal Through State and Local	7,177.28	708,570.86	1,349,513.93	1,416,898.50
State	13,522,227.80	3,743.00		
Local:				
Property Taxes	1,623,475.35			
Charges for Services - Food Service		314,900.12		
Miscellaneous	804,237.33	7.45		
Total Revenues	<u>16,021,356.48</u>	<u>1,027,221.43</u>	<u>1,349,513.93</u>	<u>1,416,898.50</u>
Expenditures				
Current - Education:				
Instruction	9,126,178.77		1,082,892.78	1,279,695.30
Pupil Personnel Services	815,314.72		55,422.80	
Instructional Media Services	198,809.57			
Instruction and Curriculum Development Services	234,653.22		9,229.04	
Instructional Staff Training Services	138,499.22		166,039.93	48,568.22
Instruction Related Technology	127,400.15			
School Board	243,740.96			
General Administration	274,064.13		31,273.57	30,430.98
School Administration	814,861.03			
Facilities Acquisition and Construction	21,465.75			
Fiscal Services	408,246.70			
Food Services		967,569.38		
Central Services	280,324.78			
Pupil Transportation Services	746,234.49			
Operation of Plant	1,539,541.72			
Maintenance of Plant	472,530.39			13,398.00
Administrative Technology Services	151,289.39			
Community Services	268,848.38			
Fixed Capital Outlay:				
Other Capital Outlay	9,965.99	55,228.63	4,655.81	44,806.00
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>15,871,969.36</u>	<u>1,022,798.01</u>	<u>1,349,513.93</u>	<u>1,416,898.50</u>
Excess of Revenues Over Expenditures	<u>149,387.12</u>	<u>4,423.42</u>		
Other Financing Sources (Uses)				
Transfers In	118,080.00			
Transfers Out				
Total Other Financing Sources (Uses)	<u>118,080.00</u>			
Net Change in Fund Balances	267,467.12	4,423.42		
Fund Balances, Beginning	2,316,286.01	510,473.96		
Fund Balances, Ending	<u>\$ 2,583,753.13</u>	<u>\$ 514,897.38</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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
\$	\$	\$	\$ 64,238.72
172,671.00		74,340.00	3,482,160.57
		374,323.43	13,772,981.80
	575.29	82.19	1,997,798.78
			314,900.12
			804,902.26
<u>172,671.00</u>	<u>575.29</u>	<u>448,745.62</u>	<u>20,436,982.25</u>
			11,488,766.85
			870,737.52
			198,809.57
			243,882.26
			353,107.37
			127,400.15
			243,740.96
			335,768.68
1,741.32			814,861.03
			23,207.07
			408,246.70
			967,569.38
			280,324.78
			746,234.49
		1,445.50	1,540,987.22
74,555.08		92,941.23	653,424.70
			151,289.39
			268,848.38
2,999.00			117,655.43
		170,000.00	170,000.00
		43,795.59	43,795.59
<u>79,295.40</u>		<u>308,182.32</u>	<u>20,048,657.52</u>
<u>93,375.60</u>	<u>575.29</u>	<u>140,563.30</u>	<u>388,324.73</u>
			118,080.00
		(118,080.00)	(118,080.00)
		(118,080.00)	
93,375.60	575.29	22,483.30	388,324.73
<u>444,671.68</u>	<u>692,797.90</u>	<u>264,612.42</u>	<u>4,228,841.97</u>
<u>\$ 538,047.28</u>	<u>\$ 693,373.19</u>	<u>\$ 287,095.72</u>	<u>\$ 4,617,166.70</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, 2011**

Net Change in Fund Balances - Governmental Funds \$ 388,324.73

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 and net adjustments in the current fiscal year:

Current Year Capital Asset Additions	\$ 117,655.43	
Depreciation Expense	(1,119,627.24)	
Net Adjustments	(39,649.00)	(1,041,620.81)

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 principal repayments in the current fiscal year:

QZAB Lease-Purchase Payable	\$ 125,000.00	
Bonds Payable	45,000.00	170,000.00

In the statement of activities, the cost of compensated absences is measured by amounts earned during the year, while in the governmental funds expenditures are recognized based on amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (15,314.46)

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. (70,422.00)

Change in Net Assets - Governmental Activities **\$ (569,032.54)**

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, 2011**

	Private-Purpose Trust Fund
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 35,791.61
DEDUCTIONS	
Scholarship Payments	31,774.25
Change in Net Assets	4,017.36
Net Assets - Beginning	1,952.02
Net Assets - Ending	\$ 5,969.38

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

➤ **Basis of Presentation**

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

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

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

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

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

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

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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Act.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Fund 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 fund 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

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

related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use it is the District's policy to use restricted resources first, and then unrestricted resources as needed. District policy is to restrict certain fund balances that are constrained by constitutional provision or enabling legislation and to use those funds only for the purpose for which they are intended. When expenditures are incurred for which unrestricted resources can be used, it is the District's intention to use committed resources first, followed by assigned resources and then unassigned resources.

➤ **Deposits and Investments**

Cash is considered to be 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 SBA Debt Service accounts for investment of debt service moneys and amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. 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, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within Florida PRIME.

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

➤ **Inventories**

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

➤ **Prepaid Items**

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

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

➤ **Capital Assets**

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

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

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

➤ **State Revenue Sources**

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

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

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

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 Classroom for Kids Program in the 2009-10 fiscal year. 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 Classroom 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 2010 tax levy on September 14, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements 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, 2011**

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 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, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	31 Day Average	\$ 19,416.92
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	37,813.59
Debt Service Accounts	6 Months	12,051.07
Total Investments		\$ 69,281.58

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of a portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the State Board of

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

Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that further 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, 2011, 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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments (1)</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	\$ 517,173.45	\$	\$	\$	\$ 517,173.45
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	1,229,254.84				1,229,254.84
Buildings and Fixed Equipment	32,343,874.92				32,343,874.92
Furniture, Fixtures, and Equipment	3,153,108.52	112,805.43	33,033.87	74,238.06	3,307,118.11
Motor Vehicles	1,672,349.65	4,850.00		(39,649.00)	1,637,550.65
Computer Software	<u>402,789.58</u>			<u>(74,238.06)</u>	<u>328,551.52</u>
Total Capital Assets Being Depreciated	<u>38,801,377.51</u>	<u>117,655.43</u>	<u>33,033.87</u>	<u>(39,649.00)</u>	<u>38,846,350.07</u>
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	1,179,386.03	52,984.66		(66,433.48)	1,165,937.21
Buildings and Fixed Equipment	10,853,277.95	619,901.46		68,133.48	11,541,312.89
Furniture, Fixtures, and Equipment	2,190,449.92	327,555.54	33,033.87	(1,700.00)	2,483,271.59
Motor Vehicles	1,066,740.60	103,243.08			1,169,983.68
Computer Software	<u>306,543.28</u>	<u>15,942.50</u>			<u>322,485.78</u>
Total Accumulated Depreciation	<u>15,596,397.78</u>	<u>1,119,627.24</u>	<u>33,033.87</u>		<u>16,682,991.11</u>
Total Capital Assets Being Depreciated, Net	<u>23,204,979.73</u>	<u>(1,001,971.81)</u>		<u>(39,649.00)</u>	<u>22,163,358.92</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,722,153.18</u>	<u>\$ (1,001,971.81)</u>	<u>\$ 0.00</u>	<u>\$ (39,649.00)</u>	<u>\$22,680,532.37</u>

NOTE (1): Adjustments made primarily to reclassify certain assets and related accumulated depreciation within asset class

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 85,014.70
Unallocated	<u>1,034,612.54</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,119,627.24</u>

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

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 million 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>
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	149,495	135,000	14,495
2017-2021	735,955	690,000	45,955
2022-2023	<u>295,655</u>	<u>290,000</u>	<u>5,655</u>
Total Minimum Lease Payments	<u>\$ 1,770,920</u>	<u>\$ 1,630,000</u>	<u>\$ 140,920</u>

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

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B, Refunding	\$ 115,000	4.000 - 5.375	2015
Series 2005B, Refunding	<u>250,000</u>	5.0	2020
Total Bonds Payable	<u>\$ 365,000</u>		

These 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, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	38,250.00	30,000.00	8,250.00
2017-2020	<u>152,250.00</u>	<u>135,000.00</u>	<u>17,250.00</u>
Total State School Bonds	<u>\$ 449,675.00</u>	<u>\$ 365,000.00</u>	<u>\$ 84,675.00</u>

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
QZAB Lease-Purchase Payable	\$ 1,755,000.00	\$	\$ 125,000.00	\$ 1,630,000.00	\$ 125,000.00
Bonds Payable	410,000.00		45,000.00	365,000.00	50,000.00
Compensated Absences Payable	1,383,278.79	136,078.06	120,763.60	1,398,593.25	36,911.16
Other Postemployment Benefits Payable	<u>787,583.00</u>	<u>198,462.00</u>	<u>128,040.00</u>	<u>858,005.00</u>	
Total Governmental Activities	<u>\$ 4,335,861.79</u>	<u>\$ 334,540.06</u>	<u>\$ 418,803.60</u>	<u>\$ 4,251,598.25</u>	<u>\$ 211,911.16</u>

Compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund.

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

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	\$ 96,044.23	\$ 12,232.77
Special Revenue:		
Other	11,110.84	69,885.20
Federal Economic Stimulus	25,037.10	25,037.10
Total	\$ 107,155.07	\$ 107,155.07

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	\$ 118,080.00	\$
Nonmajor Governmental	118,080.00	118,080.00
Total	\$ 118,080.00	\$ 118,080.00

Interfund transfers represent the permanent transfer of moneys between funds. The transfer above was to reimburse the General Fund for allowable expenditures for risk management property and casualty insurance premiums.

9. FUND BALANCE REPORTING

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

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

➤ **Nonspendable**

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

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

acquired for resale. The District classifies its amounts reported as prepaid items and inventories as nonspendable.

➤ **Restricted**

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

➤ **Committed**

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

➤ **Assigned**

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

➤ **Unassigned**

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

➤ **Minimum Fund Balance Policy**

The District has adopted Board Policy 7.01 which provides at least 4 percent of the current fiscal year's annual estimated General Fund recurring expenditure budget to be reserved for contingency purposes.

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 10,584,403.00
Categorical Educational Program - Class Size Reduction	2,298,965.00
Gross Receipts Tax (Public Education Capital Outlay)	172,671.00
Workforce Development Program	156,420.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	75,458.25
Discretionary Lottery Funds	7,884.00
Food Service Supplement	3,743.00
Miscellaneous	<u>473,437.55</u>
Total	<u>\$ 13,772,981.80</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 2010 tax roll for the 2010-11 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.507	\$ 1,413,570.81
Basic Discretionary Local Effort	0.748	192,001.37
Critical Operating Needs	0.250	64,171.58
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>385,029.47</u>
Total	<u>8.005</u>	<u>\$2,054,773.23</u>

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).

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

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.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

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

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

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$1,006,087.86, \$984,517.93, and \$1,067,797.18, respectively, which were equal to the required contributions for each fiscal year. There

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

were 52 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$163,747.05.

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

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

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 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 2010-11 fiscal year, 24 retirees received other postemployment benefits. The District provided required contributions, payments made on behalf of retirees, of \$128,040 toward the annual OPEB cost; retiree contributions totaled \$48,218, which represents 0.42 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 96,729
Amortization of Unfunded Actuarial Accrued Liability	107,603
Interest on Normal Cost and Amortization	8,173
Annual Required Contribution	212,505
Interest on Net OPEB Obligation	31,503
Adjustment to Annual Required Contribution	(45,546)
Annual OPEB Cost (Expense)	198,462
Contribution Toward the OPEB Cost	(128,040)
Increase in Net OPEB Obligation	70,422
Net OPEB Obligation, Beginning of Year	787,583
Net OPEB Obligation, End of Year	\$ 858,005

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 500,519	21.6%	\$ 392,523
2009-10	516,220	23.5%	787,583
2010-11	198,462	64.5%	858,005

Funded Status and Funding Progress. As of July 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$1,935,102 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,935,102 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$11,473,944, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.9 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 an 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

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

between an employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District’s OPEB actuarial valuation as of July 1, 2010, used the unit credit actuarial cost method to compute the unfunded actuarial liability as of June 30, 2011, and the District’s 2010-11 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 6.9 percent initially for the 2010-11 fiscal year, reduced to an ultimate rate of 4.2 percent after 72 years. The unfunded actuarial accrued liability is being amortized on a level dollar, closed basis. The remaining amortization period at June 30, 2011, was 27 years.

14. SIGNIFICANT COMMITMENTS

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered. The following is a schedule of encumbrances at June 30, 2011:

Major Funds							
General	Special Revenue - Food Service	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Public Education Capital Outlay	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 18,864.09	\$ 41,488.86	\$ 17,575.17	\$ 10,804.49	\$ 382.00	\$ 0.00	\$ 0.00	\$ 89,114.61

15. RISK MANAGEMENT PROGRAMS

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

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

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

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

OTHER 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, 2011**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 58,000.00	\$ 58,000.00	\$ 64,238.72	\$ 6,238.72
Federal Through State and Local State	14,425,335.00	14,394,742.00	13,522,227.80	(872,514.20)
Local:				
Property Taxes	1,545,255.00	1,545,255.00	1,623,475.35	78,220.35
Charges for Services - Food Service				
Miscellaneous	321,500.00	321,500.00	804,237.33	482,737.33
Total Revenues	<u>16,350,090.00</u>	<u>16,319,497.00</u>	<u>16,021,356.48</u>	<u>(298,140.52)</u>
Expenditures				
Current - Education:				
Instruction	9,635,572.87	9,129,341.03	9,126,178.77	3,162.26
Pupil Personnel Services	761,266.26	815,315.26	815,314.72	0.54
Instructional Media Services	210,178.54	210,178.54	198,809.57	11,368.97
Instruction and Curriculum Development Services	182,048.60	234,653.60	234,653.22	0.38
Instructional Staff Training Services	191,328.02	191,328.02	138,499.22	52,828.80
Instruction Related Technology	91,199.50	127,406.55	127,400.15	6.40
School Board	282,448.64	243,748.64	243,740.96	7.68
General Administration	245,947.83	274,067.83	274,064.13	3.70
School Administration	861,587.22	815,087.22	814,861.03	226.19
Facilities Acquisition and Construction	23,275.00	23,275.00	21,465.75	1,809.25
Fiscal Services	401,066.92	408,246.92	408,246.70	0.22
Food Services				
Central Services	272,142.39	280,327.39	280,324.78	2.61
Pupil Transportation Services	754,824.43	753,025.43	746,234.49	6,790.94
Operation of Plant	1,432,867.53	1,539,567.53	1,539,541.72	25.81
Maintenance of Plant	506,259.96	472,559.96	472,530.39	29.57
Administrative Technology Services	150,625.49	151,290.49	151,289.39	1.10
Community Services	264,644.06	268,849.06	268,848.38	0.68
Fixed Capital Outlay:				
Other Capital Outlay		9,965.99	9,965.99	
Total Expenditures	<u>16,267,283.26</u>	<u>15,948,234.46</u>	<u>15,871,969.36</u>	<u>76,265.10</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>82,806.74</u>	<u>371,262.54</u>	<u>149,387.12</u>	<u>(221,875.42)</u>
Other Financing Sources				
Transfers In			118,080.00	118,080.00
Insurance Loss Recoveries	8,500.00	8,500.00		(8,500.00)
Total Other Financing Sources	<u>8,500.00</u>	<u>8,500.00</u>	<u>118,080.00</u>	<u>109,580.00</u>
Net Change in Fund Balances	<u>91,306.74</u>	<u>379,762.54</u>	<u>267,467.12</u>	<u>(112,295.42)</u>
Fund Balances, Beginning	2,380,657.00	2,316,286.01	2,316,286.01	
Fund Balances, Ending	<u>\$ 2,471,963.74</u>	<u>\$ 2,696,048.55</u>	<u>\$ 2,583,753.13</u>	<u>\$ (112,295.42)</u>

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)
\$ 581,009.54	\$ 581,009.54	\$ 708,570.86 3,743.00	\$ 127,561.32 3,743.00	\$ 1,367,473.14	\$ 1,545,871.36	\$ 1,349,513.93	\$ (196,357.43)
318,990.46	318,990.46	314,900.12 7.45	(4,090.34) 7.45				
900,000.00	900,000.00	1,027,221.43	127,221.43	1,367,473.14	1,545,871.36	1,349,513.93	(196,357.43)
				1,005,998.60	1,189,845.12	1,082,892.78	106,952.34
				53,234.82	62,978.57	55,422.80	7,555.77
				12,389.00	10,889.00	9,229.04	1,659.96
				141,462.10	277,056.94	166,039.93	111,017.01
				49,351.88	40,862.92	31,273.57	9,589.35
1,087,005.94	1,087,005.94	967,569.38	119,436.56				
55,600.00	55,600.00	55,228.63	371.37		4,655.81	4,655.81	
1,142,605.94	1,142,605.94	1,022,798.01	119,807.93	1,262,436.40	1,586,288.36	1,349,513.93	236,774.43
(242,605.94)	(242,605.94)	4,423.42	247,029.36	105,036.74	(40,417.00)		40,417.00
(242,605.94)	(242,605.94)	4,423.42	247,029.36	105,036.74	(40,417.00)		40,417.00
469,704.15	510,473.96	510,473.96		(11,110.84)			
\$ 227,098.21	\$ 267,868.02	\$ 514,897.38	\$ 247,029.36	\$ 93,925.90	\$ (40,417.00)	\$ 0.00	\$ 40,417.00

**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, 2011**

	Special Revenue - Federal Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	1,115,736.23	1,555,691.83	1,416,898.50	(138,793.33)
Local:				
Property Taxes				
Charges for Services - Food Service				
Miscellaneous				
Total Revenues	<u>1,115,736.23</u>	<u>1,555,691.83</u>	<u>1,416,898.50</u>	<u>(138,793.33)</u>
Expenditures				
Current - Education:				
Instruction	898,659.75	1,333,064.46	1,279,695.30	53,369.16
Pupil Personnel Services				
Instructional Media Services				
Instruction and Curriculum Development Services				
Instructional Staff Training Services	46,762.42	53,771.21	48,568.22	5,202.99
Instruction Related Technology				
School Board				
General Administration	71,109.74	71,109.74	30,430.98	40,678.76
School Administration				
Facilities Acquisition and Construction	67,863.42	34,689.42		34,689.42
Fiscal Services				
Food Services				
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant		18,251.00	13,398.00	4,853.00
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Other Capital Outlay		44,806.00	44,806.00	
Total Expenditures	<u>1,084,395.33</u>	<u>1,555,691.83</u>	<u>1,416,898.50</u>	<u>138,793.33</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,340.90</u>			
Other Financing Sources				
Transfers In				
Insurance Loss Recoveries				
Total Other Financing Sources				
Net Change in Fund Balances	31,340.90			
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 31,340.90</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 (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	\$ 0	\$ 3,966,161	\$ 3,966,161	0.0%	\$ 11,061,000	35.9%
July 1, 2010	0	1,935,102	1,935,102	0.0%	11,473,944	16.9%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2010, unfunded actuarial accrued liability of \$1,935,102, was significantly lower than the July 1, 2008, liability of \$3,966,161, as a result of changes in actuarial assumptions and population valuation by the contracted actuary. Active employees declining medical coverage have been excluded from the most recent actuarial valuation, whereas the previous valuation had included them as plan participants.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 124,332.44
National School Lunch Program	10.555	300, 350	513,025.36
Summer Food Service Program for Children	10.559	323	8,832.06
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	59,908.34
Total United States Department of Agriculture			706,098.20
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223	541,222.83
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223	57,080.66
Total Title I, Part A Cluster			598,303.49
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	534,405.97
Special Education - Preschool Grants	84.173	266, 267	21,600.46
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	220,109.26
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	11,543.24
Total Special Education Cluster			787,658.93
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	666,313.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	20,180.00
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	44,024.30
Total State Fiscal Stabilization Fund Cluster			730,517.30
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	151	61,394.00
Education for Homeless Children and Youth	84.196	127	27,640.12
Improving Teacher Quality State Grants	84.367	224	122,833.55
ARRA - Education Technology State Grants, Recovery Act	84.386	121	1,008.79
Education Jobs Fund	84.410	541	435,999.00
Putnam County District School Board:			
Early Reading First	84.359	None	49,691.28
Total United States Department of Education			2,855,463.46
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	63,814.88
Total Expenditures of Federal Awards			\$ 3,625,376.54

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

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the 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.

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 28, 2012



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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 28, 2012

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); State Fiscal Stabilization Funds Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**UNION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ADDITIONAL MATTERS

Finding No. 1: Electronic Funds Transfers

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

During the 2010-11 fiscal year, the District did not use EFTs to make vendor payments, but regularly made electronic disbursements for direct deposits of employee pay and other payroll-related activities, such as taxes withheld and matching contributions, Florida Retirement System contributions, and payments for child support. While the District had controls in place to monitor and control EFTs, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, Board policy did not prescribe the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. In addition, District records did not evidence a written agreement with the bank to authorize EFTs nor documentation signed by the authorizer of EFTs to confirm the authenticity of EFTs, contrary to SBE Rule 6A-1.0012, FAC. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should enhance written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),¹ required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District generally established performance assessment procedures for instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010). However, performance assessments for school administrators did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that the District used evaluation forms designed before enactment of the statutorily-required process, and revisions to performance assessments of school administrators were delayed until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education (FDOE) for the 2011-12 fiscal year. However, without measuring school administrator performance by the required criteria, performance assessments may not effectively communicate the administrator's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-148.

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

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),² provided that, for instructional personnel, the Board must base a portion of each employee's

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

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

compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule was subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and 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 (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union 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 evidenced consideration of 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 the academy director; and critical shortage 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 administrator's 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 for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-148.

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

Finding No. 4: Public Education Capital Outlay Bonds

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.

As noted in our report No. 2011-148, approximately \$341,000 in unencumbered 2007-08 fiscal year PECO cash was on hand at June 30, 2010, that was not committed under terms of a binding contract or otherwise committed to be expended partly because District records did not separately account for specific PECO appropriations. The District implemented a financial accounting system that identifies by subproject number each PECO allocation by fiscal year and category. As of January 2012, District personnel indicated that they were still working with FDOE to resolve this issue.

Recommendation: The District should continue to work with FDOE to determine the resolution of the \$341,000 of 2007-08 fiscal year appropriated PECO moneys.

Finding No. 5: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE's instructional hours reporting procedures. Procedures provided by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

For the 2010-11 fiscal year, the District reported to FDOE a total of 33,152 adult general education contact hours for 172 students enrolled in a total of 896 classes. Our comparison of adult general education data for the past three fiscal years indicated significant variability in the numbers of contact hours and students reported for the 2010-11 fiscal year as compared the previous two fiscal years, as follows:

Comparison of Reported Instructional Contact Hours and Students by Fiscal Year			
Fiscal Year	Contact Hours	Number of Students	Average Hours Per Student
2008-09	10,623	157	68
2009-10	7,084	159	45
2010-11	33,152	172	193

For the 2010-11 fiscal year, the District reported that each student attended 37 hours in each of the 896 classes; however, the likelihood that each student would be reported for the same number of instructional hours is remote as students typically enroll in class hours that vary per student. District personnel indicated that the District did not report the hours in accordance with the FDOE instructional hours reporting procedures. Instead, hours were reported from the date of enrollment to the end of a term, resulting in overreported hours, such as for students who withdrew before completing their classes. District personnel informed us that the incorrect hours reported to FDOE were caused, in part, by the implementation of a new software application for reporting instructional contact hours. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education classes to FDOE. Further, the District should determine the extent of adult general education hours misreported and contact FDOE for proper resolution.

Finding No. 6: Information Technology – Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification of affected parties.

District personnel indicated that since the District had not experienced any network security violations, the District had not developed a written security incident response plan. However, should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the lack of a written security incident response plan could result in the District’s failure to take appropriate and timely actions to prevent further loss or damage to the District’s data and IT resources.

Recommendation: The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

Finding No. 7: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate

security controls related to data loss prevention, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-148.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*UNION COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2011-148 (1)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) and Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Allowable Costs/Cost Principles	Required documentation to support personnel charges for employees who performed services for Federal programs was not maintained.	Corrected.	The required time and effort documentation is now maintained.
2011-148 (2)	State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Davis-Bacon Act and Special Tests and Provisions	The District needed to establish procedures to monitor compliance with Federal Davis-Bacon Act and Buy American procurement requirements.	Corrected.	District policies have been updated and are followed to ensure compliance with Davis-Bacon and Buy American procurement requirements.

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF UNION COUNTY
Carlton Faulk, Superintendent
55 SW 6th Street
Lake Butler, FL 32504
(386) 496-2045 FAX (386) 496-4819

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

February 3, 2012

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 January 23, 2012 for the Union County District School Board for the fiscal year ending June 30, 2011.

Finding No. 1: Controls over electronic funds transfers could be enhanced.

District Response: The District will develop and adopt a Board policy specifically addressing the accounting and control procedures necessary to process EFT's. In addition, the District will obtain a written agreement with the processing bank outlining procedures and controls. The combination of the policy and the agreement will provide written documentation of procedures currently in use by the District.

Finding No. 2: District records did not sufficiently evidence that performance assessments of school administrators included consideration of student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

District Response: The Florida Department of Education (FDOE) is sponsoring the first meeting to instruct districts on the Principal Evaluation Plans which are due to FDOE by the end of May 2012. The District will submit its plan by the May 2012 deadline.

Finding No. 3: 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 (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4, Florida Statutes (2010).

District Response: The District's Teacher Evaluation Plan has been approved by the Florida Department of Education and is posted on the District's webpage. The plan will be used during the 2011-2012 school year for evaluations. In addition, the District will evaluate the differentiated pay process for compliance with the Florida Statutes.

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: As of June 30, 2011, the District held \$341,000 of 2007-08 Public Education Capital Outlay appropriations that were subject to reversion to the State.

District Response: The District will continue working with the Florida Department of Education (FDOE) to resolve the issue and proceed as directed by FDOE.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

District Response: The District will enhance controls over reporting adult education classes, to include validity and reasonableness reviews of data prior to submission. The District continues to work to resolve existing software implementation issues. District personnel will contact the Florida Department of Education to resolve the misreported adult general education hours.

Finding No. 6: The District did not have a written security incident response plan.

District Response: The District will develop a written security incident response plan to provide reasonable assurance for a timely and appropriate response by the District to security incidents to protect the integrity of the District's data and resources.


Finding No. 7: The District's information technology security controls related to data loss prevention needed improvement.

District Response: The District will work to improve security controls related to data loss to ensure the continued confidentiality of the District's data.

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