

ALACHUA COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
April M. Griffin, Vice Chair to 11-21-11, Chair from 11-22-11	1
Eileen F. Roy	2
Dr. Gunnar F. Paulson	3
Barbara J. Sharpe, Chair to 11-21-11	4
Carol Oyenarte, Vice Chair from 11-22-11	5

Dr. W. Daniel Boyd, Jr., Superintendent

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit was conducted by Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was Vikki Mathews, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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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 always evidence that ad valorem tax levy proceeds were used for authorized purposes.

Finding No. 3: Procedural enhancements were needed in administering guaranteed maximum price construction contracts.

Finding No. 4: The District did not have policies and procedures that prescribed the minimum insurance coverage requirements for design professionals.

Finding No. 5: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 6: The District did not timely notify its property insurer of newly constructed property.

Finding No. 7: The District had not adopted a plan for the use of unspent workforce education funds accumulated over several years.

Finding No. 8: The financial audit of The Education Foundation of Alachua County, Inc., was not performed in accordance with *Government Auditing Standards*, contrary to Rules of the Auditor General.

Finding No. 9: The District did not require employees' participation in its information technology (IT) security awareness training program.

Finding No. 10: District IT security controls related to user authentication, data loss prevention, and logging of security changes needed improvement.

Finding No. 11: The District had not effectively implemented an IT security incident response plan.

Finding No. 12: The District lacked written policies and procedures for certain IT functions.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Migrant Education, Twenty-First Century, School Improvement Grants Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Required documentation to support personnel charges of Federal programs tested were not maintained, contrary to Federal regulations.

Federal Awards Finding No. 2: Controls could be enhanced to ensure the number of migrant student counts reported to the Florida Department of Education is accurate and properly supported.

Audit Objectives and Scope

Our audit objectives were to determine whether the Alachua 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 previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Alachua County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 17 percent of the assets and 89 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Education Foundation of Alachua County, Inc., 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Alachua County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Alachua 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 – EARLY RETIREMENT PLAN, SCHEDULE OF EMPLOYER CONTRIBUTIONS – EARLY RETIREMENT PLAN, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA

February 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Alachua 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, 2012. 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 immediately following the MD&A.

FINANCIAL HIGHLIGHTS

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

- The District's total net assets decreased by \$16.4 million, or 16 percent.
- General revenues total \$234.6 million, or 93 percent of all revenues for the 2011-12 fiscal year, as compared to \$263.1 million, or 93 percent for the 2010-11 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$16.8 million, or 7 percent for the 2011-12 fiscal year, as compared to \$19.2 million, or 7 percent for the prior fiscal year.
- The assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board totals \$24.6 million at June 30, 2012, or 12 percent of General Fund expenditures, as compared to \$27.7 million, or 14 percent at June 30, 2011.
- During the current fiscal year, General Fund expenditures exceeded revenues by \$13.9 million. This may be compared to last fiscal year's results in which General Fund revenues exceeded expenditures by \$4.3 million.

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.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents 18 separate legal entities in this report, consisting of 16 charter schools, one foundation, and a leasing corporation. Although legally separate organizations, the component

units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for the charter schools and foundation are reported separately from the financial information presented for the primary government.

The Alachua County School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

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

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide financial 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 private-purpose trust funds to account for the J. Dale Haynie Trust Fund, the Diamond Sports Park, and the career services award program. Also, the District uses a Pension Trust Fund to account for the early retirement plan, and agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 71,589,364	\$ 97,145,184
Capital Assets	133,561,922	131,118,905
Total Assets	205,151,286	228,264,089
Long-Term Liabilities	108,966,032	117,736,885
Other Liabilities	12,206,378	10,110,562
Total Liabilities	121,172,410	127,847,447
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	51,513,764	59,853,717
Restricted	29,719,380	57,424,700
Unrestricted (Deficit)	2,745,732	(16,861,775)
Total Net Assets	\$ 83,978,876	\$ 100,416,642

The largest portion of the District's net assets (61 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (36 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (3 percent) 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, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
Governmental Activities			
	6-30-12	6-30-11	
Program Revenues:			
Charges for Services	\$ 7,300,052	\$ 7,507,069	
Operating Grants and Contributions	8,448,434	8,326,446	
Capital Grants and Contributions	1,074,112	3,385,976	
General Revenues:			
Property Taxes, Levied for Operational Purposes	87,589,312	94,716,407	
Property Taxes, Levied for Debt Service	4,740,380	4,759,500	
Property Taxes, Levied for Capital Projects	18,239,472	15,837,574	
Grants and Contributions Not Restricted to Specific Programs	119,661,798	143,120,596	
Unrestricted Investment Earnings	691,014	703,805	
Miscellaneous	3,692,980	4,004,820	
Total Revenues	251,437,554	282,362,193	
Functions/Program Expenses:			
Instruction	128,161,227	134,705,973	
Pupil Personnel Services	13,573,588	15,281,748	
Instructional Media Services	4,391,446	4,671,940	
Instruction and Curriculum Development Services	10,526,739	12,332,982	
Instructional Staff Training Services	3,572,062	3,572,609	
Instruction Related Technology	2,949,250	2,849,553	
School Board	863,785	1,180,603	
General Administration	1,904,520	2,279,787	
School Administration	12,288,386	13,289,484	
Facilities Acquisition and Construction	5,755,229	4,958,087	
Fiscal Services	1,440,980	1,502,350	
Food Services	11,733,051	11,767,506	
Central Services	3,279,621	3,334,825	
Pupil Transportation Services	11,972,399	11,324,441	
Operation of Plant	21,494,360	22,287,408	
Maintenance of Plant	4,548,876	5,068,581	
Administrative Technology Services	1,342,605	1,274,621	
Community Services	3,438,428	3,363,758	
Unallocated Interest on Long-Term Debt	3,178,226	4,349,609	
Unallocated Depreciation Expense	21,460,541	20,086,531	
Total Functions/Program Expenses	267,875,319	279,482,396	
Increase (Decrease) in Net Assets	\$ (16,437,765)	\$ 2,879,797	

The largest revenue source is local tax revenue (44 percent). Local tax revenue decreased \$4.8 million or 4 percent, primarily due to a decrease in our required local effort tax levy for operating purposes.

Grants and contributions not restricted to specific programs decreased \$23.5 million, or 16 percent, primarily due to a reduction in Federal economic stimulus funding. Additionally, State revenues decreased by \$6.4 million or 6 percent, primarily due to a decrease in Florida Education Finance Program (FEFP) revenues. The FEFP, which uses a funding formula, is the District's primary source of State revenues. 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.

Instruction and instruction support expenses represent 61 percent of total governmental expenses for the 2011-12 fiscal year. Instruction and instruction support expenses decreased by \$10.2 million, or 6 percent, from the previous fiscal year due mainly to Legislative action to reduce employer contribution rates to the Florida Retirement System and from the reduction in Federal economic stimulus programs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance is \$21.4 million, while the total fund balance is \$34.3 million. The unassigned fund balance decreased slightly, while the total fund balance decreased by \$7.5 million during the fiscal year. Key factors in this reduction are as follows:

- Total revenues decreased by \$11.6 million, due mainly to reductions in property tax revenues.
- Total expenditures increased by \$6.6 million, due mainly to an increase in classroom salary expenditures.

The Special Revenue – Other Federal Programs Fund has total revenues and expenditures of \$23.2 million each, and the Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$4.2 million each. Resources in these funds were mainly used for instruction. Revenues and expenditures decreased significantly from the 2010-11 fiscal year due to the reduction of Federal economic stimulus funds. Because revenues of grants accounted for in these funds are not recognized until expenditures are incurred, fund balances are generally not accumulated.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$10.6 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balances decreased in the current fiscal year due to the completion of renovations of various facilities and the purchase of school buses. It should be noted that \$3.4 million of fund balance has been encumbered for specific projects.

The Capital Projects – Other Fund has a total fund balance of \$3.9 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased in the current fiscal year due to the completion of various facilities listed in the District's certificate of participation agreements. It should be noted that \$1.5 million of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the fiscal year, the District revises its budget and brings amendments to the Board when needed. These amendments are needed to adjust to actual revenues received and direct resources where needed. The Board approves the final amendment to the budget after fiscal year-end.

During the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in a slight decrease in total budgeted revenues. At the same time, final appropriations are more than the original budgeted amounts by \$14 million. Budget revisions were made as necessary to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$15.8 million, or 7.3 percent less than final budget amounts. The actual expenditures were less than final budgeted expenditures primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$14.1 million.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$133.6 million (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; and audio visual materials and computer software.

During the 2011-12 fiscal year, construction was completed on a new classroom addition project at a high school, with a cost of \$1.8 million, and a food service facility addition and remodeling project at a middle school with a cost of \$2.5 million. Construction in progress at June 30, 2012, includes a new elementary school and energy efficiency upgrades at a high school.

Additional information on the District's capital assets can be found in notes 4 and 15 to the financial statements.

Long-Term Debt

At June 30, 2012, the District has total long-term debt outstanding of \$85.6 million, comprised of \$3.6 million of bonds payable and \$82 million of certificates of participations payable. The District retired \$9.1 million in debt.

Additional information on the District's long-term debt can be found in notes 5 through 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The Alachua County voters approved an additional millage levy for operating purposes during the November 2008 election. The District budgeted \$12.2 million in local tax revenue from the additional millage for the 2011-12 fiscal year. The proceeds from the additional millage levy are to be used to restore and continue specific programs per the voter referendum. The Alachua County voters approved the continuance of the additional operating millage levy in November 2012.

The District will continue with current plans to reduce expenses and build reserves to offset future potential revenue reductions.

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 Scott Ward, Chief Financial Officer, Alachua County Public Schools, 620 East University Avenue, Gainesville, Florida 32601.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 43,071,220.23	\$ 3,753,172.00
Investments	17,840,323.64	432,982.00
Accounts Receivable, Net		65,186.00
Deposits Receivable		40,535.00
Due from Other Agencies	3,085,746.03	51,461.00
Inventories	1,866,630.33	
Prepaid Items		60,429.00
Deferred Charges		4,421.00
Other Assets		7,281.00
Restricted Assets:		
Cash with Fiscal Agent		1,259,228.00
Investments	5,725,444.23	
Capital Assets:		
Nondepreciable Capital Assets	23,770,474.43	908,885.00
Depreciable Capital Assets, Net	109,791,447.48	4,528,556.00
TOTAL ASSETS	\$ 205,151,286.37	\$ 11,112,136.00
LIABILITIES		
Salaries and Benefits Payable	\$ 623,208.65	\$ 160,368.00
Payroll Deductions and Withholdings	6,710,445.53	19,926.00
Accounts Payable	2,824,432.23	473,478.00
Construction Contracts Payable	1,072,753.94	
Construction Contracts Payable - Retainage	545,680.39	
Due to Other Agencies	323,707.35	94,394.00
Line of Credit Payable		16,500.00
Deposits Payable	372.00	
Sales Tax Payable	238.20	
Deferred Revenue	105,539.59	
Long-Term Liabilities:		
Portion Due Within One Year	6,866,031.31	217,040.00
Portion Due After One Year	102,100,000.35	1,869,702.00
Total Liabilities	121,172,409.54	2,851,408.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	51,513,763.89	3,423,870.00
Restricted for:		
State Required Carryover Programs	1,345,446.75	
Voted School Property Tax	2,930,995.12	
Adult Education Programs	3,587,782.44	
Debt Service	7,183,245.13	64,017.00
Capital Projects	11,555,559.95	298,985.00
Food Service	2,764,061.51	
Other Purposes	352,290.01	2,084,230.00
Unrestricted	2,745,732.03	2,389,626.00
Total Net Assets	83,978,876.83	8,260,728.00
TOTAL LIABILITIES AND NET ASSETS	\$ 205,151,286.37	\$ 11,112,136.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 128,161,227.12	\$ 80,214.00	\$	\$
Pupil Personnel Services	13,573,587.76			
Instructional Media Services	4,391,445.88			
Instruction and Curriculum Development Services	10,526,739.32			
Instructional Staff Training Services	3,572,061.62			
Instruction Related Technology	2,949,250.22			
School Board	863,785.28			
General Administration	1,904,520.01			
School Administration	12,288,386.16			
Facilities Acquisition and Construction	5,755,229.31			185,970.12
Fiscal Services	1,440,979.97			
Food Services	11,733,050.45	3,630,210.59	8,448,434.12	
Central Services	3,279,621.18			
Pupil Transportation Services	11,972,398.76	656,210.10		
Operation of Plant	21,494,359.71			
Maintenance of Plant	4,548,876.14			
Administrative Technology Services	1,342,605.15			
Community Services	3,438,427.69	2,933,417.05		
Unallocated Interest on Long-Term Debt	3,178,226.06			888,142.37
Unallocated Depreciation Expense*	21,460,540.76			
Total Primary Government	\$ 267,875,318.55	\$ 7,300,051.74	\$ 8,448,434.12	\$ 1,074,112.49
Component Units				
Charter Schools/Foundation	\$ 13,322,302.00	\$ 416,627.00	\$ 273,719.00	\$ 638,913.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Debt Service

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Special Item

Total General Revenues and Special Item

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Units
Activities	
\$ (128,081,013.12)	\$
(13,573,587.76)	
(4,391,445.88)	
(10,526,739.32)	
(3,572,061.62)	
(2,949,250.22)	
(863,785.28)	
(1,904,520.01)	
(12,288,386.16)	
(5,569,259.19)	
(1,440,979.97)	
345,594.26	
(3,279,621.18)	
(11,316,188.66)	
(21,494,359.71)	
(4,548,876.14)	
(1,342,605.15)	
(505,010.64)	
(2,290,083.69)	
(21,460,540.76)	
(251,052,720.20)	
	(11,993,043.00)
87,589,312.49	
4,740,379.76	
18,239,471.56	
119,661,797.56	12,106,941.00
691,013.63	11,588.00
3,692,979.56	37,390.00
	30,652.00
234,614,954.56	12,186,571.00
(16,437,765.64)	193,528.00
100,416,642.47	8,067,200.00
\$ 83,978,876.83	\$ 8,260,728.00

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 32,380,224.76	\$ 61.04	\$ 155,444.77
Investments	7,183,952.88		
Due from Other Funds	962,568.34		
Due from Other Agencies	1,228,135.26	643,581.85	
Restricted Investments			
Inventories	1,366,685.53		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 43,121,566.77</u>	<u>\$ 643,642.89</u>	<u>\$ 155,444.77</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 618,089.89	\$ 4,571.17	\$
Payroll Deductions and Withholdings	6,358,365.75	281,557.94	21,908.76
Accounts Payable	1,563,840.37	314,989.73	2,799.50
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	253,688.17	42,524.05	81,252.49
Due to Other Agencies	10,469.38		49,484.02
Sales Taxes Payable	238.20		
Deposits Payable	372.00		
Deferred Revenue			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>8,805,063.76</u>	<u>643,642.89</u>	<u>155,444.77</u>
Fund Balances:			
Nonspendable:			
Inventories	1,366,685.53		
Fund B Investments	147,889.39		
Total Nonspendable Fund Balance	<u>1,514,574.92</u>	<u> </u>	<u> </u>
Restricted for:			
State Required Carryover Programs	1,345,446.75		
Voted School Property Tax	2,930,995.12		
Adult Education Programs	3,587,782.44		
Food Service			
Debt Service			
Capital Projects			
Other Budgetary Items	352,290.01		
Total Restricted Fund Balance	<u>8,216,514.32</u>	<u> </u>	<u> </u>
Assigned to:			
State and Local Grants	1,240,810.44		
Federal Terminal Pay	1,018,132.73		
Other Purposes	662,150.45		
Extended Day Enrichment Program	305,682.86		
Total Assigned Fund Balance	<u>3,226,776.48</u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>21,358,637.29</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>34,316,503.01</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 43,121,566.77</u>	<u>\$ 643,642.89</u>	<u>\$ 155,444.77</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 7,034,243.76	\$ 776,869.47	\$ 2,724,376.43	\$ 43,071,220.23
4,439,652.40	5,384,006.26	832,712.10	17,840,323.64
			962,568.34
2,931.18		1,200,999.74	3,075,648.03
		5,725,444.23	5,725,444.23
		499,944.80	1,866,630.33
<u>\$ 11,476,827.34</u>	<u>\$ 6,160,875.73</u>	<u>\$ 10,983,477.30</u>	<u>\$ 72,541,834.80</u>
\$	\$	\$ 547.59	\$ 623,208.65
		48,613.08	6,710,445.53
217,991.43	633,400.32	91,410.88	2,824,432.23
146,671.80	926,082.14		1,072,753.94
16,622.00	529,058.39		545,680.39
535,845.09	178,033.33	114,815.38	1,206,158.51
0.93		10,064.85	70,019.18
			238.20
			372.00
		105,539.59	105,539.59
<u>917,131.25</u>	<u>2,266,574.18</u>	<u>370,991.37</u>	<u>13,158,848.22</u>
		499,944.80	1,866,630.33
			147,889.39
		<u>499,944.80</u>	<u>2,014,519.72</u>
			1,345,446.75
			2,930,995.12
			3,587,782.44
		2,264,116.71	2,264,116.71
		7,183,245.13	7,183,245.13
10,559,696.09	3,894,301.55	665,179.29	15,119,176.93
			352,290.01
<u>10,559,696.09</u>	<u>3,894,301.55</u>	<u>10,112,541.13</u>	<u>32,783,053.09</u>
			1,240,810.44
			1,018,132.73
			662,150.45
			305,682.86
			<u>3,226,776.48</u>
			<u>21,358,637.29</u>
<u>10,559,696.09</u>	<u>3,894,301.55</u>	<u>10,612,485.93</u>	<u>59,382,986.58</u>
<u>\$ 11,476,827.34</u>	<u>\$ 6,160,875.73</u>	<u>\$ 10,983,477.30</u>	<u>\$ 72,541,834.80</u>

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

Total Fund Balances - Governmental Funds	\$	59,382,986.58
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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.		133,561,921.91
--	--	----------------

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

Certificates of Participation Payable	\$ 81,996,775.00	
Bonds Payable	3,615,000.00	
Compensated Absences Payable	19,865,256.66	
Other Postemployment Benefits Payable	<u>3,489,000.00</u>	<u>(108,966,031.66)</u>

Total Net Assets - Governmental Activities	\$	<u>83,978,876.83</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 208,550.04	\$ 4,406,388.40	\$
Federal Through State and Local State	790,734.85 90,618,233.80	18,782,930.40	4,174,394.04
Local:			
Property Taxes	87,589,312.49		
Charges for Services - Food Service			
Miscellaneous	7,336,044.46		
Total Local Revenues	<u>94,925,356.95</u>		
Total Revenues	<u>186,542,875.64</u>	<u>23,189,318.80</u>	<u>4,174,394.04</u>
Expenditures			
Current - Education:			
Instruction	113,103,546.94	12,859,161.42	1,864,314.11
Pupil Personnel Services	10,775,968.38	2,685,127.40	110,607.30
Instructional Media Services	4,370,672.39		20,170.52
Instruction and Curriculum Development Services	6,545,307.56	3,566,426.26	413,462.61
Instructional Staff Training Services	1,325,983.96	1,672,187.23	573,487.31
Instruction Related Technology	2,791,603.72	73,418.54	83,833.14
School Board	863,754.41		
General Administration	802,647.44	967,534.80	134,223.34
School Administration	12,281,823.18	4,755.98	
Facilities Acquisition and Construction	218,244.76	14,958.55	
Fiscal Services	1,440,767.43		
Food Services			
Central Services	3,073,025.11	196,425.13	9,772.82
Pupil Transportation Services	11,206,070.96	459,867.43	8,278.45
Operation of Plant	21,217,068.88	274,744.86	1,485.00
Maintenance of Plant	4,548,352.58		
Administrative Technology Services	1,342,434.69		
Community Services	3,430,071.35	7,892.20	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	80,799.32	10,682.88	
Other Capital Outlay	1,008,418.74	396,136.12	954,759.44
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>200,426,561.80</u>	<u>23,189,318.80</u>	<u>4,174,394.04</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13,883,686.16)</u>		
Other Financing Sources (Uses)			
Transfers In	6,400,328.81		
Insurance Loss Recoveries	50,519.33		
Transfers Out	(58,341.76)		
Total Other Financing Sources (Uses)	<u>6,392,506.38</u>		
Net Change in Fund Balances	<u>(7,491,179.78)</u>		
Fund Balances, Beginning	41,807,682.79		
Fund Balances, Ending	<u>\$ 34,316,503.01</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		8,277,793.12	4,614,938.44
	692,744.81	1,232,574.71	32,025,852.41
			92,543,553.32
18,239,471.56		4,740,379.76	110,569,163.81
		3,630,210.59	3,630,210.59
227,910.47	7,976.41	408,189.41	7,980,120.75
18,467,382.03	7,976.41	8,778,779.76	122,179,495.15
18,467,382.03	700,721.22	18,289,147.59	251,363,839.32
			127,827,022.47
			13,571,703.08
			4,390,842.91
			10,525,196.43
			3,571,658.50
			2,948,855.40
			863,754.41
			1,904,405.58
			12,286,579.16
			233,203.31
			1,440,767.43
		11,732,270.35	11,732,270.35
			3,279,223.06
			11,674,216.84
			21,493,298.74
			4,548,352.58
			1,342,434.69
			3,437,963.55
8,263,836.15	18,666,051.76	326,287.47	27,347,657.58
		15,616.75	2,374,931.05
3,691,625.00		5,425,000.00	9,116,625.00
2,738,559.64	6,576.10	433,090.32	3,178,226.06
14,694,020.79	18,672,627.86	17,932,264.89	279,089,188.18
3,773,361.24	(17,971,906.64)	356,882.70	(27,725,348.86)
	675,000.00	717,871.00	7,793,199.81
23,194.26			73,713.59
(6,367,113.24)	(692,744.81)	(675,000.00)	(7,793,199.81)
(6,343,918.98)	(17,744.81)	42,871.00	73,713.59
(2,570,557.74)	(17,989,651.45)	399,753.70	(27,651,635.27)
13,130,253.83	21,883,953.00	10,212,732.23	87,034,621.85
\$ 10,559,696.09	\$ 3,894,301.55	\$ 10,612,485.93	\$ 59,382,986.58

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

Net Change in Fund Balances - Governmental Funds \$ (27,651,635.27)

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

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

Capital Outlay Expenditures	\$ 24,200,563.67	
Depreciation Expense	<u>(21,757,547.14)</u>	2,443,016.53

Repayment of long-term debt is an expense 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:

Certificates of Participation Payable	\$ 3,691,625.00	
Bonds Payable	<u>5,425,000.00</u>	9,116,625.00

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

489,228.10

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.

(835,000.00)

Change in Net Assets - Governmental Activities \$ (16,437,765.64)

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

**ALACHUA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2012**

	Private-Purpose Trust Fund	Pension Trust Fund	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 425,633.12	\$ 718,174.11	\$ 2,969,379.00
Investments:			
Equities		1,416,105.13	
US Government Bonds		559,832.91	
Corporate Bonds		459,894.49	
Money Market		133,173.26	
Accounts Receivable, Net			103,616.00
Due from Other Funds		253,688.17	
Inventory			41,453.00
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 425,633.12</u></u>	<u><u>\$ 3,540,868.07</u></u>	<u><u>\$ 3,114,448.00</u></u>
LIABILITIES			
Accounts Payable	\$	\$	\$ 46,210.00
Due to Other Funds			10,098.00
Internal Accounts Payable			3,058,140.00
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities			<u><u>\$ 3,114,448.00</u></u>
NET ASSETS			
Assets Held in Trust for Pension Benefits		3,540,868.07	
Assets Held in Trust for Scholarships and Other Purposes	425,633.12		
	<u> </u>	<u> </u>	
Total Net Assets	<u><u>425,633.12</u></u>	<u><u>3,540,868.07</u></u>	
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 425,633.12</u></u>	<u><u>\$ 3,540,868.07</u></u>	

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

**ALACHUA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Private-Purpose Trust Fund	Pension Trust Fund
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer	\$ <u> </u>	\$ 806,287.00
Investment Earnings:		
Net Increase in Fair Value of Investments		42,021.56
Interest, Dividends, and Other	<u>1,824.95</u>	<u>32,071.42</u>
Total Investment Income	<u>1,824.95</u>	<u>74,092.98</u>
Total Additions	<u>1,824.95</u>	<u>880,379.98</u>
DEDUCTIONS		
Benefits Paid to Participants		677,923.39
Purchased Services		14,415.83
Other Expenses	<u>26,558.70</u>	<u> </u>
Total Deductions	<u>26,558.70</u>	<u>692,339.22</u>
Change in Net Assets	(24,733.75)	188,040.76
Net Assets - Beginning	<u>450,366.87</u>	<u>3,352,827.31</u>
Net Assets - Ending	<u>\$ 425,633.12</u>	<u>\$ 3,540,868.07</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Alachua 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 Alachua 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 appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Alachua 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 the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. The Alachua County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of The Education Foundation of Alachua County, Inc.¹ (Foundation), and charter schools operating under 16 charter agreements.

The Foundation is a separate, not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, and was formed to provide charitable and educational aid to the Board, and to encourage research, learning, and dissemination of information. The Foundation receives administrative support from the District and is financially accountable to the District; accordingly, it is considered a component unit.

The charter schools, or their owners, are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The schools operate under charters approved by their sponsor, the Alachua County District School Board, and are considered component units of the District since they are fiscally dependent on the District to levy taxes for their support. Revenues such as Florida Education Finance Program and other State, and Federal revenue sources are

¹ The Foundation changed its name from Alachua County Public Schools Foundation, Inc., to The Education Foundation of Alachua County, Inc., effective March 21, 2012.

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

received by the District on behalf of the charter schools and then remitted to them. As such, charter schools are funded on the same basis and are subject to the same financial reporting requirements as the District.

The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2012. The audit reports are available at the District's administrative offices.

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 and its component units.

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.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including construction, remodeling and addition projects; District-wide maintenance, renovation and repair; motor vehicle purchases; new and replacement equipment purchases; payments for educational facilities and

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

sites due under lease-purchase agreements (certificates of participation); payments for renting and leasing education facilities and sites; and payment of the cost of leasing relocatable educational facilities.

- Capital Projects – Other Fund – to account for the financial resources primarily generated by the issuance of certificates of participation to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and computer equipment.

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Fund – to account for resources of the J. Dale Haynie Trust Fund, the Diamond Sports Park, and the career services award program.
- Pension Trust Fund – to account for resources used to finance the early retirement plan.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The Foundation is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

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

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

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

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

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

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

Investments made locally, including investments held for the Pension Trust Fund, include money market funds, equities, and United States Government securities and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. The central stores, transportation, maintenance, and food service nonfood inventories are valued at cost on the moving-average basis. Purchased food inventories are valued at final year-end contract price, which approximates cost on the first-in, first-out basis. United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

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

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

Capital assets are depreciated using the composite method, except for property under capital lease which is depreciated under the straight-line method over the shorter of the lease term or the asset's estimated useful life.

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	9 - 37 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 12 years
Property Under Capital Lease	10 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	4 - 5 years

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

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

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

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

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

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

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward

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

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 unspent balance of categorical and earmarked educational program resources.

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Alachua 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.

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

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.

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

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities, with quality ratings by nationally recognized rating agencies (i.e., Standard & Poor's, Moody's Investors Service):

Investments	Maturities	Credit Rating	Fair Value
<u>Governmental Funds</u>			
Reported as Cash Equivalents:			
SBA - Florida PRIME	38 Days	AAAm	\$ 41,634,799.91
Reported as Investments:			
SBA:			
Florida PRIME (1)	38 Days	AAAm	2,407,878.64
Fund B Surplus Funds Trust Fund	5.73 Years	Not Rated	363,489.99
Debt Service Accounts	6 months	Not Rated	111,575.18
Florida Fixed Income Trust	619 Day Average	Not Rated	10,027,220.63
Repurchase Agreement (2)	10-25-2015	Not Rated	4,369,037.93
First American Government Obligation Fund (1)	50 Day Average	AAAm	4,251,065.58
Federal Home Loan Banks (3)	12-14-2012	AA+	1,330,106.64
US Treasury Bond	08-15-2027	AA+	705,393.28
Total Governmental Funds Investments			23,565,767.87
<u>Fiduciary Funds</u>			
Reported as Cash Equivalents:			
SBA - Florida PRIME	38 Days	AAAm	1,143,807.23
Reported as Investments:			
STIFEL NICOLAUS - Equities		Not Rated	1,416,105.13
STIFEL NICOLAUS - US Government Bonds	7.69	AAf	559,832.91
STIFEL NICOLAUS - Corporate Bonds	11.51	BBB+f	459,894.49
STIFEL NICOLAUS - Money Market Portfolio	Less Than 3 Months	Not Rated	133,173.26
Total Fiduciary Funds Investments			2,569,005.79
Total Cash Equivalents and Investments			\$ 68,913,380.80

Notes: (1) These funds are held under a trust agreement in connection with the Certificates of Participation, Series 2001-Qualified Zone Academy Bonds (QZABs), 2004, 2005, 2005-QZABs, 2010A, 2010B, 2010C, and 2011 financing arrangements (see note 5). Money market funds include amounts invested in securities that are issued or guaranteed as to payment of principal and interest by the United States Government.

(2) These funds are held under a master repurchase agreement in connection with the Certificates of Participation, 2001-QZABs (see note 5).

(3) These funds are held under a security delivery agreement in connection with the Certificates of Participation, 2005-QZABs (see note 5).

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

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

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

➤ 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 SBA's Florida PRIME, or any other 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 limits its investment choices.

The District's investments in the 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 the SBA for managing interest rate risk and credit risk for this account.

➤ Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.

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

In conjunction with the issuance of its \$5,147,000 Taxable Certificates of Participation, Series 2001-QZABs, U.S. Bank, as successor trustee, entered into a master repurchase agreement with Bank of America, N.A. The monies are invested at a rate of 5 percent and will accrue to a total value of \$5,147,000 on October 25, 2015, the repurchase date of the agreement. Under the terms of the agreement, the trustee must post collateral in an amount equal to 103 percent of the investment value. Eligible collateral is limited to direct obligations of the United States Treasury and certain obligations of Federal agencies which represent the full faith and credit of the United States of America. All collateral must be marked to market at least monthly.

In conjunction with the issuance of its \$1,794,000 Taxable Certificates of Participation, Series 2005-QZABs, the School Board of Alachua County, U.S. Bank, as successor Trustee, and Wells Fargo Bank, National Association, formerly known as Wachovia Bank, N.A. as provider, entered into a security delivery agreement dated December 22, 2005. The deposits total \$1,176,198.25 and will accrue to a total value of \$1,794,000 on December 22, 2020, at the guaranteed rate of return of 3.57 percent. At the time of each deposit by the Board, the trustee purchases and holds on behalf of the Board eligible securities from the provider. Eligible securities include direct obligations of the United States Treasury and certain obligations of Federal agencies, which represent the full faith and credit of the United States of America, and other securities as outlined in the security delivery agreement.

➤ **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Investments issued or explicitly guaranteed by the United States Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. At June 30, 2012, the District's investments with 5 percent or more in any one issuer were in Federal Home Loan Banks discount notes; these investments represent 5.1 percent of the District's total investments and 7.4 percent of the investments in the Other Governmental Funds. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer.

See note 13 for concentrations of investments in the District's early retirement plan, reported in the Pension Trust Fund.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 5,663,696.69	\$	\$	\$ 5,663,696.69
Construction in Progress	6,491,012.08	20,228,310.72	8,612,545.06	18,106,777.74
Total Capital Assets Not Being Depreciated	12,154,708.77	20,228,310.72	8,612,545.06	23,770,474.43
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	35,078,391.08	1,009,513.39		36,087,904.47
Buildings and Fixed Equipment	328,817,774.28	7,603,031.67	92,800.00	336,328,005.95
Furniture, Fixtures, and Equipment	24,647,705.49	2,470,710.05	1,327,871.14	25,790,544.40
Motor Vehicles	18,888,383.29	778,226.00	146,802.13	19,519,807.16
Property Under Capital Lease	3,580,564.00			3,580,564.00
Audio Visual Materials and Computer Software	3,866,111.32	723,316.90	259,264.48	4,330,163.74
Total Capital Assets Being Depreciated	414,878,929.46	12,584,798.01	1,826,737.75	425,636,989.72
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	21,115,136.55	1,897,740.96		23,012,877.51
Buildings and Fixed Equipment	230,473,738.18	14,862,563.40	92,800.00	245,243,501.58
Furniture, Fixtures, and Equipment	19,658,137.28	3,329,905.01	1,327,871.14	21,660,171.15
Motor Vehicles	17,302,338.10	1,586,045.19	146,802.13	18,741,581.16
Property Under Capital Lease	3,580,564.00			3,580,564.00
Audio Visual Materials and Computer Software	3,784,818.74	81,292.58	259,264.48	3,606,846.84
Total Accumulated Depreciation	295,914,732.85	21,757,547.14	1,826,737.75	315,845,542.24
Total Capital Assets Being Depreciated, Net	118,964,196.61	(9,172,749.13)		109,791,447.48
Governmental Activities Capital Assets, Net	\$ 131,118,905.38	\$ 11,055,561.59	\$ 8,612,545.06	\$ 133,561,921.91

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 297,006.38
Unallocated	21,460,540.76
Total Depreciation Expense - Governmental Activities	\$ 21,757,547.14

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

5. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2012, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 2001-QZAB	\$ 5,147,000	(1)	2016	\$ 5,147,000
Series 2004	20,150,000	5.1	2029	20,150,000
Series 2005, Refunding	15,895,000	3.5 - 5.0	2018	22,815,000
Series 2005-QZAB	1,794,000	(1)	2021	1,794,000
Series 2009A, Refunding	2,215,000	2.77	2014	5,315,000
Series 2010A	11,211,997	4.98	2027	11,211,997
Series 2010B	6,832,778	4.49	2027	7,163,003
Series 2010C, Refunding	9,487,800	2.89	2021	9,872,500
Series 2011, Refunding	9,263,200	2.94	2021	9,629,900
Total Certificates of Participation	<u>\$ 81,996,775</u>			

Note: (1) Interest on this debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holders of the QZABs. The rate of return to the holders was established by the United States Government at the time of sale.

The District entered into financing arrangements, characterized as lease-purchase agreements, with the Leasing Corporation, whereby the District secured financing of various educational facilities and equipment. The financing was accomplished through the issuance of certificates of participation by the Leasing Corporation to third-party investors, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with rental fees of \$1 per year, except for the 2001-QZABs and the 2005-QZABs, which are secured by computer equipment. The initial terms of the leases end on the earlier of the maturity date, or the date on which the certificates are paid in full; however, if lease obligations remain outstanding, the ground leases may be renewed for additional terms of five years. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the properties included under the ground lease agreements for the benefit of the securers of the certificates as specified by the arrangements. The lease payments, which are used to make debt service payments on the certificates, are payable from funds appropriated annually by the District for such purpose from the local capital outlay tax levy or other funds legally available. The District properties included in the ground leases under these arrangements include land on which the projects have been constructed.

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

The projects related to the ground leases are as follows:

Series 2004

- Horizon Center New Classrooms and Support Facilities
- Hawthorne Middle/High School Classroom Remodeling
- Rawlings Elementary School Food Service/Multi-Purpose Building
- Lofton High School/Horizon Center New Gymnasium/Multi-Purpose Building and Food Service Improvements
- Hidden Oak Elementary School New 10-Classroom Building
- Norton Elementary School New 4-Classroom Building
- Talbot Elementary School New 10-Classroom Building
- Wiles Elementary School New 10-Classroom Building
- Newberry Elementary School New 4-Classroom Building

Series 2005 Refunding

- Certificates of Participation, Series 1997, maturing in the years 2008 to 2018, and the underlying projects
- Certificates of Participation, Series 1998, maturing in the years 2009 to 2018, and the underlying projects

Series 2009A Refunding

- Certificates of Participation, Series 1997A, maturing in the years 2009 to 2014, and the underlying project Kanapaha Middle School

Series 2010A Qualified School Construction Bonds

- Santa Fe High School Classroom Addition
- New Elementary School "H"

Series 2010B Build America Bonds

- New Elementary School "H"

Series 2010C Refunding

- Certain Certificates of Participation, Series 2001, maturing in the years 2011 to 2021, and the underlying projects

Series 2011 Refunding

- Certain Certificates of Participation, Series 2001, maturing in the years 2011 to 2021, and the underlying projects

The lease under the Series 2001-QZAB and 2005-QZAB issues includes computer equipment purchased throughout the District.

Lease payments, with the exception of the Series 2001-QZAB and 2005-QZAB issues, are payable by the District, semiannually. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 6,393,023.02	\$ 3,810,005.00	\$ 2,583,018.02
2014	6,395,647.59	3,931,775.00	2,463,872.59
2015	6,442,993.37	4,102,143.00	2,340,850.37
2016	11,593,231.05	9,433,418.00	2,159,813.05
2017	6,444,400.54	4,474,010.00	1,970,390.54
2018-2022	31,265,991.96	24,041,559.00	7,224,432.96
2023-2027	18,544,504.48	14,640,097.00	3,904,407.48
2028-2029	18,048,087.31	17,563,768.00	484,319.31
Total Minimum Lease Payments	<u>\$ 105,127,879.32</u>	<u>\$ 81,996,775.00</u>	<u>\$ 23,131,104.32</u>

The Series 2001-QZABs were issued under a special program whereby the certificates, bearing an original issue date of October 25, 2001, will mature on October 25, 2015, for the original \$5,147,000 issue amount. There is no interest cost for borrowing moneys under this program. Mandatory lease payment account deposits of \$596,350 for five consecutive years beginning on October 25, 2002, were established. It is anticipated that these deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity.

The Series 2005-QZABs were issued under a special program whereby the certificates, bearing an original issue date of December 22, 2005, will mature on December 22, 2020, for the original \$1,794,000 issue amount. There is no interest cost for borrowing moneys under this program. Mandatory lease payment account deposits of \$235,240 for five consecutive years beginning on December 22, 2006, were established. It is anticipated that these deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity.

6. BONDS PAYABLE

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A	\$ 2,655,000	4.75 - 5.00	2016
Series 2005B, Refunding	760,000	5.00 - 5.25	2018
Series 2009A, Refunding	200,000	4.0 - 5.0	2019
Total Bonds Payable	<u>\$ 3,615,000</u>		

State School Bonds were issued to finance capital outlay projects of the District or to refund prior bonds. These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

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

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	\$ 962,568.34	\$ 253,688.17
Special Revenue:		
Other Federal Programs		42,524.05
Federal Economic Stimulus		81,252.49
Capital Projects:		
Local Capital Improvement		535,845.09
Other		178,033.33
Nonmajor Governmental		114,815.38
Fiduciary:		
Pension Trust	253,688.17	
Agency		10,098.00
Total	<u>\$ 1,216,256.51</u>	<u>\$ 1,216,256.51</u>

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 6,400,328.81	\$ 58,341.76
Capital Projects:		
Local Capital Improvement		6,367,113.24
Other	675,000.00	692,744.81
Nonmajor Governmental	717,871.00	675,000.00
Total	<u>\$ 7,793,199.81</u>	<u>\$ 7,793,199.81</u>

Transfers from the Capital Projects - Local Capital Improvement Fund were to the General Fund for reimbursement of maintenance expenditures and risk management property insurance premiums and to the nonmajor governmental funds for debt service payments on certificates of participation. Transfers from the Capital Projects - Other Fund were to reimburse the General Fund for charter school capital outlay. Transfers from the nonmajor governmental funds to the Capital Projects - Other Fund were for capital expenditures relating to the food service program.

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

9. FUND BALANCE REPORTING

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

➤ **Nonspendable**

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

➤ **Restricted**

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

➤ **Committed**

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

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. 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 is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 51,785,930.00
Categorical Educational Programs:	
Class Size Reduction Operating Funds	28,365,498.00
Transportation	4,811,063.00
Instructional Materials	2,095,486.00
School Recognition	1,232,646.00
Voluntary Prekindergarten	953,080.97
Workforce Development Program	1,124,888.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,074,213.33
Food Service Supplement	174,405.00
Discretionary Lottery Funds	85,902.00
Mobile Home License Tax	82,055.97
Miscellaneous	758,385.05
Total	\$ 92,543,553.32

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.454	\$ 69,382,798
Basic Discretionary Local Effort	0.748	9,515,646
Voted School Tax:		
Additional Operating Millage	1.000	12,721,452
DEBT SERVICE FUNDS		
Voted Tax:		
District General Obligation Bonds: Series 2003, Refunding	0.390	4,961,366
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	19,082,178
Total	9.092	\$ 115,663,440

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

12. FLORIDA RETIREMENT SYSTEM

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

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

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

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

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

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

(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, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$12,523,111.85, \$13,834,401.25, and \$8,752,572.94, respectively, which were equal to the required contributions for each fiscal year.

There were 569 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$1,339,272.08, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

13. EARLY RETIREMENT PLAN

Plan Description. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (ERP) effective January 1, 1984. The ERP is a single-employer defined benefit pension plan. The purpose of the ERP is to provide District employees, who elect to retire under the early retirement provisions of the FRS, described in note 12, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement.

The Board administers the ERP assets in a Pension Trust Fund and is responsible for their investment. The Board acts as the administrative agent for the ERP. A separate report for the ERP is not available.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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As of June 30, 2012, employee membership data related to the ERP were as follows:

Retirees and Beneficiaries Currently Receiving Benefits	171
Active Plan Participants:	
Vested	528
Nonvested	3,293
Total	<u>3,992</u>

A summary of eligibility and benefits follows:

- **Eligibility.** A member of the ERP is eligible upon attainment of age 55 to 61, completion of 25 or more years of creditable service, and having applied for retirement under the FRS.

For those that retired during the period from July 1, 2008 (August 1, 2008, for teachers), through June 30, 2009, at least 20 years of creditable service must have represented employment by the District, and the employee must have had at least 20 years' experience in the FRS.

For those retiring during the period from July 1, 2009, through June 30, 2013, the 15 years immediately preceding retirement must be as an employee of the District.

The ERP will be closed to new enrollees on July 1, 2013.

- **Benefits.** Amount of the reduction in monthly benefits from the FRS as a consequence of early retirement.

Summary of Significant Accounting Policies. Significant accounting policies related to basis of accounting and method of asset valuation are disclosed in note 1. Investment disclosures related to the Pension Trust Fund are in note 3.

Contributions and Reserves. The ERP was established by the Board on January 1, 1984, and may be subsequently amended by the Board. Pursuant to the ERP agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the ERP.

Periodic employer contributions to the ERP are determined on an actuarial basis using the aggregate actuarial cost method. Annual pension cost is funded on a current basis.

Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

Contributions to the ERP in the fiscal year 2011-12 totaled \$806,287, all of which were paid by the Board in accordance with actuarially determined contribution requirements determined through an actuarial valuation update performed at July 1, 2011. However, a revised interpretation of amendments to collective bargaining agreements had the effect of lowering the funding requirements for the plan year ended June 30, 2012, from \$806,287 to \$495,614; consequently, there existed a prepaid contribution of \$310,673 at June 30, 2012.

The computation of the annual required contribution determined through the actuarial valuation update performed at July 1, 2011, for fiscal year 2011-12 was based on the same: (a) actuarial assumptions, (b) benefit provisions, (c) actuarial funding method, and (d) other significant factors as used to determine annual required

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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contributions in the previous year; however, a subsequent interpretation of amendments to the collective bargaining agreements by the actuary resulted in lowering the annual required contribution for fiscal year 2011-12, as noted above.

All of the assets in the District's Pension Trust Fund are legally required reserves. None of the assets have been designated by the Board for any other specific purpose.

Costs of administering the ERP are financed through the ERP's resources (employer contributions and investment earnings).

Concentrations. The ERP's investments at June 30, 2012, consisted of the following:

	Balance June 30, 2012	Percentage of Plan Net Assets
Shown as Cash Equivalent:		
State Board of Administration - Florida PRIME	\$ 718,174.11	21.85%
Shown as Investment:		
Equities	1,416,105.13	43.08%
US Government Securities	559,832.91	17.03%
Corporate Bonds	459,894.49	13.99%
Money Market Funds	133,173.26	4.05%
Total	<u>\$ 3,287,179.90</u>	<u>100.00%</u>

Funded Status and Funding Progress. The required schedule of funding progress, immediately following the notes to financial statements, presents multiyear trend information about whether the actual value of the ERP assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Information about the funding status of the ERP as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL) (2)	Funded Ratio (3)	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	\$ 3,230,195	\$ 5,967,283	\$ 2,737,088	54.13%	\$ 123,016,217	2.22%

- Notes: (1) The District's ERP actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.
 (2) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of assets.
 (3) The percentage funded is derived by dividing the actuarial value of assets by the actuarial accrued liability.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Additional information as of the latest actuarial valuation is as follows:

Valuation Date	July 1, 2012
Actuarial Cost Method	Aggregate
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases	6%
Cost of Living Adjustments	3%

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liability.

Isolated analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the ERP's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the ERP is becoming financially stronger or weaker; generally, the greater this percentage, the stronger the ERP.

Trends in the unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation, and aids analysis of the progress made in accumulating assets to pay benefits when due; generally, the smaller this percentage, the stronger the ERP.

The District uses the aggregate actuarial cost method, and therefore, the information on the funded status and the funding progress of the Plan have been prepared using the entry age normal cost method and is intended to serve as a surrogate for the funded status and the funding progress of the Plan.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 650 retirees received other postemployment benefits. The

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District provided required contributions of \$1,244,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, net of retiree contributions totaling \$3,862,000, which represents 3.5 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 OPEB Plan, and changes in the District's net OPEB obligation: **(LINK)**

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 2,056,000
Interest on Normal Cost and Amortization	<u>27,000</u>
Annual Required Contribution	2,083,000
Interest on Net OPEB Obligation	106,000
Adjustment to Annual Required Contribution	<u>(110,000)</u>
Annual OPEB Cost (Expense)	2,079,000
Contribution Toward the OPEB Cost	<u>(1,244,000)</u>
Increase in Net OPEB Obligation	835,000
Net OPEB Obligation, Beginning of Year	<u>2,654,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,489,000</u></u>

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
_____	_____	_____	_____
2009-10	\$ 1,595,000	59.1%	\$ 2,138,000
2010-11	1,653,000	68.8%	2,654,000
2011-12	2,079,000	59.8%	3,489,000

Funded Status and Funding Progress. As of March 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$23,989,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$23,989,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$111,591,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21.5 percent.

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

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

The District's OPEB actuarial valuation as of March 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the frozen entry age normal cost actuarial method to estimate the District's 2011-12 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 a payroll growth rate of 4 percent per year, general inflation rate of 2.5 percent, and an annual healthcare cost trend rate of 10 percent for the 2011-12 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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

15. SIGNIFICANT COMMITMENTS

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

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

Major Funds						
General	Special Revenue - Other Federal Programs	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 662,150.45</u>	<u>\$ 630,052.38</u>	<u>\$ 102,875.24</u>	<u>\$ 3,409,710.73</u>	<u>\$ 1,524,036.11</u>	<u>\$ 200,289.20</u>	<u>\$ 6,529,114.11</u>

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

Project	Contract Amount	Completed to Date	Balance Committed
New Elementary School H:			
Architect	\$ 709,676.38	\$ 651,497.09	\$ 58,179.29
Engineer	314,584.28	301,126.14	13,458.14
Contractor	12,600,416.46	11,943,657.40	656,759.06
Eastside High School Energy Efficiency Phase II:			
Engineer	35,240.00	10,200.00	25,040.00
Contractor	685,110.00	161,220.00	523,890.00
Total	<u>\$ 14,345,027.12</u>	<u>\$ 13,067,700.63</u>	<u>\$ 1,277,326.49</u>

16. 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 Alachua County District School Board is a member of the Florida School Board Insurance Trust (FSBIT), a protected self-insurance fund for Florida school boards. FSBIT was established under the authority of Section 624.4622, Florida Statutes, for the purpose of pooling property, casualty, and workers' compensation exposure; purchasing and procuring insurance coverage of various types or providing self-insurance; and providing risk management services for the Florida school boards. The policy provides for property insurance coverage per occurrence of \$150 million for all named perils.

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Health and hospitalization insurance coverage is provided to District employees through purchased commercial insurance.

Insurance coverage for fiduciary, petroleum tanks, student accident, student nurse malpractice, and sports injury are provided by commercial insurance.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 135,000.00	\$ 135,000.00	\$ 208,550.04	\$ 73,550.04
Federal Through State and Local State	800,000.00	800,000.00	790,734.85	(9,265.15)
	92,950,292.00	91,650,284.98	90,618,233.80	(1,032,051.18)
Local:				
Property Taxes	88,029,826.00	88,029,826.00	87,589,312.49	(440,513.51)
Miscellaneous	6,385,010.00	7,170,884.23	7,336,044.46	165,160.23
Total Local Revenues	94,414,836.00	95,200,710.23	94,925,356.95	(275,353.28)
Total Revenues	188,300,128.00	187,785,995.21	186,542,875.64	(1,243,119.57)
Expenditures				
Current - Education:				
Instruction	113,674,984.43	120,528,647.18	113,103,546.94	7,425,100.24
Pupil Personnel Services	10,402,864.86	10,991,312.37	10,775,968.38	215,343.99
Instructional Media Services	4,337,067.70	4,421,729.12	4,370,672.39	51,056.73
Instruction and Curriculum Development Services	5,938,559.58	6,901,605.39	6,545,307.56	356,297.83
Instructional Staff Training Services	1,331,392.39	2,439,036.66	1,325,983.96	1,113,052.70
Instruction Related Technology	3,051,952.29	3,200,028.59	2,791,603.72	408,424.87
School Board	1,126,808.07	1,134,152.79	863,754.41	270,398.38
General Administration	800,528.29	814,719.40	802,647.44	12,071.96
School Administration	11,763,233.46	12,332,219.40	12,281,823.18	50,396.22
Facilities Acquisition and Construction	758,030.00	943,807.20	218,244.76	725,562.44
Fiscal Services	1,440,045.67	1,666,018.93	1,440,767.43	225,251.50
Central Services	3,170,175.66	3,574,068.51	3,073,025.11	501,043.40
Pupil Transportation Services	11,638,478.54	11,943,922.42	11,206,070.96	737,851.46
Operation of Plant	22,225,722.76	22,701,091.79	21,217,068.88	1,484,022.91
Maintenance of Plant	5,384,823.42	5,752,652.84	4,548,352.58	1,204,300.26
Administrative Technology Services	1,011,540.06	1,345,345.95	1,342,434.69	2,911.26
Community Services	4,170,129.28	4,466,857.54	3,430,071.35	1,036,786.19
Fixed Capital Outlay:				
Facilities Acquisition and Construction		80,799.32	80,799.32	
Other Capital Outlay		1,008,418.74	1,008,418.74	
Total Expenditures	202,226,336.46	216,246,434.14	200,426,561.80	15,819,872.34
Excess (Deficiency) of Revenues Over Expenditures	(13,926,208.46)	(28,460,438.93)	(13,883,686.16)	14,576,752.77
Other Financing Sources (Uses)				
Transfers In	6,966,644.00	6,966,644.00	6,400,328.81	(566,315.19)
Insurance Loss Recoveries			50,519.33	50,519.33
Transfers Out		(58,341.76)	(58,341.76)	
Total Other Financing Sources	6,966,644.00	6,908,302.24	6,392,506.38	(515,795.86)
Net Change in Fund Balances	(6,959,564.46)	(21,552,136.69)	(7,491,179.78)	14,060,956.91
Fund Balances, Beginning	41,807,682.79	41,807,682.79	41,807,682.79	
Fund Balances, Ending	\$ 34,848,118.33	\$ 20,255,546.10	\$ 34,316,503.01	\$ 14,060,956.91

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 15,031,708.00	\$ 4,631,018.08 22,658,768.30	\$ 4,406,388.40 18,782,930.40	\$ (224,629.68) (3,875,837.90)	\$	\$ 5,055,075.08	\$ 4,174,394.04	\$ (880,681.04)
15,031,708.00	27,289,786.38	23,189,318.80	(4,100,467.58)	5,055,075.08	4,174,394.04	(880,681.04)	
9,324,190.00	14,299,194.62	12,859,161.42	1,440,033.20	2,321,950.97	1,864,314.11	457,636.86	
1,116,043.00	3,069,800.87	2,685,127.40	384,673.47	138,360.80	110,607.30	27,753.50	
	20,500.00		20,500.00	33,718.00	20,170.52	13,547.48	
2,511,351.00	4,228,008.33	3,566,426.26	661,582.07	454,828.16	413,462.61	41,365.55	
879,544.00	2,650,017.46	1,672,187.23	977,830.23	872,454.20	573,487.31	298,966.89	
	91,747.00	73,418.54	18,328.46	83,833.14	83,833.14		
673,197.00	1,475,439.17	967,534.80	507,904.37	175,634.10	134,223.34	41,410.76	
400.00	5,400.00	4,755.98	644.02				
	14,958.55	14,958.55					
17,595.00	238,313.74	196,425.13	41,888.61	9,772.82	9,772.82		
502,049.00	501,441.33	459,867.43	41,573.90	8,278.45	8,278.45		
5,000.00	275,357.29	274,744.86	612.43	1,485.00	1,485.00		
2,339.00	12,789.02	7,892.20	4,896.82				
	10,682.88	10,682.88					
	396,136.12	396,136.12		954,759.44	954,759.44		
15,031,708.00	27,289,786.38	23,189,318.80	4,100,467.58	5,055,075.08	4,174,394.04	880,681.04	
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
March 1, 2008	\$ 0	\$ 17,815,000	\$ 17,815,000	0.0%	\$ 132,969,000	13.4%
March 1, 2010	0	19,138,000	19,138,000	0.0%	113,417,000	16.9%
March 1, 2012	0	23,989,000	23,989,000	0.0%	111,591,000	21.5%

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

**ALACHUA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
EARLY RETIREMENT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)(2)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
July 1, 2007	\$ 3,866,001	\$ 3,866,001	\$ 0	100.00%	\$ 133,694,225	0.00%
July 1, 2008	3,350,259	3,350,259	0	100.00%	134,352,096	0.00%
July 1, 2009	2,662,525	2,662,525	0	100.00%	129,623,633	0.00%
July 1, 2010	3,086,288	7,110,641	4,024,353	43.40%	126,794,672	3.17%
July 1, 2011	3,352,827	7,455,497	4,102,670	44.97%	130,414,767	3.15%
July 1, 2012	3,230,195	5,967,283	2,737,088	54.13%	123,016,217	2.22%

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

(2) The actuarial accrued liability decreased at July 1, 2012, due to a revised interpretation of amendments to collective bargaining agreements.

**ALACHUA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER CONTRIBUTIONS -
EARLY RETIREMENT PLAN**

Fiscal Year Ended June 30	Annual Required Contribution	Actual Board Contribution	Percentage Contribution
2007	\$ 527,925	\$ 527,925	100%
2008	518,104	518,104	100%
2009	741,494	741,856	100%
2010	789,193	789,193	100%
2011	732,610	732,610	100%
2012	495,614	806,287	163%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – EARLY RETIREMENT PLAN

An analysis of funding progress is presented below:

Year Ended June 30	Annual Required Contribution	Actual Board Contribution	Percentage Contributed
2007	\$ 527,925	\$ 527,925	100%
2008	518,104	518,104	100%
2009	741,494	741,856	100%
2010	789,193	789,193	100%
2011	732,610	732,610	100%
2012	495,614	806,287	163%

Contributions and Reserves. The District's ERP was established by the Board and became effective on January 1, 1984. Pursuant to the ERP agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the ERP.

Periodic employer contributions to the ERP are determined on an actuarial basis using the aggregate actuarial cost method. Annual pension cost is funded on a current basis. Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

Contributions to the ERP in the 2011-12 fiscal year totaled \$806,287, all of which were paid by the Board in accordance with actuarially determined contribution requirements determined through an actuarial valuation update performed at July 1, 2011. However, a revised interpretation of amendments to collective bargaining agreements lowered funding requirements for the plan year ended June 30, 2012, from \$806,287 to \$495,614; consequently, a prepaid contribution of \$310,673 exists at June 30, 2012.

The computation of the annual required contribution determined through the actuarial valuation update performed at July 1, 2011, for the 2011-12 fiscal year, was based on the same: (a) actuarial assumptions, (b) benefit provisions, (c) actuarial funding method, and (d) other significant factors as used to determine annual required contributions in the previous year; however, a subsequent interpretation of amendments to the collective bargaining agreements by the actuary resulted in lowering the annual required contribution for the 2011-12 fiscal year, as noted above.

All of the assets in the District's pension trust fund are legally required reserves. None of the assets have been designated by the Board for any other specific purpose. Costs of administering the ERP are financed through the ERP's resources (employer contributions and investment earnings).

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

3. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The March 1, 2012, unfunded actuarial accrued liability of \$23,989,000 was significantly higher than the March 1, 2010, liability of \$19,138,000 as a result of the following:

- Actual changes in premium rates were lower than expected premium increases.
- The annual healthcare cost trend rate has been reset to 10 percent, graded down 0.5 percent per year until an ultimate rate of 5 percent is reached.
- Retiree per capita claims costs were updated to consider actual claims experience for the prior two years as well as the current premium rates.
- The mortality table has been updated to the Internal Revenue Service 2012 Static Mortality Table to reflect expected future increases in life expectancy. The previous valuation used the 2007 Current Liability Combined Mortality Table.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 830,508.94	\$
National School Lunch Program	10.555	300, 350	2,442,820.40	
Summer Food Service Program for Children	10.559	323	47,939.56	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	1,057,052.63	
National School Lunch Program	10.555 (2)	300, 350	3,842,294.80	
Summer Food Service Program for Children	10.559	323	89,746.14	
Total Child Nutrition Cluster			8,310,362.47	
Florida Department of Education:				
Team Nutrition Grants	10.574	301	15,720.00	
Child Nutrition Discretionary Grants Limited Availability	10.579	371	15,130.10	
Fresh Fruit and Vegetable Program	10.582	330	54,715.60	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	330	51,590.63	
Total United States Department of Agriculture			8,447,518.80	
United States Department of Defense:				
Direct:				
Navy Junior Reserve Officers Training Corps	12.xxx	N/A	139,783.40	
Army Junior Reserve Officers Training Corps	12.xxx	N/A	68,766.64	
Total United States Department of Defense			208,550.04	
United States Department of Education:				
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	6,610,344.24	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	199,226.32	
Total Title I, Part A Cluster			6,809,570.56	
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	6,449,937.96	
Special Education - Preschool Grants	84.173	267	245,304.65	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	473,222.03	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	72,052.96	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	367,670.85	
Total Special Education Cluster			7,608,188.45	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	122	44,846.52	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	55,273.92	
Total Educational Technology State Grants Cluster			100,120.44	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	453,865.62	
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,871,554.98	
Total School Improvement Grants Cluster			2,325,420.60	
Florida Department of Education:				
Migrant Education - State Grant Program	84.011	217	1,134,427.54	
Career and Technical Education - Basic Grants to States	84.048	161	245,758.50	
Education for Homeless Children and Youth	84.196	127	67,940.49	
Charter Schools	84.282	298	518,612.63	518,612.63
Twenty-First Century Community Learning Centers	84.287	244	1,111,253.79	
English Language Acquisition Grants	84.365	102	74,954.38	
Improving Teacher Quality State Grants	84.367	224	1,442,293.23	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395	RD211, RL111	1,421,826.83	
Education Jobs Fund	84.410	541	81,237.00	
Total United States Department of Education			22,941,604.44	518,612.63
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	4,406,388.40	
Total Expenditures of Federal Awards			\$ 36,004,061.68	\$ 518,612.63

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

(2) Noncash Assistance - National School Lunch Program. Includes \$636,139.45 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at time of donation.

(3) Head Start. Expenditures include \$20,581.08 for grant number/program year 4CH4194/38 and \$4,385,807.32 for grant number/program year 04CH4194/39.



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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Alachua County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. Our audit did not extend to the school and activity funds, commonly called the school internal funds, or to the aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Alachua County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of The Education Foundation of Alachua County, Inc., 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.

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

Respectfully submitted,



David W. Martin, CPA
February 18, 2013



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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Findings Nos. 1 and 2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
February 18, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	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)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 – ARRA); Migrant Education – State Grant Program (CFDA No. 84.011); Twenty-First Century Community Learning Centers (CFDA No 84.287); and ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 – ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,080,121
Auditee qualified as low-risk auditee?	Yes

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

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 under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (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. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 fiscal year, the District used EFTs to pay vendors for high school student tests and for debt service principal and interest payments, to move money to investment accounts, and for direct deposits of employee pay and other payroll-related activities, such as taxes withheld and matching contributions, and Florida Retirement System contributions. According to District records, cash and cash equivalents and investments totaling \$56.8 million were available for electronic transfer at June 30, 2012. The Board established agreements with its depository bank, and with the State Board of Administration to provide various services, including EFTs to move money between accounts.

While the District used informal processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Although our tests did not disclose any EFTs for unauthorized purposes, the lack of specific guidance in the form of written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures.

Finding No. 2: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair

of existing school plants; renting and leasing educational facilities; and payment of property and casualty insurance premiums necessary to insure school district educational and ancillary plants subject to certain conditions and limitations. The District separately accounts for each fiscal year's ad valorem tax levy within the Capital Projects – Local Capital Improvement (LCI) Fund.

The District is a member of the Florida School Boards Insurance Trust (FSBIT) and participates in the FSBIT's Risk Management Program for certain insurance coverage, such as property and casualty, workers' compensation, and general liability. During the 2011-12 fiscal year, the District transferred \$4,554,209 from the LCI Fund to the General Fund for reimbursement of maintenance of plant expenditures, \$160,320 for rent and lease of relocatable classrooms, and \$2,252,115 for a portion of the FSBIT Risk Management Program insurance premium costs. While District records documented the allowability of ad valorem tax levy proceeds to pay the maintenance of plant, and rent and lease expenditures, only \$993,055 of the premium costs were for insuring educational and ancillary plants, resulting in \$1,259,060 of questioned costs. District personnel indicated that consideration was not made to limit the amount of the transfer for property and casualty insurance to only insure educational and ancillary plants.

Subsequent to our inquiry, the District requested that we adjust, and we made adjustments to, the financial statements to reduce the transfer from the LCI Fund to the General Fund to resolve the \$1,259,060 of questioned costs.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used only for authorized purposes.

Facilities Administration and Monitoring

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed, as required by law. In addition, the CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between certain costs of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires District personnel to closely monitor the construction costs and award of bids to subcontractors.

The District's facilities, maintenance, planning, and construction (facilities) department is responsible for facilities administration, which includes monitoring and approving CME activities, pay requests, and supporting documentation. To determine whether facilities administration and monitoring procedures were designed properly and operating effectively, we reviewed District procedures and related records for the Santa Fe High School Classroom Wing Addition (SFeHS) and the new elementary school (Elem H) GMP projects. In January 2011, the Board approved the SFeHS GMP contract of \$2.1 million, of which \$1.2 million was for subcontractor costs. The District had SFeHS project construction expenditures totaling \$571,000 during the 2011-12 fiscal year and, in November 2011, the Board accepted the final inspection certificate for that project. In May 2011, the Board approved the Elem H GMP contract of \$16.5 million, of which \$12.3 million was for subcontractor costs. The District had Elem H project construction expenditures totaling \$11.2 million during the 2011-12 fiscal year and, in December 2012, the Board accepted the final inspection certificate for that project. Our review of these projects disclosed that controls over construction administration and design professional insurance could be enhanced as discussed in Finding Nos. 3 and 4.

Finding No. 3: Construction Administration

Our review of District records supporting CME activities and related payments for the SFeHS and Elem H projects disclosed the following:

- Chapter 489, Florida Statutes, establishes certain certification requirements, including licensing requirements for specialty contractors such as electrical, air-conditioning, plumbing, and roofing contractors. The District did not verify the licenses of the projects' subcontractors but relied on the CMEs to monitor those licenses. While our tests did not disclose any subcontractors who were not properly licensed, verification of subcontractors' licenses provides the District additional assurance that subcontractors are qualified to perform the work for which they were engaged.
- District personnel attended the CMEs' subcontractor bid openings to verify that subcontractors were properly selected and the District paid the CMEs based on pay requests and subcontractor certifications of the work performed; however, the District did not reconcile copies of subcontractor bids and contracts to related payments to ensure payments were appropriate. While our tests of subcontractor payments did not disclose any errors or fraud relating to these payments, when payments to subcontractors are not appropriately monitored, the District's ability to realize the maximum savings available under GMP contracts may be limited.
- The GMP contracts contained provisions for general conditions such as direct and indirect salary costs of project superintendents and project and assistant project managers, costs for jobsite office space, communications and utilities, and equipment rental. These costs totaled \$498,000 and \$255,730 for the Elem H and SFeHS projects, respectively.

District personnel indicated that the general conditions costs were agreed upon through a negotiation process and District records separately identified the general conditions items and related costs; however, District records did not evidence the basis upon which the District negotiated or paid for general conditions costs included in the two GMP contracts. Such documentation could include payroll records for salaries and benefits costs and invoices for other general condition costs. Without such, there is an increased risk that the District may overpay for general condition goods and services.

- The District paid certain CME pay request amounts based on budgeted insurance designated in the SFeHS GMP contract, instead of the actual costs of the insurance. As a result, the District paid \$39,677 for a performance bond and \$3,806 for protective liability and general liability insurance or \$21,530 more than the actual costs of this insurance coverage. Subsequent to our inquiry, the District recovered the \$21,530 overpaid in October 2012.

Recommendation: The District should enhance its procedures to ensure that subcontractors used on GMP contracts are appropriately licensed, subcontractor payments are reconciled to related bids and contracts, the reasonableness of general condition costs is documented, and CME payments are properly supported.

Finding No. 4: Design Professionals - Insurance

The Board contracted with design professionals, such as architects and engineers, for the SFeHS and Elem H construction projects; however, the District did not have policies and procedures that prescribed the minimum insurance for design professionals and District records did not document justification for the different insurance requirements of these two contracts based on the respective project costs or other considerations. Specifically:

- The SFeHS project contract, with a GMP of \$2.1 million, required design professional liability insurance of \$1 million; however, the Elem H project contract, with a GMP of \$16.5 million, only required \$2 million of design professional liability insurance.
- The design professional contracts for the projects required that design professionals visit the construction sites; however, the contracts did not require design professional general liability, automobile, or workers'

compensation insurance. The Elem H design professional provided general liability, automobile, and workers' compensation insurance, but the design professional for the SFeHS project did not provide these types of coverage.

Without policies and procedures prescribing the types and amounts of insurance coverage for design professionals, there is an increased risk of District loss in the event of an occurrence causing injury to persons or damage to property, or if the design professional defaults on contractual obligations.

Recommendation: The Board should establish a policy establishing minimum professional liability insurance requirements for design professionals.

Finding No. 5: Facilities Management

In addition to managing construction and renovation projects, the facilities department is responsible for maintenance and repair services of schools and ancillary facilities, and performs heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the District employed 97 employees in the facilities department, and the department's operating cost was \$6.2 million. Also, during this fiscal year, the District had expenditures totaling \$27.3 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 18, 2012, the District plans to spend an additional \$19.8 million on construction and renovation projects over the next five years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was \$372.4 million and, as shown on the Florida Department of Education's (FDOE's) Florida Inventory of School Houses data, District facilities had an average age of 34 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establishing documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for facilities department employees. While our review indicated that District procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional design-bid-build methods and GMP construction methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by facilities department personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine for each major construction project or significant maintenance-related job which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The facilities department had not established goals that identify efficiency or cost-effectiveness outcomes. To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing

accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities department is operating as cost-effectively and efficiently as possible.

Recommendation: The District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop goals and objectives for the facilities department to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 6: Property Casualty Insurance

Section 1001.42(11)(d), Florida Statutes, generally requires that the Board carry insurance on school buildings, including contents, boilers, and machinery, and Section 1001.42(12)(k), Florida Statutes, requires that the Board provide adequate protection against any loss or damage to school property. The District purchased property insurance coverage through the FSBIT, a protected self-insurance fund for Florida school boards, which bases property insurance premiums on the insured values. Periodically, the FSBIT obtains appraisals of District schools and ancillary facilities for replacement cost and, as of December 2012, the most recent appraisal was November 30, 2010. The FSBIT summarizes the information in a statement of values (SOV) and annually requires the District to provide updates for building additions and deletions. The FSBIT allows the District a grace period of 180 days to report newly constructed buildings costing \$10 million or more and projects under \$10 million must be reported at the annual renewal each May 1. However, as of August 2012, the following projects, completed since the November 30, 2010, appraisal, had not been reported to the FSBIT for insurance purposes:

- Buchholz High School energy efficiency upgrade project costing \$922,830, completed January 18, 2011;
- Westwood Middle School student services addition and renovation project costing \$1,193,594, completed February 15, 2011;
- Santa Fe High School classroom addition project costing \$1,861,450, completed November 22, 2011; and
- Mebane Middle School food service addition and renovation project costing \$2,499,744, completed April 17, 2012.

District personnel indicated that the District risk management and facilities departments did not coordinate with one another to ensure the SOV was updated for the completed building projects. Without timely and accurate reporting of property values to the FSBIT, insurance premium assessments and related costs may be incorrect and the District may incur uninsured losses.

Recommendation: The District should enhance its procedures to timely report property additions to the FSBIT to ensure completed projects are appropriately safeguarded and insurance premium assessments and related payments are appropriately made.

Finding No. 7: Workforce Education

Pursuant to Section 1011.80, Florida Statutes, the District receives funding for workforce education programs and is required to use the money to benefit the programs it provides. The District received \$1.2 million in workforce education program revenues for its adult education program during the 2011-12 fiscal year. This revenue, when combined with \$3.2 million of unspent workforce education revenues designated to the adult education program in

prior fiscal years, made available \$4.4 million for expenditures in the adult education program during the 2011-12 fiscal year.

Workforce education revenues expended in the adult education program totaled \$819,000, representing 19 percent of that available during the 2011-12 fiscal year, and the unencumbered balance carried forward into the 2012-13 fiscal year was \$3.6 million. Further, District records indicated that workforce education revenues have exceeded expenditures over the last four fiscal years, with an average accumulation of \$487,000 per year. Discussion with District personnel indicated that intentions were to use the unspent workforce education funds to offset anticipated reductions in future revenues; however, the District has not adopted a formal plan establishing the goals and priorities for the use of the unspent workforce education funds. Although the workforce education funds are restricted for adult education purposes and not subject to reversion, carrying forward large amounts of such money into subsequent years does not appear to be consistent with the legislative intent for annually funding the adult education program and does not appear to benefit the persons and programs for which the funds were generated.

Recommendation: The Board should develop and establish a spending plan for unspent workforce education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on programs as intended by the Legislature.

Finding No. 8: Direct-Support Organization Audit

Pursuant to Section 1001.453(4), Florida Statutes, school board direct-support organizations must annually provide for a financial audit by an independent certified public accountant when the organization has expenditures or expenses that exceed \$100,000, and such audits must be performed in accordance with rules adopted by the Auditor General. Section 10.720(1)(g), Rules of the Auditor General, requires that such audits be performed in accordance with *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States.

The Education Foundation of Alachua County, Inc. (Foundation), a direct-support organization and component unit of the District, obtained an audit of its financial statements for the 2011-12 fiscal year and the financial balances and activities of the Foundation represent 22, 29, and 4 percent of the assets, net assets, and revenues, respectively, of the aggregate discretely presented component unit information reported on the District's financial statements. However, because the District and Foundation were unaware of the *GAS* requirement, the audit was not conducted in accordance with *GAS*, contrary to Section 10.720(1)(g), Rules of the Auditor General.

Recommendation: The District should ensure that the Foundation's annual audit is performed in accordance with *GAS*.

Finding No. 9: Information Technology - Security Awareness Training Program

A comprehensive security awareness training program appraises new employees of, and reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and information technology (IT) resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although the District offered employees a security awareness training program that consisted of a series of training videos related to various security topics, there was no requirement for employees to complete the program. The lack of a mandatory security awareness training program that requires the participation of all employees increases the risk

that the District's IT resources could be unintentionally compromised by employees while performing their assigned duties. A similar finding was noted in our report No. 2010-051.

Recommendation: The District should require employee participation in the security awareness training program to ensure that all employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.

Finding No. 10: Information Technology - Security Controls – User Authentication, Data Loss Prevention, and Logging of Security Changes

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 user authentication, data loss prevention, and logging of security changes that 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 user authentication, data loss prevention, and logging of security changes, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding user authentication was noted in our report No. 2010-051.

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

Finding No. 11: 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 provisions for designated staff to be trained in incident response and notification to affected parties.

Although the District had a written plan documenting procedures for reporting, analyzing, and responding to computer security incidents, the employees designated as the District's security incident response team had not received training related to these procedures. In addition, the District had not distributed procedures to end users for recording and reporting computer security incidents. In response to our inquiry, District management indicated that they would incorporate end-user reporting procedures into the District's security awareness training program. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a team trained in computer security incident response and failure to distribute to end users procedures for recording and reporting computer security incidents 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 train its security incident response team and distribute procedures for the reporting of incidents to end users.

Finding No. 12: Information Technology - Written Policies and Procedures

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

Although the District had policies and procedures addressing certain IT functions, such as remote access to the District's network and use of electronic mail, the District lacked written policies and procedures for the following:

- Timely deactivating user access privileges for terminated or reassigned employees and contractors, including the removal of confidential information from contractor IT equipment;
- Monitoring event logs for the network and application infrastructure; and
- Reviewing user access privileges.

Without such policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations. A similar finding was noted in our report No. 2010-051.

Recommendation: The District should enhance its written policies and procedures to document management's expectations for the performance of the above-listed IT functions.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture; United States Department of Education

Pass-Through Entities: Florida Department of Agriculture and Consumer Services;

Florida Department of Education

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Migrant Education – State Grant Program (CFDA No. 84.011); Twenty-First Century Community Learning Centers (CFDA No. 84.287); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 – ARRA); and Race-to-the-Top Incentive Grants (CFDA No. 84.395 – ARRA)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget (OMB) Circular A-87 provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. District procedures provide that the required semiannual certifications be prepared for November and May.

Our tests disclosed that the District did not maintain the required documentation to support Federal salary and benefit expenditures, as follows:

- The Child Nutrition Cluster (CNC) program salary and benefit expenditures totaled \$5.9 million, of which \$257,008 represented 25 percent of the salary and benefit expenditures of 37 custodial employees tested at 36 meal sites. District personnel indicated that the percentage was based on the time required to clean cafeterias and District personnel provided documentation of the square footage of food service areas maintained by custodians as a percent of total school square footage that supported the CNC program costs. However, due to oversights, the District did not maintain the required monthly personnel activity reports or equivalent documentation for these employees to evidence the actual time the employees devoted to the CNC program.
- The Migrant Education program salary and benefit expenditures totaled \$659,204, of which \$494,700 represented 100 percent of the salary and benefit expenditures of 11 employees tested. However, due to oversights, no semiannual certifications or equivalent documentation was maintained for these employees to evidence the actual time the employees devoted to the Migrant Education program.
- The Twenty-First Century program salary and benefit expenditures totaled \$749,203, of which \$131,200 represented 100 percent of the salary and benefit expenditures of 2 employees tested. However, due to oversight, the required May 2012 certification or equivalent documentation was not maintained for 1 employee with salary and benefits of \$60,100 to evidence the actual time the employee devoted to the Twenty-First Century program.
- The School Improvement (SI) program salary and benefit expenditures totaled \$1,549,250. We tested 13 employees, paid partially or wholly from the SI program, to determine the actual time the employees devoted to the SI program and noted that the District did not maintain the required semiannual certifications or equivalent documentation for 3 employees, did not maintain the required May 2012 semiannual certification or equivalent documentation for 1 employee, and did not maintain the required monthly personnel activity reports or equivalent documentation for 1 other employee. These 5 employees had salaries and benefits totaling \$257,700.
- The Race-to-the-Top (RTTT) program salary and benefit expenditures totaled \$177,143. We tested 6 employees, paid partially or wholly from the RTTT program, to determine the actual time the employees devoted to the RTTT program and noted that the District did not maintain the required semiannual certifications or equivalent documentation for 2 employees or the required monthly personnel activity reports or equivalent documentation for 1 other employee. The salary and benefit payments for the 3 employees totaled approximately \$55,600.

Subsequent to our inquiries, the employees documented that their duties and responsibilities were properly charged to the programs. Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that required documentation is maintained to support salary and benefit charges to Federal programs.

District Contact Person: Scott Ward, Chief Financial Officer

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Migrant Education – State Grant Program (CFDA No. 84.011)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Special Tests and Provisions, Child Counts – Quality Control Process. Title 20, Section 6394(d), Code of Federal Regulations, requires that the District give priority for migrant services (PFS) to migratory children who are failing, or most at risk of failing, to meet the State's challenging academic content and achievement standards, and whose education has been interrupted during the regular school year. The District implemented a PFS action plan

and adopted quality control procedures to help ensure that all migratory children are identified and accurate information is submitted to the FDOE student database. District written procedures provide for the Migrant Education program coordinator and data entry clerk to review and approve the eligibility determination certificates prepared by a family advocate, which is provided to the Department of Research, Assessment, Student Information and Zoning to submit student count data to the FDOE student database.

The FDOE awards Migrant Education program funding to the District based on a formula of data from District-prepared surveys. The surveys include the number and needs of migratory children, including the number of students identified for PFS. The FDOE used survey data submitted from the 2009-10 academic year, due by August 2010, to determine the Migrant Education program allocation for the 2011-12 academic year, and data submitted from the 2010-11 academic year, due by August 2011, to determine the Migrant Education program allocation for the 2012-13 academic year. The District had until February 29, 2012, to identify and amend discrepancies between its records and the information in the FDOE student database and, for the 2011-12 fiscal year, the District reported Migrant Education program expenditures of \$1.1 million.

For the 2009-10 academic year, District records of the number of PFS students reported generally agreed with the FDOE records, resulting in appropriate Migrant Education program allocations for the 2011-12 academic year. For the 2010-11 academic year, the FDOE records indicated that the District had 1,553 migrant students, of which 137 students were PFS students; however, District records only documented 24 PFS students, or 113 PFS students overreported. District personnel indicated that a clerical error possibly caused the reporting discrepancy, and there was no evidence of supervisory review to timely detect and correct the discrepancy. Since Migrant Education program funding is based, in part, on migrant student counts submitted to the FDOE, it is important that the data be submitted correctly.

Recommendation: The District should enhance its procedures to require documented supervisory review and approval of the accuracy and support of migrant student counts before such counts are submitted to the FDOE. The District should also contact the FDOE for appropriate resolution of the overreported student counts.

District Contact Person: Scott Ward, Chief Financial Officer

PRIOR AUDIT FOLLOW-UP

Except as discussed in the previous paragraphs, the District had taken corrective actions for findings included in previous audit reports. The following table provides information on recurring District audit findings:

	Financial and Federal Single Audit		Financial, Operational, and Federal Single Audit
	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2008-09 Fiscal Year Audit Report and Finding Numbers
Current Fiscal Year Finding Numbers			
9	NA	NA	Audit Report No. 2010-051, Finding No. 7
10	NA	NA	Audit Report No. 2010-051, Finding No. 8
12	NA	NA	Audit Report No. 2010-051, Finding No. 6

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
Purvis, Gray and Company, LLP		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

BOARD MEMBERS

April M. Griffin
Leanetta McNealy, Ph.D.
Carol Oyenarte
Gunnar F. Paulson, Ed.D.
Eileen F. Roy

SUPERINTENDENT OF SCHOOLS

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Mission Statement: We are committed to the success of every student!

February 8, 2013

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

Re: Response to Preliminary and Tentative Audit Findings

Dear Mr. Martin:

Following is our response to the preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2012:

Finding No. 1: Electronic Funds Transfers

The District will adopt written policies and procedures related to EFTs, including use of electronic signatures.

Finding No. 2: Ad Valorem Taxation

The District will enhance its procedures to ensure ad valorem tax levy proceeds are used only for authorized purposes.

Finding No. 3: Construction Administration

The District will enhance procedures to ensure subcontractors used on GMP contracts are appropriately licensed, subcontractor payments are reconciled to related bids and contracts, the reasonableness of general condition costs is documented, and CME payments are properly supported.

Finding No. 4: Design Professional - Insurance

The District will establish a policy establishing minimum professional liability insurance required for design professionals.

Finding No. 5: Facilities Management

The District will develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District will develop goals and objectives for the facilities department to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 6: Property Casualty Insurance

The District will enhance its procedures to timely report property additions to FSBIT to ensure completed projects are appropriately safeguarded and insurance premium assessments and related payments are appropriately made.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No 7: Workforce Education

The District will develop and establish a spending plan for unspent workforce education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on programs as intended by the Legislature.

Finding No 8: Direct-Support Organization Audit

The District will ensure that the Foundation's annual audit is performed in accordance with GAS.

Finding No 9: Information Technology - Security Awareness Training Program

The District will require employee participation in the security awareness training program to ensure that all employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity and availability.

Finding No 10: Information Technology – User Authentication, Data Loss Prevention, and Logging of Security Changes

The District will improve security controls related to user authentication, data loss prevention, and logging of security changes to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No 11: Information Technology – Security Incident Response Plan

The District will train its security incident response team and distribute procedures for the reporting of incidents to end users.

Finding No 12: Information Technology – Written Policies and Procedures

The District will enhance its written policies and procedures to document management's expectations for the performance of the above-listed IT functions.

Federal Awards Finding No. 1: Allowable Cost/Cost Principles – Documentation of Time and Effort

The District will enhance its procedures to ensure employees who perform services for Federal programs maintain the required documentation to support salary and benefit charges.

Federal Awards Finding No 2: Special Test and Provisions, Child Counts – Quality Control Process

The District will enhance its procedures to require documented supervisory review and approval of the accuracy and support of migrant student counts before such counts are submitted to FDOE. The District will contact the FDOE for appropriate resolution of the over-reported student counts.

We appreciate the opportunity to respond to these findings. After reviewing our response, please advise me if you need further clarification or action on our part.

Sincerely,



W. Daniel Boyd, Jr., Ed.D.
Superintendent