

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2012



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Logan Kever	1
Thomas W. Duggar, Sr.	2
Darrel Hayes, Vice Chair	3
Kyle Peddie, Chair	4
Roger Reddick	5

Dr. Sue Summers, Superintendent

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

The audit team leader was Jason R. Law and the audit was supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency as summarized below. However, the significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

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

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

ADDITIONAL MATTERS

Finding No. 2: Controls over electronic funds transfers could be enhanced.

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

Finding No. 4: Controls over procurement of contractual services needed to be enhanced.

Finding No. 5: Minutes of the Board workshop meetings were not maintained, contrary to law.

Finding No. 6: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 7: The District lacked written policies and procedures for certain information technology functions.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I Cluster, and Twenty-First Century programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-079.

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.



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty 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 22 percent of the assets and 67 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Liberty 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 Liberty County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Liberty County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$536,675.92, which may be compared to the decrease of \$758,029.06 in the previous fiscal year.
- General revenues total \$13,300,528.48. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$945,090.14.
- Expenses total \$14,782,294.54. Only \$945,090.14 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded revenues by \$536,675.92.
- During the current fiscal year, General Fund expenditures exceeded total revenues by \$556,942.20.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totals \$1,376,892.60 at June 30, 2012.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements, the MD&A, the budgetary comparison schedule, the schedule of funding progress for other postemployment benefits, and notes to required supplementary information are included as required supplementary information.

Government-wide Financial Statements

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

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

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base and student enrollment.

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

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

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year	
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 2,971,818.37	\$ 3,002,651.05
Capital Assets	28,654,985.47	28,934,606.12
Total Assets	31,626,803.84	31,937,257.17
Long-Term Liabilities	1,866,605.03	1,809,407.22
Other Liabilities	453,534.04	284,509.26
Total Liabilities	2,320,139.07	2,093,916.48
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	28,186,167.28	28,355,031.81
Restricted	582,554.86	463,367.51
Unrestricted	537,942.63	1,024,941.37
Total Net Assets	\$ 29,306,664.77	\$ 29,843,340.69

The largest portion of the District’s net assets (96 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The purpose of these capital assets is to educate the students residing in the county; thus, these assets are not available for future spending. The resources needed to repay the capital asset related debt must come from other sources, as the capital assets themselves are not available for debt liquidation.

A portion of the net assets (2 percent) represents resources that are subject to external restrictions. The unrestricted net assets (2 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	\$ 307,006.00	\$ 333,878.07
Operating Grants and Contributions	594,564.60	572,692.16
Capital Grants and Contributions	43,519.54	142,680.84
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,504,379.32	1,667,153.05
Property Taxes, Levied for Capital Projects	358,532.71	378,865.37
Local Sales Tax	43,818.32	
Grants and Contributions Not Restricted to Specific Programs	10,854,982.04	11,972,009.81
Unrestricted Investment Earnings	13,148.67	24,424.97
Miscellaneous	525,667.42	202,645.15
Total Revenues	14,245,618.62	15,294,349.42
Functions/Program Expenses:		
Instruction	7,110,815.14	7,788,823.72
Pupil Personnel Services	311,728.79	407,930.80
Instructional Media Services	112,188.72	222,179.03
Instruction and Curriculum Development Services	424,490.41	439,195.03
Instructional Staff Training Services	170,953.61	212,177.11
Instruction Related Technology	185,537.29	183,508.13
School Board	340,252.07	330,610.50
General Administration	357,615.94	374,908.95
School Administration	496,951.43	566,094.22
Facilities Acquisition and Construction	39,427.78	138,065.82
Fiscal Services	292,170.03	248,472.13
Food Services	833,882.13	819,287.07
Central Services		989.45
Pupil Transportation Services	703,569.19	774,970.74
Operation of Plant	1,339,237.48	1,397,650.70
Maintenance of Plant	194,087.12	182,721.24
Administrative Technology Services	364,296.57	385,493.08
Community Services	523,474.41	567,820.94
Unallocated Interest on Long-Term Debt	11,070.68	13,292.27
Unallocated Depreciation Expense	957,050.67	979,961.73
Loss on Disposal of Capital Assets	13,495.08	18,225.82
Total Functions/Program Expenses	14,782,294.54	16,052,378.48
Decrease in Net Assets	\$ (536,675.92)	\$ (758,029.06)

The largest revenue source is the State of Florida (61 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

Grants and contributions not restricted to specific purposes declined \$1,117,027.77, or 9 percent primarily due to a decrease in Federal stimulus funding.

Instruction expenses represent 48 percent of total governmental expenses for the 2011-12 fiscal year. Instruction expenses decreased \$678,008.58, or 9 percent primarily from a decrease in the retirement contribution rates, budgetary constraints, and limited revenue sources.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows and outflows, and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$2,518,284.33, a decrease of \$199,857.46 from the prior fiscal year. Approximately 75 percent of this total amount, or \$1,887,016.58 represents assigned and unassigned fund balances. The remainder is nonspendable inventory and investments or is restricted due to legal requirements relating to the fund balance. Additional information related to fund balances can be found in the notes to financial statements.

The General Fund is the primary operating fund. At June 30, 2012, the General Fund assigned and unassigned fund balance is \$1,892,064.30, while total fund balance is \$2,139,599.01. As a measure of the General Fund liquidity, it may be useful to compare total fund balances to total expenditures. The assigned and unassigned fund balance is 17 percent of total General Fund expenditures.

The fund balance of the General Fund decreased by \$221,158.52 during the current fiscal year, primarily due to reductions in property tax revenues from the prior fiscal year.

The Special Revenue – Other Fund has total revenues and expenditures of \$1,849,104.35 each. This fund is used to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$98,733.98 each. This represents a decline of \$875,471.21 in revenues and expenditures each from the prior fiscal year due to the expiration of many of the Federal stimulus grants. This fund is used to account for certain Federal program resources related to the American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund grants. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

The Debt Service – Other Fund is used to account for repayments to the Special Facilities Trust Fund, and does not have a fund balance because transfers from capital projects funds accounted for in this fund are due to the Florida Department of Education as of June 30, 2012.

The Capital Projects – Local Capital Improvement Fund has total revenues of \$359,641.35, expenditures and transfers out of \$322,070.89, and an ending fund balance of \$44,069.06. The capital outlay property taxes were pledged for repayment of the Special Public Education Capital Outlay Advance Payable.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

During the course of the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations totaling \$420,635.27, which is less than a 4 percent increase from the original budget.

Actual expenditures were \$394,478.56 less than the final budgeted amounts in the General Fund with positive budget variances in all functions. The ending fund balance in the General Fund exceeded the estimated fund balance contained in the final amended budget by \$388,855.51.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, for the governmental activities as of June 30, 2012, totaled \$28,654,985.47. This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles. During the 2011-12 fiscal year, there were no significant capital outlay projects in the District, but three buses were purchased under an installment purchase agreement. Additional information on the District's capital assets can be found in note 4 to the financial statements.

Long-Term Debt

At June 30, 2012, the District has total bonded debt outstanding of \$200,000, comprised of State School Bonds. During the fiscal year, the District entered into a six-year installment-purchase agreement of \$318,003 for the purchase of three buses and made the final payment on the Special Public Education Capital Outlay Advance. Additional information on the District's long-term debt can be found in notes 5 through 7 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Liberty County District School Board's finances for all those with an interest in the government's finances. Questions concerning information provided in this report or requests for additional financial information should be addressed to the Finance Coordinator, Liberty County District School Board, P. O. Box 429, Bristol, FL 32321.

BASIC FINANCIAL STATEMENTS

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

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	\$	2,862,084.17
Investments		50,096.07
Due from Other Agencies		45,957.37
Inventories		13,680.76
Capital Assets:		
Nondepreciable Capital Assets		890,603.83
Depreciable Capital Assets, Net		27,764,381.64
		27,764,381.64
TOTAL ASSETS	\$	31,626,803.84
LIABILITIES		
Payroll Deductions and Withholdings	\$	212,930.25
Due to Other Agencies		240,603.79
Long-Term Liabilities:		
Portion Due Within One Year		70,144.67
Portion Due After One Year		1,796,460.36
		1,796,460.36
Total Liabilities		2,320,139.07
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		28,186,167.28
Restricted for:		
State Required Carryover Programs		158,612.40
Debt Service		6,430.90
Capital Projects		363,621.38
Food Service		8,633.04
Workforce Development		45,257.14
Unrestricted		537,942.63
		537,942.63
Total Net Assets		29,306,664.77
TOTAL LIABILITIES AND NET ASSETS	\$	31,626,803.84

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

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets in Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 7,110,815.14	\$ 86,240.77	\$	\$ (7,024,574.37)
Pupil Personnel Services	311,728.79			(311,728.79)
Instructional Media Services	112,188.72			(112,188.72)
Instruction and Curriculum Development Services	424,490.41			(424,490.41)
Instructional Staff Training Services	170,953.61			(170,953.61)
Instruction Related Technology	185,537.29			(185,537.29)
School Board	340,252.07			(340,252.07)
General Administration	357,615.94			(357,615.94)
School Administration	496,951.43			(496,951.43)
Facilities Acquisition and Construction	39,427.78		8,023.86	(31,403.92)
Fiscal Services	292,170.03			(292,170.03)
Food Services	833,882.13	220,765.23	594,564.60	(18,552.30)
Pupil Transportation Services	703,569.19			(703,569.19)
Operation of Plant	1,339,237.48			(1,339,237.48)
Maintenance of Plant	194,087.12			(194,087.12)
Administrative Technology Services	364,296.57			(364,296.57)
Community Services	523,474.41			(523,474.41)
Unallocated Interest on Long-Term Debt	11,070.68		35,495.68	24,425.00
Unallocated Depreciation Expense*	957,050.67			(957,050.67)
Loss on Disposal of Capital Assets	13,495.08			(13,495.08)
Total Governmental Activities	\$ 14,782,294.54	\$ 307,006.00	\$ 594,564.60	\$ 43,519.54
General Revenues:				
Taxes:				
				1,504,379.32
				358,532.71
				43,818.32
				10,854,982.04
				13,148.67
				525,667.42
Total General Revenues				13,300,528.48
Change in Net Assets				(536,675.92)
Net Assets - Beginning				29,843,340.69
Net Assets - Ending				\$ 29,306,664.77

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

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,393,728.06	\$ 1,502.85	\$	\$
Investments	43,665.17			
Due from Other Funds	42,448.03	4,217.91		239,333.64
Due from Other Agencies	16,179.22		9,572.15	
Inventories				
TOTAL ASSETS	\$ 2,496,020.48	\$ 5,720.76	\$ 9,572.15	\$ 239,333.64
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 205,486.55	\$ 5,720.76	\$ 9,572.15	\$
Due to Other Funds	150,681.92			
Due to Other Agencies	253.00			239,333.64
Total Liabilities	356,421.47	5,720.76	9,572.15	239,333.64
Fund Balances:				
Nonspendable:				
Inventory				
Fund B Investments	43,665.17			
Total Nonspendable Fund Balance	43,665.17			
Restricted for:				
State Required Carryover Programs	158,612.40			
Debt Service				
Capital Projects				
Workforce Development	45,257.14			
Total Restricted Fund Balance	203,869.54			
Assigned for 2012-13 Budget Shortfall	515,171.70			
Unassigned Fund Balance	1,376,892.60			
Total Fund Balances	2,139,599.01			
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,496,020.48	\$ 5,720.76	\$ 9,572.15	\$ 239,333.64

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 232,970.00	\$ 233,883.26	\$ 2,862,084.17
	6,430.90	50,096.07
30,515.95	115,948.06	432,463.59
	20,206.00	45,957.37
	13,680.76	13,680.76
<u>\$ 263,485.95</u>	<u>\$ 390,148.98</u>	<u>\$ 3,404,281.96</u>
\$ 219,416.89	\$ 1,722.94	\$ 212,930.25
	52,792.63	432,463.59
	1,017.15	240,603.79
<u>219,416.89</u>	<u>55,532.72</u>	<u>885,997.63</u>
	13,680.76	13,680.76
		43,665.17
	<u>13,680.76</u>	<u>57,345.93</u>
		158,612.40
	6,430.90	6,430.90
44,069.06	319,552.32	363,621.38
		45,257.14
<u>44,069.06</u>	<u>325,983.22</u>	<u>573,921.82</u>
		515,171.70
	(5,047.72)	1,371,844.88
<u>44,069.06</u>	<u>334,616.26</u>	<u>2,518,284.33</u>
<u>\$ 263,485.95</u>	<u>\$ 390,148.98</u>	<u>\$ 3,404,281.96</u>

LIBERTY 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 \$ 2,518,284.33

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. 28,654,985.47

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:

Bonds Payable	\$ 200,000.00	
Installment-Purchase Payable	268,818.19	
Compensated Absences Payable	755,854.84	
Other Postemployment Benefits Payable	641,932.00	(1,866,605.03)

Total Net Assets - Governmental Activities **\$ 29,306,664.77**

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

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**LIBERTY 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 Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 55,058.98	\$	\$	\$
Federal Through State and Local State	414,620.22	1,849,104.35	98,733.98	
State	8,437,464.51			
Local:				
Property Taxes	1,504,379.32			
Local Sales Taxes				
Charges for Services - Food Service				
Miscellaneous	370,168.54			
Total Local Revenues	<u>1,874,547.86</u>			
Total Revenues	<u>10,781,691.57</u>	<u>1,849,104.35</u>	<u>98,733.98</u>	
Expenditures				
Current - Education:				
Instruction	6,073,081.13	909,988.37	35,431.49	
Pupil Personnel Services	236,681.28	67,615.41		
Instructional Media Services	102,085.74	6,935.60		
Instruction and Curriculum Development Services	239,616.46	180,135.56		
Instructional Staff Training Services	66,667.60		24,165.65	
Instruction Related Technology	174,441.32	5,976.30		
School Board	340,252.07			
General Administration	284,359.70	66,024.49		
School Administration	481,792.52			
Facilities Acquisition and Construction	39,427.78			
Fiscal Services	283,606.47			
Food Services	190.54			
Pupil Transportation Services	610,146.57	6,580.46		
Operation of Plant	1,333,583.63			
Maintenance of Plant	197,001.71			
Administrative Technology Services	332,773.31		24,386.84	
Community Services	117,531.75	403,145.26		
Fixed Capital Outlay:				
Other Capital Outlay	376,209.38	124,730.67	14,750.00	
Debt Service:				
Principal	49,184.81			239,333.64
Interest and Fiscal Charges				
Total Expenditures	<u>11,338,633.77</u>	<u>1,849,104.35</u>	<u>98,733.98</u>	<u>239,333.64</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(556,942.20)</u>			<u>(239,333.64)</u>
Other Financing Sources (Uses)				
Transfers In				239,333.64
Loans Incurred	318,003.00			
Insurance Loss Recoveries	17,780.68			
Transfers Out				
Total Other Financing Sources (Uses)	<u>335,783.68</u>			<u>239,333.64</u>
Net Change in Fund Balances	<u>(221,158.52)</u>			
Fund Balances, Beginning	<u>2,360,757.53</u>			
Fund Balances, Ending	<u>\$ 2,139,599.01</u>	<u>\$ 0.00</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	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	583,601.60	55,058.98
	54,482.54	2,946,060.15
		8,491,947.05
358,532.71		1,862,912.03
	43,818.32	43,818.32
	220,765.23	220,765.23
1,108.64	822.85	372,100.03
<u>359,641.35</u>	<u>265,406.40</u>	<u>2,499,595.61</u>
<u>359,641.35</u>	<u>903,490.54</u>	<u>13,992,661.79</u>
		7,018,500.99
		304,296.69
		109,021.34
		419,752.02
		168,805.48
		180,417.62
		340,252.07
		350,384.19
		481,792.52
	12.03	39,439.81
		283,606.47
	833,684.76	833,875.30
		616,727.03
		1,333,583.63
		197,001.71
		357,160.15
		520,677.01
102,654.00	30,075.72	648,419.77
	25,000.00	313,518.45
	11,070.68	11,070.68
<u>102,654.00</u>	<u>899,843.19</u>	<u>14,528,302.93</u>
<u>256,987.35</u>	<u>3,647.35</u>	<u>(535,641.14)</u>
		239,333.64
		318,003.00
		17,780.68
<u>(219,416.89)</u>	<u>(19,916.75)</u>	<u>(239,333.64)</u>
<u>(219,416.89)</u>	<u>(19,916.75)</u>	<u>335,783.68</u>
37,570.46	(16,269.40)	(199,857.46)
6,498.60	350,885.66	2,718,141.79
<u>\$ 44,069.06</u>	<u>\$ 334,616.26</u>	<u>\$ 2,518,284.33</u>

**LIBERTY 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 \$ (199,857.46)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (266,125.57)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. The cost of these assets was recognized as an expenditure in the governmental funds in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (13,495.08)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments in the current fiscal year.

Inception of Installment-Purchase Payable	\$	(318,003.00)	
Repayment of Installment-Purchase Payable		49,184.81	
Repayment of Bonds Principal		25,000.00	(243,818.19)

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 earned in excess of the amount paid in the current fiscal year. (3,659.93)

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. (164,294.00)

Special Public Education Capital Outlay Advances provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. This is the decrease in the Special Public Education Capital Outlay Advance liability in the current fiscal year. 354,574.31

Change in Net Assets - Governmental Activities \$ (536,675.92)

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>112,374.00</u>
LIABILITIES	
Internal Accounts Payable	\$ <u>112,374.00</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Liberty 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 Liberty County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Liberty County.

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

Basis of Presentation:

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

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Debt Service – Other Fund – to account for the accumulation of financial resources for the payment of debt principal, interest, and related costs for the Special Public Education Capital Outlay Advance Payable.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement property tax used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at 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

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

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.

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 and 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. These 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.

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

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories consist of donated foods that 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 and accounted for using first-in, first-out basis. The costs of inventories are recorded as expenditures during the year, and are adjusted to reflect year-end physical inventories.

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	8 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 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 into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2008-09 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following three fiscal years. During the three-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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 Liberty County Property Appraiser, and property taxes are collected by the Liberty County Tax Collector.

The Board adopted the 2011 tax levy on September 16, 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 Liberty County Tax Collector at fiscal year-end but not yet remitted to the District.

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

Capital Outlay Surtax. In August 2011, the voters of Liberty County (County) approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2012, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

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.

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 2,202,821.28
Fund B	5.73 Year Average	43,665.17
Debt Service Accounts	6 Months	6,430.90
Total Investments, Reporting Entity		<u>\$ 2,252,917.35</u>

Notes: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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.

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

➤ 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’s investment policy limits investments to bids from qualified depositories, certificates of deposit, time deposits, securities of the United States Government, State-managed cooperative investment plans, or other forms of authorized investments in accordance with Section 218.415, Florida Statutes.

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.

The District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 890,603.83	\$	\$	\$ 890,603.83
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,905,892.97			1,905,892.97
Buildings and Fixed Equipment	33,357,010.25		25,000.00	33,332,010.25
Furniture, Fixtures, and Equipment	2,337,662.18	325,410.30	155,142.52	2,507,929.96
Motor Vehicles	1,445,560.81	442,956.98	145,101.90	1,743,415.89
Total Capital Assets Being Depreciated	39,046,126.21	768,367.28	325,244.42	39,489,249.07
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,145,680.30	42,414.48		1,188,094.78
Buildings and Fixed Equipment	7,211,549.51	645,874.72	16,458.35	7,840,965.88
Furniture, Fixtures, and Equipment	1,491,831.42	268,761.47	150,189.09	1,610,403.80
Motor Vehicles	1,153,062.69	77,442.18	145,101.90	1,085,402.97
Total Accumulated Depreciation	11,002,123.92	1,034,492.85	311,749.34	11,724,867.43
Total Capital Assets Being Depreciated, Net	28,044,002.29	(266,125.57)	13,495.08	27,764,381.64
Governmental Activities Capital Assets, Net	\$ 28,934,606.12	\$ (266,125.57)	\$ 13,495.08	\$ 28,654,985.47

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 77,442.18
Unallocated	957,050.67
Total Depreciation Expense - Governmental Activities	\$ 1,034,492.85

5. INSTALLMENT-PURCHASE PAYABLE

The class and amount of property being acquired under installment-purchase is as follows:

	Asset Balance
Motor Vehicles	\$ 318,003

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	\$ 49,184.81	\$ 41,838.19	\$ 7,346.62
2014	49,184.81	42,981.60	6,203.21
2015	49,184.81	44,156.25	5,028.56
2016	49,184.81	45,363.02	3,821.79
2017	49,184.81	46,602.76	2,582.05
2018	49,184.81	47,876.37	1,308.44
Total Minimum Installment-Purchase Payments	\$ 295,108.86	\$ 268,818.19	\$ 26,290.67

The imputed interest rate is 2.733 percent.

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

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A, Refunding	\$ 25,000	5.0	2016
Series 2005B, Refunding	65,000	5.0	2018
Series 2009A, Refunding	110,000	4.0 - 5.0	2019
Total Bonds Payable	\$ 200,000		

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 34,900	\$ 25,000	\$ 9,900
2014	33,750	25,000	8,750
2015	37,500	30,000	7,500
2016	31,000	25,000	6,000
2017	34,750	30,000	4,750
2018-2019	69,750	65,000	4,750
Total State School Bonds	\$ 241,650	\$ 200,000	\$ 41,650

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

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 225,000.00	\$	\$ 25,000.00	\$ 200,000.00	\$25,000.00
Installment-Purchase Payable		318,003.00	49,184.81	268,818.19	41,838.19
Special Public Education Capital Outlay Advance Payable	354,574.31		354,574.31		
Compensated Absences Payable	752,194.91	85,291.61	81,631.68	755,854.84	3,306.48
Other Postemployment Benefits Payable	477,638.00	227,778.00	63,484.00	641,932.00	
Total Governmental Activities	\$1,809,407.22	\$ 631,072.61	\$ 573,874.80	\$1,866,605.03	\$70,144.67

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

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 42,448.03	\$ 150,681.92
Special Revenue:		
Other	4,217.91	
Federal Economic Stimulus		9,572.15
Debt Service:		
Other	239,333.64	
Capital Projects:		
Local Capital Improvement	30,515.95	219,416.89
Nonmajor Governmental	115,948.06	52,792.63
Total	\$ 432,463.59	\$ 432,463.59

These interfund amounts represent Special Revenue – Federal Economic Stimulus and Special Revenue – Food Service amounts owed to the General Fund for reimbursement of expenditures; amounts owed by General Fund to Capital Projects - Public Education Capital Outlay (PECO) for repayment of the PECO Special Facilities allocation and amounts owed to Capital Projects – Local Capital Improvement for local capital outlay property taxes; and amounts owed by Capital Projects – Local Capital Improvement and Capital Projects - PECO to Debt Service – Other for repayment of the PECO Special Facilities allocation. All amounts are expected to be paid in one year.

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
Debt Service:		
Other	\$ 239,333.64	\$
Capital Projects:		
Local Capital Improvement		219,416.89
Nonmajor Governmental		19,916.75
Total	\$ 239,333.64	\$ 239,333.64

The principal purposes of the interfund transfers are to provide for the repayment of PECO Special Facilities allocation in Debt Service – Other.

9. FUND BALANCE REPORTING

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

- Nonspendable

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

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

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

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

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

➤ Unassigned

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 6,459,688.00
Categorical Educational Program - Class Size Reduction	1,319,133.00
Workforce Development Program	90,033.00
School Recognition	86,826.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	36,150.67
Food Service Supplement	10,963.00
Discretionary Lottery Funds	4,462.00
Mobile Home License Tax	4,056.96
Miscellaneous	<u>480,634.42</u>
 Total	 <u><u>\$ 8,491,947.05</u></u>

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

11. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.382	\$ 1,331,528
Prior Period Funding Adjustment	0.170	42,059
Basic Discretionary Local Effort	0.748	185,058
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>371,106</u>
 Total	 <u><u>7.800</u></u>	 <u><u>\$ 1,929,751</u></u>

**LIBERTY COUNTY
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, Elected County Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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

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
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 \$742,916.22, \$791,558.45, and \$513,101.51, respectively, which were equal to the required contributions for each fiscal year.

There were 13 District participants in the Investment Plan during the 2011-12 fiscal year. The District’s contributions, including employee contributions, to the Investment Plan totaled \$36,477.97, which was equal to the required contribution for the 2011-12 fiscal year.

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

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical, prescription drug coverages, and life insurance benefits. 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. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The amount of contributions required for retiree dependent coverage may change from time to time. Currently, the Board contributes \$2 per year of service for

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

each retiree toward their monthly insurance premium with a maximum of \$60. 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 Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 10 retirees received other postemployment benefits. The District's contribution to the OPEB obligation is the implicit subsidy for the retirees, which was \$63,484. The OPEB Plan members receiving benefits contributed \$76,318, through their required contributions of \$359 to \$553 per month for retiree-only coverage and from \$721 to \$1,155 for retiree and spouse coverage, depending on the health plan selected.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 132,613
Amortization of Unfunded Actuarial Accrued Liability	<u>93,764</u>
Annual Required Contribution	226,377
Interest on Net OPEB Obligation	17,911
Adjustment to Annual Required Contribution	<u>(16,510)</u>
Annual OPEB Cost (Expense)	227,778
Contribution Toward the OPEB Cost	<u>(63,484)</u>
Increase in Net OPEB Obligation	164,294
Net OPEB Obligation, Beginning of Year	<u>477,638</u>
Net OPEB Obligation, End of Year	<u><u>\$ 641,932</u></u>

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 261,883	38.67%	\$ 324,747
2010-11	215,070	28.91%	477,638
2011-12	227,778	27.87%	641,932

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$2,560,739, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,560,739 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$4,414,868, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 58 percent.

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

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

The District’s OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District’s 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent beginning October 1, 2011, reduced to an ultimate rate of 5 percent after 8 years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 26 years.

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

14. RISK MANAGEMENT PROGRAMS

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

The District obtains its employee group health insurance through an HMO (Health Maintenance Organization).

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**LIBERTY 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	\$ 60,000.00	\$ 60,000.00	\$ 55,058.98	\$ (4,941.02)
Federal Through State and Local	500,000.00	500,000.00	414,620.22	(85,379.78)
State	8,443,166.00	8,476,946.42	8,437,464.51	(39,481.91)
Local:				
Property Taxes	1,498,539.00	1,498,539.00	1,504,379.32	5,840.32
Miscellaneous	266,200.00	271,139.25	370,168.54	99,029.29
Total Local Revenues	<u>1,764,739.00</u>	<u>1,769,678.25</u>	<u>1,874,547.86</u>	<u>104,869.61</u>
Total Revenues	<u>10,767,905.00</u>	<u>10,806,624.67</u>	<u>10,781,691.57</u>	<u>(24,933.10)</u>
Expenditures				
Current - Education:				
Instruction	6,203,865.59	6,310,471.15	6,073,081.13	237,390.02
Pupil Personnel Services	241,165.87	236,705.33	236,681.28	24.05
Instructional Media Services	125,622.43	107,883.56	102,085.74	5,797.82
Instruction and Curriculum Development Services	295,288.55	282,341.64	239,616.46	42,725.18
Instructional Staff Training Services	71,606.64	69,058.10	66,667.60	2,390.50
Instruction Related Technology	177,164.95	178,936.06	174,441.32	4,494.74
School Board	375,438.26	346,184.27	340,252.07	5,932.20
General Administration	293,384.21	289,666.72	284,359.70	5,307.02
School Administration	503,416.76	482,465.04	481,792.52	672.52
Facilities Acquisition and Construction	60,810.64	39,781.73	39,427.78	353.95
Fiscal Services	281,679.66	284,017.21	283,606.47	410.74
Food Services		190.54	190.54	
Pupil Transportation Services	673,788.99	624,417.05	610,146.57	14,270.48
Operation of Plant	1,392,664.89	1,353,944.71	1,333,583.63	20,361.08
Maintenance of Plant	172,920.55	198,770.72	197,001.71	1,769.01
Administrative Technology Services	299,900.45	375,683.31	332,773.31	42,910.00
Community Services	143,758.62	127,201.00	117,531.75	9,669.25
Fixed Capital Outlay:				
Other Capital Outlay		376,209.38	376,209.38	
Debt Service:				
Principal		49,184.81	49,184.81	
Total Expenditures	<u>11,312,477.06</u>	<u>11,733,112.33</u>	<u>11,338,633.77</u>	<u>394,478.56</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(544,572.06)</u>	<u>(926,487.66)</u>	<u>(556,942.20)</u>	<u>369,545.46</u>
Other Financing Sources				
Transfers In	32,931.00			
Loans Incurred		318,003.00	318,003.00	
Insurance Loss Recoveries			17,780.68	17,780.68
Total Other Financing Sources	<u>32,931.00</u>	<u>318,003.00</u>	<u>335,783.68</u>	<u>17,780.68</u>
Net Change in Fund Balances	<u>(511,641.06)</u>	<u>(608,484.66)</u>	<u>(221,158.52)</u>	<u>387,326.14</u>
Fund Balances, Beginning	<u>2,359,228.16</u>	<u>2,359,228.16</u>	<u>2,360,757.53</u>	<u>1,529.37</u>
Fund Balances, Ending	<u>\$ 1,847,587.10</u>	<u>\$ 1,750,743.50</u>	<u>\$ 2,139,599.01</u>	<u>\$ 388,855.51</u>

Special Revenue - Other 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)
\$ 1,906,914.54	\$ 2,223,891.59	\$ 1,849,104.35	\$ (374,787.24)	\$ 191,779.40	\$ 215,542.20	\$ 98,733.98	\$ (116,808.22)
<u>1,906,914.54</u>	<u>2,223,891.59</u>	<u>1,849,104.35</u>	<u>(374,787.24)</u>	<u>191,779.40</u>	<u>215,542.20</u>	<u>98,733.98</u>	<u>(116,808.22)</u>
872,982.87	1,040,554.31	909,988.37	130,565.94	53,705.53	76,086.02	35,431.49	40,654.53
79,739.03	73,232.21	67,615.41	5,616.80				
1,000.00	7,998.73	6,935.60	1,063.13				
176,169.83	194,005.61	180,135.56	13,870.05				
156,487.92	145,744.91	77,972.23	67,772.68	77,226.67	58,982.18	24,165.65	34,816.53
3,250.00	10,386.30	5,976.30	4,410.00				
90,807.97	76,926.30	66,024.49	10,901.81				
1,000.00	441.17		441.17				
14,430.22	23,993.20	6,580.46	17,412.74				
				16,000.00	22,347.20		22,347.20
				44,847.20	43,376.80	24,386.84	18,989.96
511,046.70	525,878.18	403,145.26	122,732.92				
	124,730.67	124,730.67			14,750.00	14,750.00	
<u>1,906,914.54</u>	<u>2,223,891.59</u>	<u>1,849,104.35</u>	<u>374,787.24</u>	<u>191,779.40</u>	<u>215,542.20</u>	<u>98,733.98</u>	<u>116,808.22</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**LIBERTY 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) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 3,079,886	\$ 3,079,886	0.0%	\$ 4,537,459	67.88%
October 1, 2010	0	2,560,739	2,560,739	0.0%	4,414,868	58.00%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LIBERTY 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	\$ 45,772.29	\$
National School Lunch Program	10.555	300, 350	129,448.64	
Summer Food Service Program for Children	10.559	323	12,241.15	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	73,637.13	
National School Lunch Program	10.555 (2)(A)	300, 350	233,703.50	
Summer Food Service Program for Children	10.559	323	14,899.52	
Total Child Nutrition Cluster			509,702.23	
Florida Department of Health:				
Child and Adult Care Food Program	10.558	1-1765	41,667.80	
Florida Department of Financial Services:				
School and Roads - Grants to States	10.665	None	296,362.82	23,709.03
Florida Department of Education:				
Child Nutrition Discretionary Grants Limited Availability	10.579	371	30,075.72	
Total United States Department of Agriculture			877,808.57	23,709.03
United States Department of Energy:				
Indirect:				
Florida Solar Energy Center:				
ARRA - State Energy Program	81.041 (2)(B)	None	14,935.32	
United States Department of Education:				
Indirect:				
Florida Department of Education:				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	667,222.52	20,000.00
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	13,610.07	
Total Title I, Part A Cluster			680,832.59	20,000.00
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	419,564.44	
Special Education - Preschool Grants	84.173	267	20,278.36	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	11,875.25	
Total Special Education Cluster			451,718.05	
Adult Education - Basic Grants to States	84.002	191	35,902.66	
Career and Technical Education - Basic Grants to States	84.048	161	114,012.10	50,000.00
Even Start - State Educational Agencies	84.213	219	142,512.32	
Twenty-First Century Community Learning Centers	84.287	244	295,616.28	
Education Technology State Grants	84.318	122	81,785.81	
Transition to Teaching	84.350	227	29,038.91	
Improving Teacher Quality State Grants	84.367	224	43,034.65	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL1, RD2	69,348.66	
Education Jobs Fund	84.410	541	3,900.00	
Total United States Department of Education			1,947,702.03	70,000.00
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	NA	49,574.56	
Total Expenditures of Federal Awards			\$ 2,890,020.48	\$ 93,709.03

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:
 (A) National School Lunch Program - Includes \$26,219.08 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
 (B) State Energy Program - Includes \$14,935.32 representing the Federally-paid portion of solar panels and related site preparation and installation costs.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Liberty 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.

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. However, we identified a certain deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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
March 20, 2013



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

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
March 20, 2013

**LIBERTY 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)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be a material weakness(es)? None reported

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); and Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District’s 2011-12 fiscal year annual financial report, as submitted to the Florida Department of Education (FDOE) and presented for audit, disclosed that financial reporting procedures could be improved, as follows:

- District personnel miscalculated the tax levy proceeds attributed to ad valorem taxes, resulting in overstatements of General Fund assets and local property tax revenue and understatements of Capital Projects - Local Capital Improvement Fund assets and local property tax revenue of \$30,516 each. Incorrectly reporting ad valorem tax levy proceeds in the General Fund increases the risk that the District may violate expenditure restrictions governing the use of these proceeds.
- Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2008-09 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account. As a condition for receiving these funds, other construction funding was pledged for the special facility construction project for the following three fiscal years, and reductions to the special allocations were required to the extent of collections from pledged sources. However, District personnel inadvertently overreported amounts due to the FDOE for the pledged resources at June 30, 2012, resulting in overstatements of expenditures and related payables of \$115,241 each in the Debt Service – Other Fund. Reporting errors such as these may cause financial statement users to incorrectly assess the District’s special allocations and collections from pledged sources.

We extended our audit procedures to determine the adjustments necessary to properly report the accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting.

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

ADDITIONAL MATTERS

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school 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 that contains manual signatures of 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.

Although the District did not make EFTs for vendor payments, District personnel maintained documentation signed by initiators and authorizers of EFTs for payroll-related activity such as direct deposit of employee pay and remittance of Federal taxes and other payroll withholdings and interbank transfers. According to District records, cash of \$659,265 was available for electronic funds transfer at June 30, 2012. The District established three EFT agreements with one bank that identified one payroll clerk on three agreements, another payroll clerk on two agreements, and the director of finance on two agreements as authorized to initiate transfers, and the initiators and authorizers of EFTs were different employees.

The District used informal processes such as oral instructions and written documentation of the transfers to monitor and control EFTs and, in June 2012, the Board adopted written policies prescribing the accounting and control procedures of EFTs. However, the EFT policy did not provide for the use of electronic signatures, contrary to Chapter 668, Florida Statutes. Also, responses to inquiries and review of District records disclosed that the fiscal assistant used the finance officer's password to initiate EFTs, although the bank agreement did not identify and authorize the fiscal assistant to perform this procedure. As the fiscal assistant recorded journal entries, reconciled certain bank accounts, and initiated EFTs, District procedures did not provide for an appropriate separation of duties.

Further, the bank agreements lacked the required signatures, contrary to SBE Rule 6A-1.0012, FAC. One agreement did not include manual signatures of the Board Chair, Superintendent, and those employees authorized to initiate EFTs, and another agreement lacked manual signatures of employees authorized to initiate EFTs. The remaining agreement, established for payroll deduction EFTs, lacked manual signatures of the Board Chair and Superintendent. District records also disclosed EFTs for District purposes that were from three bank accounts that were not authorized by any of the three bank agreements, and District personnel were unaware of whether other bank agreements existed to authorize the EFTs.

District personnel indicated that controls are in place, such as supervisory review and approval of EFTs, monthly journal entry reports, and bank reconciliations, to compensate, in part, for the control deficiencies. While our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy addressing the use of electronic signatures, absence of required signatures on bank agreements, and allowing EFTs that are not identified on bank agreements increases the risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-079.

Recommendation: The Board should enhance its written policies and procedures related to EFTs, including the use of electronic signatures. Such policies and procedures should ensure that the duties of those responsible for EFTs, journal entries, and bank reconciliations are properly separated and EFT agreements contain required signatures and identify accounts authorized for EFTs.

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

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

District personnel indicated that the District is continuing to work toward developing procedures related to differentiated pay; however, as of January 2013, the procedures were not finalized. Without a Board-established documented process for identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors were consistently considered and applied. Similar findings were noted in our report Nos. 2011-121 and 2012-079.

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

Finding No. 4: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine the propriety of payments for contractual services, we tested 33 payments totaling \$851,616 for nine contracts and noted controls over two contracts could be enhanced, as follows:

- In May 2010, the Board approved a contract with a company to recruit, train, manage, and direct District employees to perform custodial services, and furnish necessary cleaning supplies and equipment. The contract also allowed the company to replace terminated District custodians with company employees at negotiated salaries and benefits, resulting in adjustments to the contract price.

Our tests of 12 payments totaling \$204,400 to the company disclosed monthly charges totaling \$61,700 for company employees that replaced District custodians. However, the District did not maintain time records, such as sign-in, sign-out timesheets, to evidence that District personnel with direct knowledge of the company's custodial services confirmed receipt of the services. Also, District records did not evidence that

the Board approved the monthly charges totaling \$61,700. District personnel indicated that nobody was assigned the responsibility to monitor and approve the contract payments and they were unaware of the basis for the charges totaling \$61,700. Subsequent to our inquiry in January 2013, District personnel obtained timesheets from the company to support these charges. Without time records to confirm receipt of the custodial services and Board approval of the amounts paid for these services, there is an increased risk of overpayments without timely detection.

- In June 2009, the Board entered into an agreement with a food service management company (FSMC) to manage and operate certain aspects of the District's food service program. The agreement requires the District to reimburse the FSMC based on an annually adjusted and approved fixed meal price, which includes all management fees, certain salaries, purchased food and supplies, and other costs. The agreement provides that the monthly bill will be reduced monthly by the value of USDA-donated commodities received and provides for the District to prepare a year-end reconciliation to ensure that proper credit was received for the full value of USDA-donated commodities received by the FSMC. The agreement also limits the FSMC food services to District purposes, and requires Board approval before the FSMC provides services using District facilities for other organizations. Payments to the FSMC during the 2011-12 fiscal year totaled \$604,595; however, controls over the FSMC contract could be enhanced, as follows:
 - Our test of 14 payments totaling \$577,752 to the FSMC disclosed that a District food service secretary typically reconciled meal counts and ala carte collections from the FSMC invoice to meal service records generated from the point-of-sale system, verified that the fixed meal price used was in agreement with the contract, and checked the mathematical accuracy of the bill. However, District records for 3 of the payments totaling \$168,091 did not evidence that District personnel reconciled, verified, and checked the information prior to payment. We extended our audit procedures to confirm the validity of the payments; however, without effective procedures to confirm that services are received prior to payment, there is an increased risk of overpayments without timely detection.
 - The District paid the FSMC for catering services totaling \$16,679; however, these payments included \$12,000 for organizations unrelated to District activities and District records did not evidence preapproval by the Board and that the organizations or the FSMC provided any insurance coverage for losses or damages to District property. Although the food service director approved the payments after the catering services were provided and the organizations generally paid the District for the services, payments totaling \$800 remained uncollected from certain organizations as of January 2013. Use of District facilities without preapproval by the Board and without appropriate insurance coverage subjects the District to potential uninsured losses.
 - The monthly invoices from the FSMC included credits of \$25,421 to reduce the amount the District owed to the FSMC by the value of the USDA-donated commodities received each month; however, District records did not evidence a reconciliation of the credits on the invoices with commodities received by the District. We extended our audit procedures and determined that the credits generally agreed with the District's commodities records; however, our procedures cannot substitute for management's responsibility to ensure the accuracy of payments to the FSMC. Without timely reconciliations of FSMC charges to District commodity records, there is an increased risk of overpayments without timely detection.

Recommendation: The District should enhance its procedures to ensure that payments are in accordance with contract terms and conditions, services are appropriately received prior to payment, services are preapproved by the Board, and facility use is properly insured. The District should also take action to collect the \$800 for catering services due to the District.

Finding No. 5: Sunshine Law

Section 1001.42(1), Florida Statutes, provides that the minutes of each Board meeting shall be reviewed, corrected if necessary, and approved at the next regular meeting or at an intervening special meeting if the Board desires.

Section 286.011(2), Florida Statutes, requires that all minutes of a Board be promptly recorded and open to public inspection. The *GOVERNMENT-IN-THE-SUNSHINE MANUAL* prepared by the Office of the Attorney General indicates, in Part 1, Section C.1., that the Sunshine Law extends to any gathering, whether formal or casual, of two or more members of the same board or commission to discuss some matter on which foreseeable action may be taken by the public board or commission. In addition, the *GOVERNMENT-IN-THE-SUNSHINE MANUAL*, Section D, indicates that the Sunshine Law specifically applies to informal discussions and workshops and refers to the Florida Supreme Court's statement that "collective inquiry and discussion stages" are embraced within the terms of the statute.

Discussions during Board meetings are recorded on tape and actions taken at meetings are typically documented in the Board minutes and displayed on the District's Web site. However, the District did not maintain minutes for nine workshop meetings held during the 2011-12 fiscal year. District personnel indicated they were unaware that minutes of workshop meetings needed to be maintained. When Board meetings are not properly maintained, the actions taken at the meetings are not clearly documented and available for public inspection.

Recommendation: The Board and Superintendent should enhance procedures to ensure that Board meetings subject to the provisions of the Sunshine Law are prepared, reviewed by the Board, corrected if necessary, and approved.

Finding No. 6: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 12,027 adult general education instructional contact hours for 41 students enrolled in 62 adult general education classes. To determine the propriety of hours reported, we tested 3,647 hours reported for 12 students enrolled in 18 classes and noted that the District inadvertently overreported 427 hours for 1 student enrolled in two classes. Also, the District recorded 12,322 total instructional contact hours for the fall 2011 semester, and our tests of 1,788 of these hours for 5 students enrolled in 6 classes disclosed that the 1,788 hours were not reported to the FDOE. Our expanded tests disclosed that, due to errors, none of the 12,322 instructional contact hours for the fall 2011 semester were reported to the FDOE. Subsequent to our inquiry, these hours were reported in December 2012.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the data be submitted correctly.

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of any other adult general education hours misreported and contact the FDOE for proper resolution.

Finding No. 7: Information Technology – Written Policies and Procedures

Each information technology (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.

Due to staffing constraints, the District lacked written policies and procedures for monitoring the assignment and use of administrative rights on end-user workstations; and periodically reviewing user access privileges. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management’s expectations. Similar findings were noted in our report Nos. 2011-121 and 2012-079.

Recommendation: The District should establish written policies and procedures to document management’s expectations for monitoring workstation administrative rights and periodically reviewing user access privileges.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-079. The following table provides information on the District’s recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Report and Finding Numbers
2	Audit Report No. 2012-079, Finding No. 1	NA
3	Audit Report No. 2012-079, Finding No. 3	Audit Report No. 2011-121, Finding No. 2
7	Audit Report No. 2012-079, Finding No. 4	Audit Report No. 2011-121, Finding No. 4

NA – Not Applicable

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*LIBERTY 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
2008-107 (1)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Procurement	District procedures did not ensure that cost reimbursements to the food service management company were limited to the maximum allowable costs and that food purchase rebates were properly received pursuant to the contract, resulting in questioned costs of \$132,000.	Corrected.	The grantor did not require the District to restore questioned costs.
2010-099 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility - Title I Allocations	District procedures could be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and used at, schools with the greatest need. Allocation errors resulted in questioned costs of \$154,460.43.	Corrected.	The grantor did not require the District to restore questioned costs.
2010-099 (2)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Costs/ Cost Principles - Compensation of Personnel Services	Contrary to the Special Education grant award, 11 employees were paid from the grant for unallowable services, resulting in questioned costs, totaling \$32,075.42.	Corrected.	The grantor did not require the District to restore questioned costs.
2011-121 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, Earmarking - Maintenance of Effort	District records did not evidence that the District met the maintenance of effort requirement, resulting in questioned costs of \$543,718.	Partially corrected.	The grantor instructed the District to restore \$89,498.79 of the questioned costs to the Special Education Cluster. The amount was restored on November 5, 2012.
2012-079 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Matching, Level of Effort, Earmarking - Maintenance of Effort	District records did not evidence that the District met the maintenance of effort requirement, resulting in a potential reduction in future Title I allocations.	Corrected.	The grantor determined that the District met the maintenance of effort requirement, and no further action was required of the District.

EXHIBIT A
MANAGEMENT'S RESPONSE



THE SCHOOL BOARD OF LIBERTY COUNTY
Gloria G. Uzzell Superintendent of Schools

Post Office Box 429
Bristol, Florida 32321-0429

Phone (850) 643-2275
Fax (850) 643-2533

March 14, 2013

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

Dear Mr. Martin,

Pursuant to the provisions of Section 11.454 (4) (d), F.S., I am responding to the findings cited in the audit of Liberty County School Board for the fiscal year ending June 30, 2012.

While I was not personally the Superintendent of Schools during the period which was audited by your office, I am committed to addressing all audit findings and will ensure that proper procedures and/or policies are implemented in order to avoid similar findings in the future.

Our responses are as follows:

Finding No. 1: Financial Reporting

The District is updating procedures to ensure financial statement accounts and transactions are properly reported.

Finding No. 2: Electronic Funds Transfers

The District has realigned the structural organization and duties of the finance office. Duties are clearly defined and separated. All electronic funds transfer agreements have been updated with the required signatures, and each account is identified appropriately.

The Board is in the process of updating policies and procedures to include the use of electronic signatures.

Finding No. 3: Compensation and Salary Schedules

The District is in the process of implementing formal policies and procedures to ensure that a portion of each instructional employee's compensation is based on performance. Differentiated pay of instructional personnel will be recommended based upon such areas as school demographics, critical shortage areas, extra teaching periods, difficulty of job performance, and additional duties and

District I	District II	District III	District IV	District V
Logan E. Kever	Tina Tharpe	Darrel L. Hayes	B. Kyle Peddie	Roger W. Reddick

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

responsibilities. Both performance and differentiated pay will be brought to negotiations this Spring, reflected in salary schedules, and implemented upon agreement of the District and the Instructional Personnel Bargaining Unit.

Finding No. 4: Contractual Services

The District is in the process of enhancing its procedures to ensure that services are properly received prior to payment, payments are in accordance with contract terms and conditions, services are preapproved by the Board, and facility use is properly insured. The District will take appropriate measures to collect an outstanding balance of \$800 for catering services due.

Finding No. 5: Sunshine Law

The District has implemented procedures to address this issue. As of November 1, 2012, all School Board meetings and workshops have been promptly recorded, reviewed by the Board, corrected (if necessary), and made available for public inspection. We will continue to perform these procedures in order to comply with the provisions of the SUNSHINE LAW.

Finding No. 6: Adult General Education Classes

The District will enhance its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the DOE. The District will also determine the extent of any other adult general education hours misreported and resolve properly with the DOE.

Finding No. 7: Information Technology - Written Policies and Procedures

The District has designated personnel to develop well-documented policies and procedures to describe the scope of the function and its activities, as well as provide benchmarks against which compliance can be measured and controlled effectively. Assignment and use of administrative rights on end-user workstations is being controlled by "Exit Procedures" and checklists for employees who leave our District in order to ensure that termination of access is made within a timely manner.

Contact Information:

If you have additional questions or concerns regarding this audit response, please contact Paula Parrish, Finance Officer for Liberty County School Board at (850) 643-2275, ext. 225, or via e-mail at: Paula.Parrish@lcsbonline.org.

Respectfully Yours,



Gloria Gay Uzzell
Liberty County Superintendent of Schools