

UNION COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Allen Parrish, Chair to 11-21-11	1
Alvin Griffis, Vice Chair to 11-21-11	
Chair from 11-22-11	2
Curtis Clyatt, Vice Chair from 11-22-11	3
Becky Raulerson	4
Terra Johnson	5

Carlton Faulk, Superintendent

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

The audit team leader was Denita K. Tyre, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**UNION COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, as summarized below. However, these significant deficiencies are not considered to be material weaknesses.

SIGNIFICANT DEFICIENCIES

Finding No. 1: Financial reporting procedures could be improved to ensure that cash balances and expenditure transactions are properly reported and expenditures are limited to amounts budgeted as required.

Finding No. 2: The District needed to enhance procedures to ensure bank account reconciliations are properly and timely completed, reviewed, and approved.

The results of our test 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. 3: Controls over electronic funds transfers could be enhanced.

Finding No. 4: District records did not always evidence independent review and approval of cash receipt journal entries.

Finding No. 5: The District retained \$341,000 of 2007-08 fiscal year Public Education Capital Outlay appropriations that were subject to reversion to the State.

Finding No. 6: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 7: The District did not have a written information technology (IT) security incident response plan.

Finding No. 8: The District's IT security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and the Special Education Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency as summarized below.

Federal Awards Finding No. 1: Improvements were needed in District procedures for reporting program information and related expenditures on the Schedule of Expenditures of Federal Awards.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;

- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-097.

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
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union County District School Board, as of and for the fiscal year ended June 30, 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 25 percent of the assets and 95 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Union County District School Board as of June 30, 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 Union County District School Board's internal control over financial reporting and on our tests of its compliance with

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (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 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Union County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$1,913,420.63, which represents an 8.3 percent decrease from the 2010-11 fiscal year.
- General revenues total \$16,500,348.83, or 90.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$1,719,849.89, or 9.4 percent of all revenues.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totals \$756,409.81 at June 30, 2012, or 4.7 percent of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal

requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Food Service Fund, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, and Capital Projects – Public Education Capital Outlay 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 a private-purpose trust fund to account for scholarship funds established by private donors.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 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	\$ 3,563,293.68	\$ 5,267,018.52
Capital Assets	21,787,439.27	22,680,532.37
Total Assets	25,350,732.95	27,947,550.89
Long-Term Liabilities	4,090,239.91	4,251,598.25
Other Liabilities	127,812.85	649,851.82
Total Liabilities	4,218,052.76	4,901,450.07
Net Assets:		
Invested in Capital Assets - Net of Related Debt	19,972,439.27	21,378,905.56
Restricted	2,667,835.86	2,626,664.87
Unrestricted Deficit	(1,507,594.94)	(959,469.61)
Total Net Assets	\$ 21,132,680.19	\$ 23,046,100.82

The largest portion of the District's net assets (94.5 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$767,644.97 (after excluding liabilities of \$1,273,366.91 and \$1,001,873 for compensated absences and other postemployment benefits, respectively) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 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	\$ 482,015.81	\$ 562,723.85
Operating Grants and Contributions	1,160,998.46	1,200,956.86
Capital Grants and Contributions	76,835.62	248,129.25
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,589,952.96	1,623,475.35
Property Taxes, Levied for Capital Projects	364,430.27	374,323.43
Grants and Contributions Not Restricted to Specific Programs	14,124,603.24	15,809,160.66
Unrestricted Investment Earnings	9,592.48	14,716.46
Miscellaneous	411,769.88	603,496.39
Total Revenues	18,220,198.72	20,436,982.25
Functions/Program Expenses:		
Instruction	10,955,900.39	11,543,723.98
Pupil Personnel Services	819,271.94	875,050.08
Instructional Media Services	200,310.63	200,153.78
Instruction and Curriculum Development Services	199,531.62	245,408.50
Instructional Staff Training Services	394,595.83	353,788.93
Instruction Related Technology	148,316.77	127,681.68
School Board	214,584.83	244,710.30
General Administration	278,355.73	336,909.58
School Administration	787,793.21	820,545.02
Facilities Acquisition and Construction	382,533.72	195,147.88
Fiscal Services	406,511.27	410,335.11
Food Services	989,442.62	970,085.86
Central Services	134,225.54	280,683.14
Pupil Transportation Services	840,659.67	833,938.83
Operation of Plant	1,518,460.34	1,542,066.92
Maintenance of Plant	429,580.48	485,502.53
Administrative Technology Services	193,066.86	152,173.62
Community Services	238,970.11	270,051.92
Unallocated Interest on Long-Term Debt	40,050.04	43,795.59
Unallocated Depreciation Expense	961,457.75	1,034,612.54
Loss on Disposal of Assets		39,649.00
Total Functions/Program Expenses	20,133,619.35	21,006,014.79
Decrease in Net Assets	\$ (1,913,420.63)	\$ (569,032.54)

The largest revenue source is the State of Florida (71.1 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Total revenues decreased by \$2,216,783.53 (10.8 percent), primarily due to a reduction of Federal stimulus funding and State FEFP revenue.

Instruction expenses represent 54.4 percent of total governmental expenses for the 2011-12 fiscal year. Instruction expenses decreased by \$587,823.59, or 5.1 percent, from the previous fiscal year due mainly to a reduction in staffing levels, resulting in a decrease in salaries and related benefits and a reduction in employer Florida Retirement System contribution costs.

Facilities acquisition and construction expenses increased by \$187,385.84 (96 percent) compared to the previous fiscal year due to the emergency purchase of a new boiler system and a liquefied petroleum gas repair project.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

General Fund: This fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance is \$756,409.81, while the total fund balance decreased by \$720,061.56 to \$1,863,691.57 during the fiscal year. Key factors contributing to the change in fund balance and other analyses are as follows:

- A decrease in revenue of \$1,202,322.72 (84.9 percent) in the Special Revenue – Federal Economic Stimulus Fund resulted in the General Fund assuming expenditures that were funded in prior fiscal years by Federal economic stimulus programs.
- The excess of expenditures over revenues was \$932,582.24 compared to the prior fiscal year, in which revenues exceeded expenditures by \$149,387.12. This change is attributable, in part, to the aforementioned reduction of revenues in the Special Revenue – Federal Economic Stimulus Fund.

Special Revenue – Food Service Fund: This fund is used to account for food service operation resources, and had total revenues and expenditures of \$976,195.53 and \$991,956.73, respectively, resulting in a fund balance decrease of 15,761.20 to \$499,136.18 at June 30, 2012.

Special Revenue – Other Fund: This fund had total revenues and expenditures of \$1,463,633.93 each for Federal grants administered primarily through the State cash advance system. Since Federal grant revenue is recognized to the extent that eligible expenditures have been incurred, this fund generally does not accumulate a fund balance.

Special Revenue – Federal Economic Stimulus Fund: This fund accounted for Federal stimulus money received, including Title I, Special Education, State Fiscal Stabilization Fund, and Education Jobs Fund program funds. This fund had total revenues and expenditures of \$214,575.78 each. Expenditures were primarily for costs of instruction and instruction related technology. Since Federal grant revenue is recognized to the extent that eligible expenditures have been incurred, this fund generally does not accumulate a fund balance.

Capital Projects – Public Education Capital Outlay (PECO) Fund: This fund had a fund balance of \$473,832.28, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$64,215 in the current fiscal year because no new PECO appropriations were received for the 2011-12 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times. However, there were no significant variances between original and final budget amounts or between final budget and actual amounts.

CAPITAL ASSETS AND LONG-TERM DEBT**Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2012, totals \$21,787,439.27 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. Additional information on the District's capital assets can be found in note 4 to the financial statements.

Long-Term Debt

At June 30, 2012, the District had total long-term debt outstanding of \$1,815,000, consisting of \$1,505,000 in a qualified zone academy bond lease-purchase payable and \$310,000 in bonds payable. Additional information on the District's long-term debt can be found in notes 5 through 8 to the financial statements.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 2,891,128.76
Investments	71,744.75
Due from Other Agencies	563,828.17
Inventories	36,592.00
Capital Assets:	
Nondepreciable Capital Assets	517,173.45
Depreciable Capital Assets, Net	<u>21,270,265.82</u>
TOTAL ASSETS	<u><u>\$ 25,350,732.95</u></u>
LIABILITIES	
Salaries and Benefits Payable	\$ 19,593.68
Accounts Payable	72,642.17
Deferred Revenue	35,577.00
Long-Term Liabilities:	
Portion Due Within One Year	240,012.10
Portion Due After One Year	<u>3,850,227.81</u>
Total Liabilities	<u>4,218,052.76</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	19,972,439.27
Restricted for:	
State Required Carryover Programs	1,096,046.60
Debt Service	10,951.07
Capital Projects	1,061,702.01
Food Service	499,136.18
Unrestricted	<u>(1,507,594.94)</u>
Total Net Assets	<u>21,132,680.19</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 25,350,732.95</u></u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 10,955,900.39	\$ 9,377.00	\$	\$	\$ (10,946,523.39)
Pupil Personnel Services	819,271.94				(819,271.94)
Instructional Media Services	200,310.63				(200,310.63)
Instruction and Curriculum Development Services	199,531.62				(199,531.62)
Instructional Staff Training Services	394,595.83				(394,595.83)
Instruction Related Technology	148,316.77				(148,316.77)
School Board	214,584.83				(214,584.83)
General Administration	278,355.73				(278,355.73)
School Administration	787,793.21				(787,793.21)
Facilities Acquisition and Construction	382,533.72				(382,533.72)
Fiscal Services	406,511.27				(406,511.27)
Food Services	989,442.62	279,089.07	697,106.46		(13,247.09)
Central Services	134,225.54				(134,225.54)
Pupil Transportation Services	840,659.67		463,892.00		(376,767.67)
Operation of Plant	1,518,460.34				(1,518,460.34)
Maintenance of Plant	429,580.48				(429,580.48)
Administrative Technology Services	193,066.86				(193,066.86)
Community Services	238,970.11	193,549.74			(45,420.37)
Unallocated Interest on Long-Term Debt	40,050.04			76,835.62	36,785.58
Unallocated Depreciation Expense*	961,457.75				(961,457.75)
Total Governmental Activities	\$ 20,133,619.35	\$ 482,015.81	\$ 1,160,998.46	\$ 76,835.62	(18,413,769.46)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					1,589,952.96
Property Taxes, Levied for Capital Projects					364,430.27
Grants and Contributions Not Restricted to Specific Programs					14,124,603.24
Unrestricted Investment Earnings					9,592.48
Miscellaneous					411,769.88
Total General Revenues					16,500,348.83
Change in Net Assets					(1,913,420.63)
Net Assets - Beginning					23,046,100.82
Net Assets - Ending					\$ 21,132,680.19

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

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

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 1,394,659.87	\$ 424,440.10	\$
Investments	59,338.96	887.25	
Due from Other Funds	320,957.96		
Due from Other Agencies	140,738.24	47,468.81	318,984.90
Inventories		36,592.00	
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,915,695.03</u>	<u>\$ 509,388.16</u>	<u>\$ 318,984.90</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 4,077.15	\$ 0.43	\$ 15,516.10
Accounts Payable	47,926.31	10,251.55	3,570.06
Due to Other Funds			299,898.74
Deferred Revenue			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>52,003.46</u>	<u>10,251.98</u>	<u>318,984.90</u>
Fund Balances:			
Nonspendable:			
Inventory		36,592.00	
Restricted for:			
State Required Carryover Programs	1,096,046.60		
Debt Service			
Capital Projects			
Food Service		462,544.18	
Total Restricted Fund Balance	<u>1,096,046.60</u>	<u>462,544.18</u>	
Assigned to District Purchase Obligations	<u>11,235.16</u>		
Unassigned Fund Balance	<u>756,409.81</u>		
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,863,691.57</u>	<u>499,136.18</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,915,695.03</u>	<u>\$ 509,388.16</u>	<u>\$ 318,984.90</u>

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

Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$	\$ 473,276.30	\$ 598,752.49	\$ 2,891,128.76
	555.98	10,962.56	71,744.75
			320,957.96
21,059.22	35,577.00		563,828.17
			36,592.00
<u>\$ 21,059.22</u>	<u>\$ 509,409.28</u>	<u>\$ 609,715.05</u>	<u>\$ 3,884,251.64</u>
\$	\$	\$	\$
		10,894.25	19,593.68
21,059.22			72,642.17
	35,577.00		320,957.96
			35,577.00
<u>21,059.22</u>	<u>35,577.00</u>	<u>10,894.25</u>	<u>448,770.81</u>
			36,592.00
			1,096,046.60
		10,951.07	10,951.07
	473,832.28	587,869.73	1,061,702.01
			462,544.18
	<u>473,832.28</u>	<u>598,820.80</u>	<u>2,631,243.86</u>
			11,235.16
			<u>756,409.81</u>
	<u>473,832.28</u>	<u>598,820.80</u>	<u>3,435,480.83</u>
<u>\$ 21,059.22</u>	<u>\$ 509,409.28</u>	<u>\$ 609,715.05</u>	<u>\$ 3,884,251.64</u>

UNION 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	\$ 3,435,480.83
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	21,787,439.27
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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:

QZAB Lease-Purchase Payable	\$ 1,505,000.00	
Bonds Payable	310,000.00	
Compensated Absences Payable	1,273,366.91	
Other Postemployment Benefits Payable	1,001,873.00	
	(4,090,239.91)	

Total Net Assets - Governmental Activities	\$ 21,132,680.19
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 64,627.58	\$	\$
Federal Through State and Local	14,880.50	682,811.46	1,463,633.93
State	12,858,340.85	14,295.00	
Local:			
Property Taxes	1,589,952.96		
Charges for Services - Food Service		279,089.07	
Miscellaneous	505,419.95		
Total Local Revenues	<u>2,095,372.91</u>	<u>279,089.07</u>	
Total Revenues	<u>15,033,221.84</u>	<u>976,195.53</u>	<u>1,463,633.93</u>
Expenditures			
Current - Education:			
Instruction	9,573,191.10		1,121,662.14
Pupil Personnel Services	728,381.83		89,956.16
Instructional Media Services	200,031.01		
Instruction and Curriculum Development Services	188,840.67		10,368.44
Instructional Staff Training Services	198,691.68		174,804.16
Instruction Related Technology	109,791.00		
School Board	214,377.91		
General Administration	247,042.47		30,108.62
School Administration	786,555.40		
Facilities Acquisition and Construction	22,223.28		
Fiscal Services	406,060.15		
Food Services		988,907.61	
Central Services	134,156.57		
Pupil Transportation Services	755,059.62		
Operation of Plant	1,517,919.73		
Maintenance of Plant	421,984.23		
Administrative Technology Services	192,884.17		
Community Services	238,722.18		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	1,646.73		
Other Capital Outlay	28,244.35	3,049.12	36,734.41
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>15,965,804.08</u>	<u>991,956.73</u>	<u>1,463,633.93</u>
Deficiency of Revenues Over Expenditures	<u>(932,582.24)</u>	<u>(15,761.20)</u>	
Other Financing Sources (Uses)			
Transfers In	125,824.18		
Refunding Bonds Issued			
Premium on Refunding Bonds Issued			
Payment to Refunded Bond Escrow Agent			
Insurance Loss Recoveries	86,696.50		
Transfers Out			
Total Other Financing Sources (Uses)	<u>212,520.68</u>		
Net Change in Fund Balances	<u>(720,061.56)</u>	<u>(15,761.20)</u>	
Fund Balances, Beginning	<u>2,583,753.13</u>	<u>514,897.38</u>	
Fund Balances, Ending	<u>\$ 1,863,691.57</u>	<u>\$ 499,136.18</u>	<u>\$ 0.00</u>

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

Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
214,575.78			64,627.58
		75,696.25	2,375,901.67
			12,948,332.10
		364,430.27	1,954,383.23
			279,089.07
		523.83	505,943.78
		364,954.10	2,739,416.08
214,575.78		440,650.35	18,128,277.43
97,751.53		151,279.19	10,943,883.96
			818,337.99
			200,031.01
			199,209.11
20,941.54			394,437.38
38,456.80			148,247.80
			214,377.91
958.57			278,109.66
	64,215.00	296,095.44	786,555.40
			382,533.72
			406,060.15
			988,907.61
			134,156.57
			755,059.62
			1,517,919.73
		7,037.00	429,021.23
			192,884.17
			238,722.18
			1,646.73
56,467.34		27,237.40	151,732.62
		175,000.00	175,000.00
		40,050.04	40,050.04
214,575.78	64,215.00	696,699.07	19,396,884.59
	(64,215.00)	(256,048.72)	(1,268,607.16)
			125,824.18
		80,000.00	80,000.00
		6,858.90	6,858.90
		(86,634.11)	(86,634.11)
			86,696.50
		(125,824.18)	(125,824.18)
		(125,599.39)	86,921.29
	(64,215.00)	(381,648.11)	(1,181,685.87)
	538,047.28	980,468.91	4,617,166.70
\$ 0.00	\$ 473,832.28	\$ 598,820.80	\$ 3,435,480.83

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

Net Change in Fund Balances - Governmental Funds **\$ (1,181,685.87)**

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. (893,093.10)

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

Refunding Bonds Issued	\$	(80,000.00)	
Bonds Refunded		85,000.00	
Bond Principal Repayments		50,000.00	
QZAB Lease-Purchase Repayments		125,000.00	180,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year. 125,226.34

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. (143,868.00)

Change in Net Assets - Governmental Activities **\$ (1,913,420.63)**

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

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

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 24,606.88	\$ 211,305.55
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 211,305.55
	<u> </u>	<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships	24,606.88	
	<u> </u>	
TOTAL LIABILITIES AND NET ASSETS	\$ 24,606.88	
	<u> </u>	

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

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

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	<u>\$ 35,000.00</u>
DEDUCTIONS	
Scholarship Payments	<u>16,362.50</u>
Change in Net Assets	18,637.50
Net Assets - Beginning	<u>5,969.38</u>
Net Assets - Ending	<u><u>\$ 24,606.88</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Presentation:

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

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

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

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

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

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.

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

- Special Revenue – Food Service Fund – to account for the District’s food service operation resources.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Act.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, maintenance, repairs, and site improvements.

Additionally, the District reports the following fiduciary fund types:

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

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

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

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

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

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

Deposits and Investments. Cash is considered to be cash on hand and demand deposits.

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

Investments consist of amounts placed in the State Board of Administration (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.

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

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.

**UNION 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 - 15 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums, as well as issuance costs, during the current period. The face amount of debt issued and premiums on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of 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

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

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

In a prior fiscal year, the District received a State allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

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

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

The Board adopted the 2011 tax levy on September 13, 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 Union County Tax Collector at fiscal year-end but not yet remitted to the District.

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

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

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

Expenditures Over Appropriations in Individual Funds. For the fiscal year ended June 30, 2012, expenditures exceed appropriations for the General Fund as follows:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
Current - Education:			
Instruction	\$ 9,137,357.94	\$ 9,573,191.10	\$ 435,833.16

3. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME	38 Day Average	\$ 27,555.08
Fund B	5.73 Year Average	33,238.60
Debt Service Accounts	6 Months	10,951.07
Total Investments		<u>\$ 71,744.75</u>

➤ 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

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

identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

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	\$ 517,173.45	\$	\$	\$ 517,173.45
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,229,254.84	1,646.73	2,572.70	1,228,328.87
Buildings and Fixed Equipment	32,343,874.92			32,343,874.92
Furniture, Fixtures, and Equipment	3,307,118.14	148,432.62		3,455,550.76
Motor Vehicles	1,637,550.65	3,300.00		1,640,850.65
Computer Software	328,551.52			328,551.52
Total Capital Assets Being Depreciated	38,846,350.07	153,379.35	2,572.70	38,997,156.72
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,165,937.21	49,592.57	2,572.70	1,212,957.08
Buildings and Fixed Equipment	11,541,312.89	612,897.81		12,154,210.70
Furniture, Fixtures, and Equipment	2,483,271.59	286,110.17		2,769,381.76
Motor Vehicles	1,169,983.68	94,099.03		1,264,082.71
Computer Software	322,485.78	3,772.87		326,258.65
Total Accumulated Depreciation	16,682,991.15	1,046,472.45	2,572.70	17,726,890.90
Total Capital Assets Being Depreciated, Net	22,163,358.92	(893,093.10)		21,270,265.82
Governmental Activities Capital Assets, Net	\$ 22,680,532.37	\$ (893,093.10)	\$ 0.00	\$ 21,787,439.27

**UNION 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	\$ 85,014.70
Unallocated	961,457.75
Total Depreciation Expense - Governmental Activities	<u>\$ 1,046,472.45</u>

5. QUALIFIED ZONE ACADEMY BONDS PAYABLE

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

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

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2013	\$ 149,565	\$ 130,000	\$ 19,565
2014	147,875	130,000	17,875
2015	146,185	130,000	16,185
2016	149,495	135,000	14,495
2017	147,740	135,000	12,740
2018-2022	736,985	700,000	36,985
2023	146,885	145,000	1,885
Total Minimum Lease Payments	<u>\$ 1,624,730</u>	<u>\$ 1,505,000</u>	<u>\$ 119,730</u>

**UNION 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 2005B, Refunding	\$ 230,000	5.0	2020
Series 2011A, Refunding	80,000	4.0 - 5.0	2015
Total Bonds Payable	<u>\$ 310,000</u>		

These bonds are issued by the State Board of Education on behalf of the District 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	\$ 60,183.92	\$ 45,000.00	\$ 15,183.92
2014	63,250.00	50,000.00	13,250.00
2015	60,750.00	50,000.00	10,750.00
2016	38,250.00	30,000.00	8,250.00
2017	36,750.00	30,000.00	6,750.00
2018-2020	115,500.00	105,000.00	10,500.00
Total State School Bonds	<u>\$ 374,683.92</u>	<u>\$ 310,000.00</u>	<u>\$ 64,683.92</u>

7. DEFEASED DEBT

On January 5, 2012, the State Board of Education issued \$80,000 in Capital Outlay Refunding Bonds, Series 2011A, with interest rates ranging from 4 to 5 percent, to advance-refund the District's Capital Outlay Bonds, Series 2002B. The Series 2011A bonds are being issued to advance-refund the \$85,000 principal amount of the District's Capital Outlay Bonds, Series 2002B, that mature on or after July 1, 2012. As a result, \$85,000 of the Series 2002B bonds are considered to be in-substance defeased, and the liability for these bonds has been removed from the government-wide financial statements.

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

The District's portion of the Series 2011A bonds reduced total debt service over the next three years by \$6,722 and as a result, the District obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$6,631.

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
QZAB Lease-Purchase Payable	\$ 1,630,000.00	\$	\$ 125,000.00	\$ 1,505,000.00	\$ 130,000.00
Bonds Payable	365,000.00	80,000.00	135,000.00	310,000.00	45,000.00
Compensated Absences Payable	1,398,593.25	60,215.60	185,441.94	1,273,366.91	65,012.10
Other Postemployment Benefits Payable	858,005.00	271,908.00	128,040.00	1,001,873.00	
Total Governmental Activities	<u>\$ 4,251,598.25</u>	<u>\$ 412,123.60</u>	<u>\$ 573,481.94</u>	<u>\$ 4,090,239.91</u>	<u>\$ 240,012.10</u>

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 320,957.96	\$
Special Revenue:		
Other		299,898.74
Federal Economic Stimulus		21,059.22
Total	<u>\$ 320,957.96</u>	<u>\$ 320,957.96</u>

Interfund receivables were primarily amounts due for expenditures paid by a particular fund on behalf of another fund. These amounts are expected to be repaid within one year.

**UNION 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:		
General	\$ 125,824.18	\$
Nonmajor Governmental		125,824.18
Total	<u>\$ 125,824.18</u>	<u>\$125,824.18</u>

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

10. 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 classified most of its fund balances other than in the General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ Committed

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

➤ Assigned

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

➤ Unassigned

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

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

11. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 9,931,909.00
Categorical Educational Program - Class Size Reduction	2,292,321.00
Workforce Development Program	140,987.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	76,835.62
Food Service Supplement	14,295.00
Discretionary Lottery Funds	6,769.00
Miscellaneous	485,215.48
Total	\$ 12,948,332.10

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

12. PROPERTY TAXES

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

GENERAL FUND	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	5.547	\$ 1,384,861
Basic Discretionary Local Effort	0.748	186,745
Critical Operating Needs	0.250	62,415
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	374,489
Total	8.045	\$ 2,008,510

13. 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

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

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.

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 \$984,517.93, \$1,067,797.18, and \$729,419.34, respectively, which were equal to the required contributions for each fiscal year.

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

There were 41 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$93,526.70, 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.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, the District pays a portion of health insurance (explicit subsidy) for retired employees, who were employed prior to July 1, 2000, and have at least 12 years of service with the District, until they reach 65 years of age. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The 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 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, 20 retirees received other postemployment benefits. The District provided required contributions of \$128,040 toward the annual OPEB costs and retiree contributions totaled \$46,718.04, which represents 0.41 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 121,812
Amortization of Unfunded Actuarial Accrued Liability	107,603
Interest on Normal Cost and Amortization	<u>8,173</u>
Annual Required Contribution	237,588
Interest on Net OPEB Obligation	<u>34,320</u>
Annual OPEB Cost (Expense)	271,908
Contribution Toward the OPEB Cost	<u>(128,040)</u>
Increase in Net OPEB Obligation	143,868
Net OPEB Obligation, Beginning of Year	<u>858,005</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,001,873</u></u>

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
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2009-10	\$ 516,220	23.5%	\$ 787,583
2010-11	198,462	64.5%	858,005
2011-12	271,908	47.1%	1,001,873

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

Actuarial valuations of an ongoing 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.

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

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 July 1, 2010, used the unit credit actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included an annual healthcare cost trend rate of 6.9 percent initially for the 2010-11 fiscal year, reduced to an ultimate rate of 4.2 percent after 72 years. The unfunded actuarial accrued liability is being amortized on a level dollar, closed basis. The remaining amortization period at June 30, 2012, was 26 years.

15. SIGNIFICANT COMMITMENTS

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

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

Major Funds					
General	Special Revenue - Food Service	Special Revenue - Other	Capital Projects - Public Education Capital Outlay	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 11,235.16</u>	<u>\$ 9,447.34</u>	<u>\$ 5,845.28</u>	<u>\$ 200.00</u>	<u>\$ 25,216.40</u>	<u>\$ 51,944.18</u>

16. RISK MANAGEMENT PROGRAMS

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
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JUNE 30, 2012**

Consortium is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

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

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 55,500.00	\$ 55,500.00	\$ 64,627.58	\$ 9,127.58
Federal Through State and Local	20,000.00	20,000.00	14,880.50	(5,119.50)
State	12,410,290.00	12,872,391.00	12,858,340.85	(14,050.15)
Local:				
Property Taxes	1,565,963.00	1,565,963.00	1,589,952.96	23,989.96
Charges for Food Service				
Miscellaneous	345,000.00	345,000.00	505,419.95	160,419.95
Total Local Revenues	<u>1,910,963.00</u>	<u>1,910,963.00</u>	<u>2,095,372.91</u>	<u>184,409.91</u>
Total Revenues	<u>14,396,753.00</u>	<u>14,858,854.00</u>	<u>15,033,221.84</u>	<u>174,367.84</u>
Expenditures				
Current - Education:				
Instruction	8,192,482.71	9,137,357.94	9,573,191.10	(435,833.16)
Pupil Personnel Services	729,933.53	735,957.54	728,381.83	7,575.71
Instructional Media Services	210,259.66	211,423.47	200,031.01	11,392.46
Instruction and Curriculum Development Services	174,689.35	188,840.67	188,840.67	
Instructional Staff Training Services	129,095.35	198,692.07	198,691.68	0.39
Instruction Related Technology	92,248.57	109,791.01	109,791.00	0.01
School Board	216,305.47	216,305.47	214,377.91	1,927.56
General Administration	236,403.98	247,043.61	247,042.47	1.14
School Administration	738,391.75	786,555.40	786,555.40	
Facilities Acquisition and Construction	38,750.00	38,750.00	22,223.28	16,526.72
Fiscal Services	385,414.09	406,060.15	406,060.15	
Food Services				
Central Services	110,843.14	134,156.57	134,156.57	
Pupil Transportation Services	757,734.63	764,006.31	755,059.62	8,946.69
Operation of Plant	1,495,913.89	1,517,920.64	1,517,919.73	0.91
Maintenance of Plant	473,742.48	430,357.23	421,984.23	8,373.00
Administrative Technology Services	142,311.07	193,111.06	192,884.17	226.89
Community Services	252,315.23	250,931.93	238,722.18	12,209.75
Fixed Capital Outlay:				
Facilities Acquisition and Construction		1,646.73	1,646.73	
Other Capital Outlay		28,244.35	28,244.35	
Total Expenditures	<u>14,376,834.90</u>	<u>15,597,152.15</u>	<u>15,965,804.08</u>	<u>(368,651.93)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,918.10</u>	<u>(738,298.15)</u>	<u>(932,582.24)</u>	<u>(194,284.09)</u>
Other Financing Sources				
Transfers In			125,824.18	125,824.18
Insurance Loss Recoveries			86,696.50	86,696.50
Total Other Financing Sources			<u>212,520.68</u>	<u>212,520.68</u>
Net Change in Fund Balances	<u>19,918.10</u>	<u>(738,298.15)</u>	<u>(720,061.56)</u>	<u>18,236.59</u>
Fund Balances, Beginning	<u>2,583,753.13</u>	<u>2,583,753.13</u>	<u>2,583,753.13</u>	
Fund Balances, Ending	<u>\$ 2,603,671.23</u>	<u>\$ 1,845,454.98</u>	<u>\$ 1,863,691.57</u>	<u>\$ 18,236.59</u>

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 576,500.00	\$ 576,500.00	\$ 682,811.46 14,295.00	\$ 106,311.46 14,295.00	\$ 1,430,214.13	\$ 1,661,684.69	\$ 1,463,633.93	\$ (198,050.76)
288,500.00	288,500.00	279,089.07	(9,410.93)				
<u>288,500.00</u>	<u>288,500.00</u>	<u>279,089.07</u>	<u>(9,410.93)</u>				
<u>865,000.00</u>	<u>865,000.00</u>	<u>976,195.53</u>	<u>111,195.53</u>	<u>1,430,214.13</u>	<u>1,661,684.69</u>	<u>1,463,633.93</u>	<u>(198,050.76)</u>
				1,097,335.93	1,183,099.75	1,121,662.14	61,437.61
				90,346.92	96,208.80	89,956.16	6,252.64
					8,426.02		8,426.02
				11,487.00	12,391.82	10,368.44	2,023.38
				167,889.07	287,467.75	174,804.16	112,663.59
				40,078.21	34,279.14	30,108.62	4,170.52
1,215,596.36	1,219,564.27	988,907.61	230,656.66				
				23,077.00	3,077.00		3,077.00
	3,049.12	3,049.12			36,734.41	36,734.41	
<u>1,215,596.36</u>	<u>1,222,613.39</u>	<u>991,956.73</u>	<u>230,656.66</u>	<u>1,430,214.13</u>	<u>1,661,684.69</u>	<u>1,463,633.93</u>	<u>198,050.76</u>
<u>(350,596.36)</u>	<u>(357,613.39)</u>	<u>(15,761.20)</u>	<u>341,852.19</u>				
<u>(350,596.36)</u>	<u>(357,613.39)</u>	<u>(15,761.20)</u>	<u>341,852.19</u>				
<u>514,897.38</u>	<u>514,897.38</u>	<u>514,897.38</u>					
<u>\$ 164,301.02</u>	<u>\$ 157,283.99</u>	<u>\$ 499,136.18</u>	<u>\$ 341,852.19</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

	Special Revenue - Federal Economic Stimulus Fund			Variance with
	Original Budget	Final Budget	Actual	Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	139,370.32	214,575.78	214,575.78	
Local:				
Property Taxes				
Charges for Food Service				
Miscellaneous				
Total Local Revenues				
Total Revenues	<u>139,370.32</u>	<u>214,575.78</u>	<u>214,575.78</u>	
Expenditures				
Current - Education:				
Instruction	84,365.05	97,751.53	97,751.53	
Pupil Personnel Services	30,000.00			
Instructional Media Services				
Instruction and Curriculum Development Services				
Instructional Staff Training Services	22,553.33	20,941.54	20,941.54	
Instruction Related Technology		38,456.80	38,456.80	
School Board				
General Administration	2,451.94	958.57	958.57	
School Administration				
Facilities Acquisition and Construction				
Fiscal Services				
Food Services				
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction		56,467.34	56,467.34	
Other Capital Outlay				
Total Expenditures	<u>139,370.32</u>	<u>214,575.78</u>	<u>214,575.78</u>	
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources				
Transfers In				
Insurance Loss Recoveries				
Total Other Financing Sources				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	\$ 0	\$ 3,966,161	\$ 3,966,161	0.0%	\$ 11,061,000	35.9%
July 1, 2010	0	1,935,102	1,935,102	0.0%	11,473,944	16.9%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 44,807.67
National School Lunch Program	10.555	300, 350	183,362.21
Summer Food Service Program for Children	10.559	323	4,852.71
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	84,810.63
National School Lunch Program	10.555 (2)(A)	300, 350	379,013.27
Summer Food Service Program for Children	10.559	323	2,524.99
Total United States Department of Agriculture			699,371.48
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	634,752.28
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223	24,278.47
Total Title I, Part A Cluster			659,030.75
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	542,954.43
Special Education - Preschool Grants	84.173	267	18,102.99
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	92,091.85
Levy County District School Board:			
Special Education - Grants to States	84.027	None	2,806.36
Total Special Education Cluster			655,955.63
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	100,342.00
Career and Technical Education - Basic Grants to States	84.048	161	46,373.00
Education for Homeless Children and Youth	84.196	127	22,359.88
Improving Teacher Quality State Grants	84.367	224	98,749.35
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL1, RD2, 4CC	91,762.46
Education Jobs Fund	84.410	541	6,443.00
Putnam County District School Board:			
Early Reading First	84.359	None	12,575.75
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397 (2)(B)	None	48,439.13
Total United States Department of Education			1,742,030.95
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	64,627.58
Total Expenditures of Federal Awards			\$ 2,506,030.01

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 \$49,569.54 of donated foods received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) State Fiscal Stabilization Fund (SFSF) - Governmental Services, Recovery Act - Expenditures include Federally-paid costs for instructional materials of \$32,987.82.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union County District School Board as of and for the fiscal year ended June 30, 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 Union County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 and 2, that we consider to be significant deficiencies 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 13, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
March 13, 2013

**UNION 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)? Yes

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA)

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

Auditee qualified as low-risk auditee? No

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

SIGNIFICANT DEFICIENCIES

Finding No. 1: Financial Reporting and Budgetary Controls

State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR). One of the principal methods that a school district uses to provide accountability for its public resources is the preparation of its AFR. In addition, Section 1011.06, Florida Statutes, provides that expenditures shall be limited to the amount budgeted under the classification of accounts provided for each fund and to the total amount of the budget after the same have been amended as prescribed by law and rules of the State Board of Education.

Our review of the District's 2011-12 fiscal year AFR, as submitted to the FDOE and presented for audit, indicated that enhancements in financial reporting procedures could be made. District personnel inadvertently overstated the General Fund cash balance and understated instruction expenditures by \$436,000 each primarily because the District did not record 2011-12 fiscal year health insurance premium expenditures of \$205,000 that were prepaid in June 2011 and other 2011-12 fiscal year employee health insurance premiums of \$231,000. Also, these misstatements were not detected and corrected by the payroll clearing bank account reconciliation as discussed in Finding No. 2. In addition, as discussed in Federal Awards Finding No. 1, the District inadvertently overreported on its Schedule of Expenditures of Federal Awards (SEFA) \$323,000 of program expenditures, or 11 percent of the \$2.8 million of total Federal awards expenditures originally reported.

We extended our audit procedures to determine the adjustments necessary to properly report amounts on the District's financial statements and SEFA, and District personnel accepted these adjustments. Further, after audit adjustments were made, the General Fund instruction functional expenditure category was overexpended by \$436,000. Improper reporting of General Fund cash and expenditures, and SEFA expenditures, may cause financial statement users to incorrectly assess the District's financial position and Federal awards activities and, without sufficient budgetary monitoring controls, the risk increases for expenditures to exceed available resources.

Recommendation: The District should improve its financial reporting and budgetary control procedures to ensure that cash balances and expenditure transactions are properly reported and expenditures are limited to amounts budgeted as required.

Finding No. 2: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to the general ledger be performed on a timely, routine basis and reviewed by supervisory personnel. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of

unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

At June 30, 2012, the District reported cash balances totaling \$2.9 million. During the fiscal year 2011-12, the District maintained seven bank accounts. The budget analyst was responsible for preparing bank account reconciliations, and the director of finance was responsible for review and approval of the reconciliations; however, controls over bank account reconciliations needed improvement.

Our review of the 84 monthly bank account reconciliations for the 2011-12 fiscal year disclosed that District records did not always evidence timely and accurately performed bank account reconciliations. For example, District records indicated that the June 2012 bank account reconciliations for six bank accounts with bank balances totaling \$2.6 million were not completed until October 17, 2012, over three months after the bank statement date. Also, District records indicated that the June 2012 reconciliation for the payroll clearing account with a bank balance of \$800,000 was completed on November 12, 2012, over four months after the bank statement date, and the reconciliation indicated the general ledger cash balance exceeded the bank cash balance by an unidentified difference of \$446,000. We extended our audit procedures and identified \$436,000 of the difference, as discussed in Finding No. 1, resulting in an unidentified difference of \$10,000. In addition, District records did not evidence supervisory review and approval of any of the bank account reconciliations for the 2011-12 fiscal year.

While our extended audit procedures disclosed that the amounts recorded as cash in bank were materially correct and properly classified, our procedures cannot substitute for management's responsibility to timely reconcile cash assets with amounts recorded in the accounting records. Absent timely bank account reconciliations and supervisory review and approval, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure that bank account reconciliations, including identification and resolution of reconciling items, are properly and timely completed, reviewed, and approved.

ADDITIONAL MATTERS

Finding No. 3: 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 titles of bank accounts subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs. In addition, Board policy requires that the Superintendent develop and the Board approve procedures to electronically transmit District funds.

During the 2011-12 fiscal year, the District did not use EFTs to make vendor payments, but regularly made electronic disbursements for direct deposits of employee pay and other payroll-related activities, such as taxes withheld and matching contributions, Florida Retirement System contributions, and payments for child support. The District reported cash of \$2.9 million that was available for electronic transfer at June 30, 2012. The District maintained a written EFT bank agreement signed by the Superintendent.

While the District had controls in place to monitor and control EFTs, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, Board policy did not prescribe the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Also, the EFT bank agreement was not signed by the Board Chair or employees authorized to initiate EFTs. While our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy establishing policies and procedures governing EFT activities and addressing the use of electronic signatures, and lack of signatures on bank agreements of employees designated to make EFTs, increases the risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-097.

Recommendation: The Board should enhance its written policies and procedures related to EFTs, including the use of electronic signatures. In addition, the banking agreement should contain the signature of the Board Chair and employees authorized to initiate EFTs.

Finding No. 4: Journal Entries

The budget analyst was responsible for recording cash receipt journal entries to adjust cash transactions and revenues in the accounting records, and the director of finance was responsible for review and approval of these entries. However, District records did not evidence review and approval of these journal entries. Periodic reviews of cash balances and comparisons of actual to budgeted revenues by the director of finance served to mitigate this control deficiency; however, the lack of documented supervisory review and approval of cash receipt journal entries increases the risk of incorrect or unauthorized adjustments to the accounting records.

While our tests disclosed that journal entries were generally appropriate and adequately supported, our audit cannot substitute for management's responsibility to establish an adequate system of controls to timely detect, and correct, improperly recorded journal entries.

Recommendation: The District should enhance its procedures to ensure that cash receipt journal entries are reviewed and approved by supervisory personnel.

Finding No. 5: Public Education Capital Outlay Funds

The State allocates Public Education Capital Outlay (PECO) funds to the District on an annual basis. The District's annual PECO allocation consists of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use. Section 216.301(2), Florida Statutes, provides that the unexpended balance of any appropriation for fixed capital outlay for an educational facility that is not contracted, or committed to be expended, prior to February 1 of the third fiscal year, shall revert on February 1 of such year to the fund from which it was appropriated. Consequently, the 2007-08 fiscal year fixed capital outlay appropriations for educational facilities were subject to reversion on February 1, 2010, if the Board had not approved a contract, received bids, issued notice of intent to award a contract, or issued a purchase order to accomplish the work with in-house staff.

At June 30, 2012, \$341,000 in unencumbered 2007-08 fiscal year PECO cash was on hand that was not committed under terms of a binding contract or otherwise committed to be expended. The cash on hand remained uncommitted for an extended period mainly because District records did not separately account for specific PECO appropriations. District personnel implemented a financial accounting system that identifies by sub-project number each PECO allocation by fiscal year and category; however, reversion of the 2007-08 PECO funds to the FDOE had not occurred at the time of preparation of its 2011-12 fiscal year financial statements. As of January 2013, District personnel indicated that discussions with FDOE were being held to resolve this issue. Similar findings were noted in our report Nos. 2011-148 and 2012-097.

Recommendation: The District should document its compliance with Section 216.301(2), Florida Statutes, or revert the \$341,000 of uncommitted funds to the FDOE.

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 22,425 adult general education instructional contact hours for 84 students enrolled in a total of 299 classes. Our review disclosed that the District reported 75 instructional contact hours for each student and class, although hours reported should typically vary depending on actual student enrollment. District personnel indicated that, contrary to the FDOE instructional hours reporting procedures, the District incorrectly reported hours based on a default value set in the instructional contact hour software system, resulting in misreported hours.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the data be submitted correctly. A similar finding was disclosed in our report No. 2012-097.

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 adult general education hours misreported and contact the FDOE for proper resolution.

Finding No. 7: Information Technology – Security Incident Response Plan

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

Although District personnel indicated the District had not experienced any network security violations, the District had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the lack of a written security incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources. A similar finding was noted in our report No. 2012-097.

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

Finding No. 8: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-097.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I, Part A Cluster (CFDA Nos. 84.010, and 84.389-ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391-ARRA); and ARRA - State Fiscal Stabilization Fund (SFSF) -

Race-to-the-Top Incentive Grants (CFDA No. 84.395-ARRA)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Reporting. United States Office of Management and Budget (OMB) Circular A-133 requires the District to prepare a SEFA that contains certain information, such as a list of Federal programs by Federal agency and the total Federal awards expended for each Federal program. OMB Circular A-133 also generally requires the District to obtain compliance audits of major Federal awards at least once every three years for awards with expenditures that equal or exceed \$300,000.

Our review of the District's 2011-12 fiscal year SEFA, as presented for audit, disclosed that Federal expenditure reporting procedures could be improved. For example, the District inadvertently overreported Race-to-the-Top, Title I, and Special Education program expenditures by \$190,000, \$105,000, and \$51,000, respectively. In total, program expenditures were overreported on the SEFA by \$323,000, or 11 percent of the \$2.8 million of total Federal awards expenditures originally reported.

The errors on the SEFA occurred mainly because District personnel did not reconcile the SEFA to the accounting records that supported the financial statements. We extended our audit procedures to determine the revisions necessary to properly report the SEFA, and District personnel accepted these revisions. However, our extended audit procedures cannot substitute for management's responsibility to implement controls over financial reporting. Without procedures to accurately report Federal program expenditures, the risk increases that major Federal programs may not be audited, contrary to Federal requirements, and costs associated with those programs may be subject to disallowance by the grantors.

Recommendation: **The District should improve its financial reporting procedures to ensure the accuracy of the SEFA.**

District Contact Person: Renae Prevatt, Director of Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-097. The following table provides information on recurring District findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
3	Audit Report No. 2012-097, Finding No. 1	NA
5	Audit Report No. 2012-097, Finding No. 4	Audit Report No. 2011-148, Finding No. 2
6	Audit Report No. 2012-097, Finding No. 5	NA
7	Audit Report No. 2012-097, Finding No. 6	NA
8	Audit Report No. 2012-097, Finding No 7	NA

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*UNION COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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
2012-097		There were no prior Federal audit Findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF UNION COUNTY

Carlton Faulk, Superintendent
55 SW 6th Street
Lake Butler, FL 32504
(386) 496-2045 FAX (386) 496-4819

Board Members:	Allen Parrish, District 1	Alvin Griffis, District 2	Curtis Clyatt, District 3	Becky Raulerson, District 4	Terra Johnson District 5
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March 13, 2013

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

Dear Mr. Martin:

Please accept the statements below as our official responses to the preliminary and tentative audit findings dated February 15, 2013 for the Union County District School Board for the fiscal year ending June 30, 2012.

Finding No. 1: Financial reporting procedures could be improved to ensure that cash balances and expenditure transactions are properly reported and expenditures limited to amounts budgeted as required.

District Response: Generally, the final budget amendment of the fiscal period ensures all budget to actual expenditures are properly presented. The audit adjustments proposed and accepted were not included in the final budget amendment for the 11/12 fiscal period and caused the over expenditure in General Fund Instruction. In addition, during the SEFA preparation, district finance staff gathered information for proper presentation and erroneously compiled project life-to-date figures in place of fiscal period 11/12 expenditures. The District has noted and will heighten data review procedures during future preparation.

Finding No. 2: The District needed to enhance procedures to ensure bank account reconciliations are properly and timely completed, reviewed, and approved.

District Response: The District reconciles all bank accounts both manually and through the Skyward system. The Skyward system has the ability to allow three months of bank reconciliations to be open at one time to allow for reconciliations of transactions and activity. Upon the implementation of Skyward in January 2010, district staff were guided to keep this window open for as long as necessary to allow for successful reconciliation. Manual reconciliations occur as bank statements are received and continue until completed. The date stamps of the Skyward system are not accurate representations of when statements are reconciled. For example, the District requested the "password of the day" from Skyward in October 2012 in order to "unlock" the reconciled box in order to examine the flow of transactions into the bank reconciliation module in an effort to

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

improve the overall process. November 12, 2012 the bank reconciliations which were "unlocked" in October 2012 were checked as reconciled on this date. The utilization of the Skyward bank reconciliation module is not in use by all Skyward districts due to its cumbersome process. In response to this issue, the District has implemented a formal review, signature, and date process for the manual reconciliations in order to remove the need of the "check box" date issued by Skyward which provides inaccurate information.

Finding No. 3: Controls over electronic funds transfers could be enhanced.

District Response: The District has written procedures in place detailing the processing of all EFT's. These procedures will be board approved and kept as a supplement in the Finance Procedures Manual. The District is in the process of drafting a new banking agreement with its financial institution to attempt to address these areas of concern. Once complete, the agreement will be signed and board approved.

Finding No. 4: District records did not always evidence independent review and approval of cash receipt journal entries.

District Response: With the implementation of the Skyward system in January 2010, the ability to enter all cash receipt entries through the cash receipt module no longer required journal entries for revenue recording. The system also provides the capability to view all transactions on screen at any point. As noted in the comment, the Finance Director routinely monitors all activity input into the system by finance staff. Upon the Skyward implementation, management determined, due to the small staff and compensating controls in place, it was most efficient for the Finance Director to monitor transactions through reconciliations throughout the fiscal period rather than every daily posting. Management is considering adopting either a weekly or monthly review process of entries to address this area of concern.

Finding No. 5: The District retained \$341,000 of 2007-08 Public Education Capital Outlay appropriations that were subject to reversion to the State.

District Response: The District continues its efforts to resolve this issue with the Florida Department of Education (FDOE). The District expects its frequent communication with FDOE to provide a formal resolution prior to the end of the 2012-13 fiscal period.

Finding No. 6: Improvements were needed in controls over the reporting of instructional contract hours for adult general education classes to the Florida Department of Education.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

District Response: The District's MIS department and Director of Secondary and Adult Education are working with the Florida Department of Education to ensure all courses are accurately reported. Contact with FDOE will be made to determine what, if any changes are necessary in the data submitted.

Finding No. 7: The District did not have a written information technology (IT) security incident response plan.

District Response: The District has developed a written security incidence response plan.

Finding No. 8: The District's IT security controls related to data loss prevention needed improvement.

District Response: The District is continuing its efforts to improve security controls related to data loss to ensure continued confidentiality of the District's data.

Federal Awards Finding No. 1: Improvements were needed in District procedures for reporting program information and related expenditures on the Schedule of Expenditures of Federal Awards.

District Response: During the preparation of the supplemental schedule, SEFA, district personnel erroneously reported life-to-date expenditures instead of actual expenditures for some of the federal projects in compilation of the schedule. The district has noted the error and will amend year end procedures to reduce the likelihood of errors in the future. Management notes all federal revenues and expenditures were properly and accurately reported in the District's financial statements for all federal programs.

We appreciate the technical assistance provided by the Gainesville section office during the audit.

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

Sincerely,



Carlton Faulk
Superintendent
Union County District School Board

Pc: Renae P. Prevatt