

UNION COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Allen Parrish	1
Alvin Griffis, Chair to 11-19-12	2
Curtis Clyatt, Vice Chair to 11-19-12 Chair from 11-20-12	3
Becky Raulerson	4
Terra Johnson, Vice Chair from 11-20-12	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 Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**UNION COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities.....	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Position – Fiduciary Funds	19
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	20
Notes to Financial Statements	21
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	40
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	43
Notes to Required Supplementary Information.....	44
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	45
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	46
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	51
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	64
EXHIBIT A MANAGEMENT'S RESPONSE	65

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Bank account reconciliation procedures could be improved.

Finding No. 2: The District did not have procedures, such as reconciliations of health insurance billings to payroll records, to ensure that Board contributions toward health insurance premium payments are only for eligible participants and that contribution amounts are consistent with Board-approved salary schedules.

Finding No. 3: The District could enhance certain capital asset subsidiary records.

Finding No. 4: Controls over facilities maintenance activities could be enhanced.

Finding No. 5: Controls over monitoring school bus drivers could be enhanced.

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: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 8: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Finding No. 9: The District needs to enhance its IT disaster recovery procedures.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, and Special Education Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Special Education Cluster programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: The District did not have adequate procedures to monitor its compliance with the Special Education Cluster programs maintenance of effort requirement, resulting in a maintenance of effort shortfall of \$397,208.43.

Federal Awards Finding No. 2: The District used Title I proceeds for expenditures incurred outside the period of availability, resulting in \$82,179 of questioned costs.

Federal Awards Finding No. 3: The District charged Federal programs \$69,564 for health insurance premiums for employees who did not participate in the District's health insurance program.

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. 2013-162.

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, 2013. 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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 34 percent of the assets and 100 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments,

the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Supplementary Information

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. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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. Such 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 17, 2014

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, 2013. 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 2012-13 fiscal year are as follows:

- In total, net position decreased \$1,144,784.37, which represents a 5.4 percent decrease from the 2011-12 fiscal year.
- General revenues total \$16,824,547.46, or 90.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$1,772,997.82, or 9.5 percent of all revenues.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totals \$719,807.55 at June 30, 2013, or 4.5 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 position 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 position 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 position, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

Fund Financial Statements

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

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on the 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide other postemployment benefits to its employees.

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 position may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net position as of June 30, 2013, compared to net position as of June 30, 2012:

	Net Position, End of Year	
	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 3,267,601.83	\$ 3,563,293.68
Capital Assets	21,060,799.02	21,787,439.27
Total Assets	24,328,400.85	25,350,732.95
Long-Term Liabilities	4,014,655.49	4,090,239.91
Other Liabilities	325,849.54	127,812.85
Total Liabilities	4,340,505.03	4,218,052.76
Net Position:		
Net Investment in Capital Assets	19,420,799.02	19,972,439.27
Restricted	2,007,845.11	2,667,835.86
Unrestricted Deficit	(1,440,748.31)	(1,507,594.94)
Total Net Position	\$19,987,895.82	\$21,132,680.19

The largest portion of the District's net position (97.2 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$933,907.18 (after excluding liabilities of \$1,240,217.49 and \$1,134,438 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 position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

Operating Results for the Fiscal Year Ended			
	Governmental Activities		
	6-30-13	6-30-12	
Program Revenues:	\$	\$	
Charges for Services	398,571.06	482,015.81	
Operating Grants and Contributions	1,256,627.43	1,160,998.46	
Capital Grants and Contributions	117,799.33	76,835.62	
General Revenues:			
Property Taxes, Levied for Operational Purposes	1,561,263.69	1,589,952.96	
Property Taxes, Levied for Capital Projects	358,161.98	364,430.27	
Grants and Contributions Not Restricted to Specific Programs	14,328,982.52	14,124,603.24	
Unrestricted Investment Earnings		9,592.48	
Miscellaneous	576,139.27	411,769.88	
Total Revenues	18,597,545.28	18,220,198.72	
Functions/Program Expenses:			
Instruction	10,638,105.32	10,955,900.39	
Pupil Personnel Services	721,823.04	819,271.94	
Instructional Media Services	203,323.56	200,310.63	
Instruction and Curriculum Development Services	247,028.98	199,531.62	
Instructional Staff Training Services	538,279.30	394,595.83	
Instruction Related Technology	39,602.76	148,316.77	
School Board	218,234.52	214,584.83	
General Administration	417,398.01	278,355.73	
School Administration	751,093.26	787,793.21	
Facilities Acquisition and Construction	58,847.72	382,533.72	
Fiscal Services	456,274.53	406,511.27	
Food Services	1,109,949.03	989,442.62	
Central Services	229,203.61	134,225.54	
Pupil Transportation Services	802,931.16	840,659.67	
Operation of Plant	1,500,944.78	1,518,460.34	
Maintenance of Plant	444,208.31	429,580.48	
Administrative Technology Services	149,543.26	193,066.86	
Community Services	300,546.80	238,970.11	
Unallocated Interest on Long-Term Debt	36,920.66	40,050.04	
Unallocated Depreciation Expense	834,846.01	961,457.75	
Loss on Disposal of Capital Assets	43,225.03		
Total Functions/Program Expenses	19,742,329.65	20,133,619.35	
Change in Net Position	(1,144,784.37)	(1,913,420.63)	
Net Position - Beginning	21,132,680.19	23,046,100.82	
Net Position - Ending	\$ 19,987,895.82	\$ 21,132,680.19	

The largest revenue source is the State of Florida (72.8 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Total revenues increased by \$377,346.56 (2.1 percent), primarily due to an increase in State revenue.

Total expenses decreased by \$391,289.70 (1.9 percent) during the fiscal year, primarily due to the following key factors:

- Instruction expenses represent 53.9 percent of total governmental expenses for the 2012-13 fiscal year. Instruction expenses decreased by \$317,795.07, or 2.9 percent, from the previous fiscal year, primarily due to decreases in Federal economic stimulus funds and reclassifications of salary expenses associated with the realignment of employee job functions, partially offset by salary increases, and an increase in employer Florida Retirement System contribution costs.
- Facilities acquisition and construction expenses decreased by \$323,686, or 84.6 percent, compared to the previous fiscal year due to non-capitalized renovation and repair projects during the 2011-12 fiscal year.
- Instructional staff training services and general administration expenses increased by \$143,683.47 (36.4 percent) and \$139,042.28 (50 percent), respectively, from the previous fiscal year. Increases were primarily related to reclassifications of salary expenses from realignment of employee job functions.
- Food services expense increased by \$120,506.41, or 12.2 percent, from the previous fiscal year primarily from increased indirect costs and salaries.

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 \$719,807.55, while the total fund balance is \$1,646,276.38. Total fund balance decreased by \$217,415.19 during the fiscal year compared to a decrease of \$720,061.56 in the prior fiscal year. Key factors contributing to the change in fund balance are as follows:

- A continued absorption of expenditures previously covered by the Special Revenue – Federal Economic Stimulus Fund.
- Increases in employee salary and benefit costs.

Special Revenue – Food Service: This fund is used to account for food service operation resources, and had total revenues and expenditures of \$988,847.75 and \$1,117,457.37, respectively, resulting in a fund balance decrease of \$128,609.62 to \$370,526.56 at June 30, 2013. As mentioned above, this decrease is primarily from increased indirect costs and salaries.

Special Revenue – Other Fund: This fund had total revenues and expenditures of \$1,439,902.54 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 for the State Fiscal Stabilization Fund program. This fund had total revenues and expenditures of \$26,975.78 each. As Federal grant revenue is recognized like the Special Revenue – Other Fund mentioned above, this fund generally does not accumulate a fund balance. Activity in this fund decreased substantially due to continued expiration of Federal economic stimulus program funding.

Capital Projects – Public Education Capital Outlay (PECO) Fund: This fund had a fund balance of \$496,564.02, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$22,731.74 in the current fiscal year mainly from receipt of PECO appropriations for the 2012-13 fiscal year. It should be noted that \$65,518 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2012-13 fiscal year, the District amended its General Fund budget several times. Significant variances between original and final budget amounts occurred after necessary budget amendments to increase budgeted salaries to final negotiated settlement amounts. However, there were no significant differences 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, 2013, totals \$21,060,799.02 (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 notes I.F.4 and II.C to the financial statements.

Long-Term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$1,640,000, consisting of \$1,375,000 of Qualified Zone Academy Bond lease-purchase payable and \$265,000 in bonds payable. Additional information on the District's long-term debt can be found in note II.H 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 request 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 POSITION
June 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 2,532,343.86
Investments	78,010.75
Due from Other Agencies	440,224.88
Prepaid Items	180,933.12
Inventories	36,089.22
Capital Assets:	
Nondepreciable Capital Assets	517,173.45
Depreciable Capital Assets, Net	<u>20,543,625.57</u>
TOTAL ASSETS	<u>24,328,400.85</u>
LIABILITIES	
Salaries and Benefits Payable	136,008.38
Payroll Deductions and Withholdings Payable	128,187.59
Accounts Payable	61,653.57
Long-Term Liabilities:	
Portion Due Within One Year	199,586.35
Portion Due After One Year	<u>3,815,069.14</u>
TOTAL LIABILITIES	<u>4,340,505.03</u>
NET POSITION	
Net Investment in Capital Assets	19,420,799.02
Restricted for:	
State Required Carryover Programs	712,369.20
Debt Service	8,509.71
Capital Projects	916,439.64
Food Service	370,526.56
Unrestricted	<u>(1,440,748.31)</u>
TOTAL NET POSITION	<u>\$ 19,987,895.82</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 10,638,105.32	\$ 8,584.00	\$	\$	\$ (10,629,521.32)
Pupil Personnel Services	721,823.04				(721,823.04)
Instructional Media Services	203,323.56				(203,323.56)
Instruction and Curriculum Development Services	247,028.98				(247,028.98)
Instructional Staff Training Services	538,279.30				(538,279.30)
Instruction Related Technology	39,602.76				(39,602.76)
School Board	218,234.52				(218,234.52)
General Administration	417,398.01			1,217.97	(416,180.04)
School Administration	751,093.26				(751,093.26)
Facilities Acquisition and Construction	58,847.72				(58,847.72)
Fiscal Services	456,274.53				(456,274.53)
Food Services	1,109,949.03	215,236.32	760,747.43		(133,965.28)
Central Services	229,203.61				(229,203.61)
Pupil Transportation Services	802,931.16		495,880.00		(307,051.16)
Operation of Plant	1,500,944.78				(1,500,944.78)
Maintenance of Plant	444,208.31			35,577.00	(408,631.31)
Administrative Technology Services	149,543.26				(149,543.26)
Community Services	300,546.80	174,750.74			(125,796.06)
Unallocated Interest on Long-Term Debt	36,920.66			81,004.36	44,083.70
Unallocated Depreciation Expense*	834,846.01				(834,846.01)
Loss on Disposal of Assets	43,225.03				(43,225.03)
Total Governmental Activities	\$ 19,742,329.65	\$ 398,571.06	\$ 1,256,627.43	\$ 117,799.33	(17,969,331.83)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					1,561,263.69
Property Taxes, Levied for Capital Projects					358,161.98
Grants and Contributions Not Restricted to Specific Programs					14,328,982.52
Miscellaneous					576,139.27
Total General Revenues					16,824,547.46
Change in Net Position					(1,144,784.37)
Net Position - Beginning					21,132,680.19
Net Position - Ending					\$ 19,987,895.82

* 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.

**UNION COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 1,294,194.33	\$ 311,660.95	\$ 10,048.94
Investments	69,501.04		
Due from Other Funds	278,214.89		
Due from Other Agencies	133,595.09	27,679.17	271,200.62
Prepaid Items	180,933.12		
Inventories		36,089.22	
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,956,438.47</u>	<u>\$ 375,429.34</u>	<u>\$ 281,249.56</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 123,423.05	\$ 2,536.39	\$ 10,048.94
Payroll Deductions and Withholdings Payable	128,187.59		
Accounts Payable	58,551.45	2,366.39	735.73
Due to Other Funds			270,464.89
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>310,162.09</u>	<u>4,902.78</u>	<u>281,249.56</u>
Fund Balances:			
Nonspendable:			
Inventories		36,089.22	
Prepaid Items	180,933.12		
Total Nonspendable Fund Balance	<u>180,933.12</u>	<u>36,089.22</u>	<u> </u>
Restricted for:			
State Required Carryover Programs	712,369.20		
Debt Service			
Capital Projects			
Food Service		334,437.34	
Total Restricted Fund Balance	<u>712,369.20</u>	<u>334,437.34</u>	<u> </u>
Assigned for:			
District Purchase Obligations	33,166.51		
Unassigned Fund Balance	<u>719,807.55</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,646,276.38</u>	<u>370,526.56</u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,956,438.47</u>	<u>\$ 375,429.34</u>	<u>\$ 281,249.56</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
\$	\$ 496,564.02	\$ 419,875.62 8,509.71	\$ 2,532,343.86 78,010.75 278,214.89 440,224.88 180,933.12 36,089.22
7,750.00			
<u>\$ 7,750.00</u>	<u>\$ 496,564.02</u>	<u>\$ 428,385.33</u>	<u>\$ 3,545,816.72</u>
\$	\$	\$	\$ 136,008.38 128,187.59 61,653.57 278,214.89
7,750.00			
<u>7,750.00</u>			<u>604,064.43</u>
			36,089.22 180,933.12 217,022.34
			712,369.20 8,509.71 916,439.64 334,437.34 1,971,755.89
	496,564.02	8,509.71 419,875.62	
<u>496,564.02</u>	<u>496,564.02</u>	<u>428,385.33</u>	<u>1,971,755.89</u>
			33,166.51 719,807.55
	496,564.02	428,385.33	2,941,752.29
<u>\$ 7,750.00</u>	<u>\$ 496,564.02</u>	<u>\$ 428,385.33</u>	<u>\$ 3,545,816.72</u>

UNION COUNTY
 DISTRICT SCHOOL BOARD
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2013

Total Fund Balances - Governmental Funds \$ 2,941,752.29

Amounts reported for governmental activities in the statement of net position 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. 21,060,799.02

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	\$	1,375,000.00		
Bonds Payable		265,000.00		
Compensated Absences Payable		1,240,217.49		
Other Postemployment Benefits Payable		1,134,438.00		
				(4,014,655.49)

Net Position - Governmental Activities \$ 19,987,895.82

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

THIS PAGE INTENTIONALLY LEFT BLANK.

UNION COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 60,799.48	\$	\$ 39,496.04
Federal Through State and Local	13,038.52	760,747.43	1,400,406.50
State	13,329,143.91	12,864.00	
Local:			
Property Taxes	1,561,263.69		
Charges for Services - Food Service		215,236.32	
Miscellaneous	588,146.17		
Total Local Revenues	<u>2,149,409.86</u>	<u>215,236.32</u>	
Total Revenues	<u>15,552,391.77</u>	<u>988,847.75</u>	<u>1,439,902.54</u>
Expenditures			
Current - Education:			
Instruction	9,544,084.19		1,012,776.69
Pupil Personnel Services	639,547.85		81,801.77
Instructional Media Services	204,055.69		131.14
Instruction and Curriculum Development Services	238,100.53		5,432.80
Instructional Staff Training Services	257,163.14		255,443.24
Instruction Related Technology	32,385.11		
School Board	216,593.10		
General Administration	351,958.87		51,410.83
School Administration	755,272.85		
Facilities Acquisition and Construction	14,607.80		
Fiscal Services	444,236.61		
Food Services		1,097,481.79	
Central Services	215,794.57		
Pupil Transportation Services	731,330.37		
Operation of Plant	1,503,180.00		
Maintenance of Plant	453,830.68		
Administrative Technology Services	146,482.48		
Community Services	274,487.01		22,090.89
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	44,254.82	19,975.58	10,815.18
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>16,067,365.67</u>	<u>1,117,457.37</u>	<u>1,439,902.54</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(514,973.90)</u>	<u>(128,609.62)</u>	
Other Financing Sources (Uses)			
Transfers In	182,905.44		
Insurance Loss Recoveries	114,653.27		
Transfers Out			
Total Other Financing Sources (Uses)	<u>297,558.71</u>		
Net Change in Fund Balances	<u>(217,415.19)</u>	<u>(128,609.62)</u>	
Fund Balances, Beginning	1,863,691.57	499,136.18	
Fund Balances, Ending	<u>\$ 1,646,276.38</u>	<u>\$ 370,526.56</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
\$	\$	\$	\$
26,975.78			100,295.52
	35,577.00	81,004.36	2,201,168.23
			13,458,589.27
		358,161.98	1,919,425.67
		30.83	215,236.32
		358,192.81	588,177.00
			2,722,838.99
26,975.78	35,577.00	439,197.17	18,482,892.01
1,035.78		34,250.17	10,592,146.83
			721,349.62
			204,186.83
13,340.00			243,533.33
11,000.00			525,946.38
			43,385.11
			216,593.10
			403,369.70
1,600.00			756,872.85
	12,845.26	31,394.66	58,847.72
			444,236.61
			1,097,481.79
			215,794.57
			731,330.37
			1,503,180.00
			453,830.68
			146,482.48
			296,577.90
		149,161.71	149,161.71
			75,045.58
		175,000.00	175,000.00
		36,920.66	36,920.66
26,975.78	12,845.26	426,727.20	19,091,273.82
	22,731.74	12,469.97	(608,381.81)
			182,905.44
			114,653.27
		(182,905.44)	(182,905.44)
		(182,905.44)	114,653.27
	22,731.74	(170,435.47)	(493,728.54)
	473,832.28	598,820.80	3,435,480.83
\$ 0.00	\$ 496,564.02	\$ 428,385.33	\$ 2,941,752.29

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, 2013

Net Change in Fund Balances - Governmental Funds \$ (493,728.54)

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. (683,415.22)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (43,225.03)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The following details long-term debt principal payments in the current fiscal year.

QZAB Lease-Purchase Repayments	\$	130,000.00	
Bond Principal Payments		45,000.00	175,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year. 33,149.42

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. (132,565.00)

Change in Net Position - Governmental Activities \$ (1,144,784.37)

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
FIDUCIARY FUNDS
June 30, 2013**

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 48,756.88	\$ 245,324.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 245,324.00
	<u> </u>	<u> </u>
NET POSITION		
Held in Trust for Scholarships	48,756.88	
	<u> </u>	
TOTAL LIABILITIES AND NET POSITION	\$ 48,756.88	
	<u> </u>	

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN NET POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	<u>\$ 34,000.00</u>
DEDUCTIONS	
Scholarship Payments	<u> 9,850.00</u>
Change in Net Position	24,150.00
Net Position - Beginning	<u>24,606.88</u>
Net Position - Ending	<u><u>\$ 48,756.88</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, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Union County School District's (District) 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.

B. Reporting Entity

The Union County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. 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 legally separate 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. Based on these criteria, no component units are included within the District's reporting entity.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – 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).
- 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.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds are eliminated from governmental activities in the preparation of the government-wide financial statements.

E. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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.

The governmental fund financial statements are reported using the current financial resources measurement focus and 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash

The District's cash and cash equivalents are 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.

2. Investments

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 1.11845939 at June 30, 2013. 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.

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District food service operations. Inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, except that 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. 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 position 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, 2013**

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.

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

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

6. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District's policy to consider restricted - net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2013.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by adoption of Board Policy 7.01, authorized the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. 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.

2. State Revenue Sources

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

3. 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 2012 tax levy on September 11, 2012. 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.

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

4. 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.

5. Compensated Absences

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. The liability for compensated absences includes salary-related benefits, where applicable.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

B. Investments

As of June 30, 2013, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME	40 Day Average	\$ 48,316.22
Fund B	3.98 Year Average	21,184.82
Debt Service Accounts	6 Months	8,509.71
Total Investments		<u>\$ 78,010.75</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 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

➤ **Credit Risk**

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

C. 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	1,228,328.87	149,161.71	30,988.01	1,346,502.57
Buildings and Fixed Equipment	32,343,874.92		157,273.26	32,186,601.66
Furniture, Fixtures, and Equipment	3,455,550.76	69,045.58	86,636.10	3,437,960.24
Motor Vehicles	1,640,850.65	6,000.00	54,943.25	1,591,907.40
Computer Software	328,551.52			328,551.52
Total Capital Assets Being Depreciated	38,997,156.72	224,207.29	329,840.62	38,891,523.39
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,212,957.08	15,371.79	30,988.01	1,197,340.86
Buildings and Fixed Equipment	12,154,210.70	617,643.96	120,780.73	12,651,073.93
Furniture, Fixtures, and Equipment	2,769,381.76	193,237.12	79,903.60	2,882,715.28
Motor Vehicles	1,264,082.71	79,076.77	54,943.25	1,288,216.23
Computer Software	326,258.65	2,292.87		328,551.52
Total Accumulated Depreciation	17,726,890.90	907,622.51	286,615.59	18,347,897.82
Total Capital Assets Being Depreciated, Net	21,270,265.82	(683,415.22)	43,225.03	20,543,625.57
Governmental Activities Capital Assets, Net	\$ 21,787,439.27	\$ (683,415.22)	\$ 43,225.03	\$ 21,060,799.02

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 72,776.50
Unallocated	<u>834,846.01</u>
Total Depreciation Expense - Governmental Activities	<u>\$907,622.51</u>

D. 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, Elected

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in 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 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
DROP - Applicable to		
Members from All of the Above Classes	0.00	5.44
FRS, 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, 2011, June 30, 2012, and June 30, 2013, totaled \$1,067,797.18, \$729,419.34, and \$775,200.76, respectively, which were equal to the required contributions for each fiscal year.

There were 41 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$100,792.18, which was equal to the required contribution for the 2012-13 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.

E. Other Postemployment Benefit Obligations

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 dental plan, 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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 2012-13 fiscal year, 22 retirees received other postemployment benefits. The District provided required contributions of \$181,848 toward the annual OPEB cost, net of retiree contributions totaling \$54,638, which represents 0.48 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 141,052
Amortization of Unfunded Actuarial Accrued Liability	<u>191,224</u>
Annual Required Contribution	332,276
Interest on Net OPEB Obligation	40,075
Adjustment to Annual Required Contribution	<u>(57,938)</u>
Annual OPEB Cost (Expense)	314,413
Contribution Toward the OPEB Cost	<u>(181,848)</u>
Increase in Net OPEB Obligation	132,565
Net OPEB Obligation, Beginning of Year	<u>1,001,873</u>
Net OPEB Obligation, End of Year	<u>\$ 1,134,438</u>

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
_____	_____	_____	_____
2010-11	\$ 198,462	64.5%	\$ 858,005
2011-12	271,908	47.1%	1,001,873
2012-13	314,413	57.8%	1,134,438

Funded Status and Funding Progress. As of July 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$3,306,653, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,306,653, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$11,448,059, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.9 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.

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, 2012, used the projected unit credit actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2013, and the District's 2012-13 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 inflation rate of 2.5 percent, and an annual healthcare cost trend rate of 9.6 percent initially for the 2013-14 fiscal year, reduced to an ultimate rate of 4.5 percent after 70 years. The unfunded actuarial accrued liability is being amortized on a level dollar, open basis over a 30 year period.

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

F. 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, 2013:

Major Funds				
General	Special Revenue - Food Service	Special Revenue - Other	Capital Projects - Public Education Capital Outlay	Total Governmental Funds
<u>\$ 33,166.51</u>	<u>\$ 6,758.87</u>	<u>\$ 5,475.80</u>	<u>\$ 65,518.00</u>	<u>\$ 110,919.18</u>

G. 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 (NEFEC) 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 NEFEC. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The NEFEC 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 NEFEC is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for NEFEC.

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.

H. Long-Term Liabilities

1. Qualified Zone Academy Bonds Payable

The District entered into a financing agreement 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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

certain goods and services for schools located in eligible District areas (zones). The financing was accomplished through the issuance of the Series 2007 QZAB note.

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
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	145,985	135,000	10,985
2019-2023	737,885	710,000	27,885
Total Minimum Lease Payments	<u>\$ 1,475,165</u>	<u>\$ 1,375,000</u>	<u>\$ 100,165</u>

2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005B, Refunding	\$ 210,000	5.0	2020
Series 2011A, Refunding	<u>55,000</u>	5.0	2015
Total Bonds Payable	<u>\$ 265,000</u>		

These bonds are issued by the SBE 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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the SBE and the SBA.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 63,250	\$ 50,000	\$ 13,250
2015	60,750	50,000	10,750
2016	38,250	30,000	8,250
2017	36,750	30,000	6,750
2018	40,250	35,000	5,250
2019-2020	75,250	70,000	5,250
Total State School Bonds	<u>\$ 314,500</u>	<u>\$ 265,000</u>	<u>\$ 49,500</u>

3. 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	\$ 1,505,000.00	\$	\$ 130,000.00	\$ 1,375,000.00	\$ 130,000.00
Bonds Payable	310,000.00		45,000.00	265,000.00	50,000.00
Compensated Absences Payable	1,273,366.91	61,252.43	94,401.85	1,240,217.49	19,586.35
Other Postemployment Benefits Payable	1,001,873.00	314,413.00	181,848.00	1,134,438.00	
Total Governmental Activities	<u>\$ 4,090,239.91</u>	<u>\$ 375,665.43</u>	<u>\$ 451,249.85</u>	<u>\$ 4,014,655.49</u>	<u>\$ 199,586.35</u>

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

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is 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 Fund Balance.** Restricted fund balance is 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.

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

- **Unassigned Fund Balance.** The unassigned fund balance is 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.

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 278,214.89	\$
Special Revenue:		
Other		270,464.89
Federal Economic Stimulus		7,750.00
Total	<u>\$ 278,214.89</u>	<u>\$ 278,214.89</u>

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

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2012-13 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 10,329,894.00
Categorical Educational Program - Class Size Reduction	2,329,230.00
School Recognition	201,862.00
Workforce Development Program	133,564.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	82,222.33
Gross Receipts Tax (Public Education Capital Outlay)	35,577.00
Food Service Supplement	12,864.00
Mobile Home License Tax	775.20
Miscellaneous	332,600.74
Total	<u>\$ 13,458,589.27</u>

Accounting policies relating to certain State revenue sources are described in note I.G.2.

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.536	\$ 1,363,889.74
Basic Discretionary Local Effort	0.748	184,282.79
Critical Operating Needs	0.250	61,591.84
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	369,551.05
Total	<u>8.034</u>	<u>\$ 1,979,315.42</u>

L. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 182,905.44	\$
Nonmajor Governmental		182,905.44
Total	<u>\$ 182,905.44</u>	<u>\$ 182,905.44</u>

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

III. LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims should become a liability of the General Fund or other applicable funds. The questioned costs identified in the audit for the fiscal year ended June 30, 2013, totaled \$548,951.43.

THIS PAGE INTENTIONALLY LEFT BLANK.

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, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 55,000.00	\$ 55,000.00	\$ 60,799.48	\$ 5,799.48
Federal Through State and Local	20,000.00	20,000.00	13,038.52	(6,961.48)
State	13,250,337.00	13,300,049.00	13,329,143.91	29,094.91
Local:				
Property Taxes	1,560,849.00	1,560,849.00	1,561,263.69	414.69
Charges for Services - Food Service				
Miscellaneous	339,500.00	361,540.83	588,146.17	226,605.34
Total Local Revenues	1,900,349.00	1,922,389.83	2,149,409.86	227,020.03
Total Revenues	15,225,686.00	15,297,438.83	15,552,391.77	254,952.94
Expenditures				
Current - Education:				
Instruction	8,517,819.37	9,608,924.10	9,544,084.19	64,839.91
Pupil Personnel Services	654,482.05	654,482.05	639,547.85	14,934.20
Instructional Media Services	210,216.15	210,216.15	204,055.69	6,160.46
Instruction and Curriculum Development Services	219,188.07	239,188.07	238,100.53	1,087.54
Instructional Staff Training Services	258,553.22	259,939.22	257,163.14	2,776.08
Instruction Related Technology	34,021.77	34,021.77	32,385.11	1,636.66
School Board	216,697.50	216,697.50	216,593.10	104.40
General Administration	355,363.48	355,363.48	351,958.87	3,404.61
School Administration	765,209.00	765,209.00	755,272.85	9,936.15
Facilities Acquisition and Construction	87,501.00	81,178.00	14,607.80	66,570.20
Fiscal Services	423,275.44	446,275.44	444,236.61	2,038.83
Food Services				
Central Services	107,068.56	217,068.56	215,794.57	1,273.99
Pupil Transportation Services	730,341.30	731,971.80	731,330.37	641.43
Operation of Plant	1,557,056.70	1,557,056.70	1,503,180.00	53,876.70
Maintenance of Plant	475,183.00	469,962.01	453,830.68	16,131.33
Administrative Technology Services	142,652.71	147,200.47	146,482.48	717.99
Community Services	263,672.48	275,672.48	274,487.01	1,185.47
Fixed Capital Outlay:				
Other Capital Outlay		44,254.82	44,254.82	
Total Expenditures	15,018,301.80	16,314,681.62	16,067,365.67	247,315.95
Excess (Deficiency) of Revenues Over Expenditures	207,384.20	(1,017,242.79)	(514,973.90)	502,268.89
Other Financing Sources (Uses)				
Transfers In			182,905.44	182,905.44
Insurance Loss Recoveries	40,000.00	40,000.00	114,653.27	74,653.27
Transfers Out	(251,500.00)	(251,500.00)		251,500.00
Total Other Financing Sources (Uses)	(211,500.00)	(211,500.00)	297,558.71	509,058.71
Net Change in Fund Balances	(4,115.80)	(1,228,742.79)	(217,415.19)	1,011,327.60
Fund Balances, Beginning			1,863,691.57	1,863,691.57
Fund Balances, Ending	\$ (4,115.80)	\$ (1,228,742.79)	\$ 1,646,276.38	\$ 2,875,019.17

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)
\$	\$	\$	\$	\$	\$	\$	\$
585,500.00	585,500.00	760,747.43	175,247.43	1,243,947.42	39,496.04	39,496.04	
14,000.00	14,000.00	12,864.00	(1,136.00)		1,472,215.30	1,400,406.50	(71,808.80)
242,500.00	242,500.00	215,236.32	(27,263.68)				
<u>242,500.00</u>	<u>242,500.00</u>	<u>215,236.32</u>	<u>(27,263.68)</u>				
<u>842,000.00</u>	<u>842,000.00</u>	<u>988,847.75</u>	<u>146,847.75</u>	<u>1,243,947.42</u>	<u>1,511,711.34</u>	<u>1,439,902.54</u>	<u>(71,808.80)</u>
				989,020.96	1,050,813.46	1,012,776.69	38,036.77
				87,657.35	86,184.43	81,801.77	4,382.66
					131.14	131.14	
				9,100.00	10,219.76	5,432.80	4,786.96
				20,797.95	276,254.74	255,443.24	20,811.50
				62,722.76	51,410.83	51,410.83	
				53,057.64			
1,229,723.75	1,209,748.17	1,097,481.79	112,266.38				
				21,590.76	25,881.80	22,090.89	3,790.91
	19,975.58	19,975.58			10,815.18	10,815.18	
<u>1,229,723.75</u>	<u>1,229,723.75</u>	<u>1,117,457.37</u>	<u>112,266.38</u>	<u>1,243,947.42</u>	<u>1,511,711.34</u>	<u>1,439,902.54</u>	<u>71,808.80</u>
<u>(387,723.75)</u>	<u>(387,723.75)</u>	<u>(128,609.62)</u>	<u>259,114.13</u>				
(387,723.75)	(387,723.75)	(128,609.62)	259,114.13				
		499,136.18	499,136.18				
<u>\$ (387,723.75)</u>	<u>\$ (387,723.75)</u>	<u>\$ 370,526.56</u>	<u>\$ 758,250.31</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, 2013

	Special Revenue - Federal Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	13,500.00	36,855.90	26,975.78	(9,880.12)
Local:				
Property Taxes				
Charges for Services - Food Service				
Miscellaneous				
Total Local Revenues				
Total Revenues	<u>13,500.00</u>	<u>36,855.90</u>	<u>26,975.78</u>	<u>(9,880.12)</u>
Expenditures				
Current - Education:				
Instruction	2,500.00	4,488.82	1,035.78	3,453.04
Pupil Personnel Services				
Instructional Media Services				
Instruction and Curriculum Development Services				
Instructional Staff Training Services	11,000.00	14,080.00	13,340.00	740.00
Instruction Related Technology		15,355.90	11,000.00	4,355.90
School Board				
General Administration				
School Administration		1,600.00	1,600.00	
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:				
Other Capital Outlay				
Total Expenditures	<u>13,500.00</u>	<u>35,524.72</u>	<u>26,975.78</u>	<u>8,548.94</u>
Excess (Deficiency) of Revenues Over Expenditures		<u>1,331.18</u>		<u>(1,331.18)</u>
Other Financing Sources (Uses)				
Transfers In				
Insurance Loss Recoveries				
Transfers Out				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances		1,331.18		(1,331.18)
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 1,331.18</u>	<u>\$ 0.00</u>	<u>\$ (1,331.18)</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
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%
July 1, 2012	0	3,306,653	3,306,653	0.0%	11,448,059	28.9%

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

**UNION COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (SBE) 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 SBE 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.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- 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.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2012, unfunded actuarial accrued liability of \$3,306,653 was significantly higher than the July 1, 2010, liability of \$1,935,102 as a result of the following changes in actuarial assumptions:

- Expected medical inflation has been updated to reflect the current economic environment.
- Expected medical claims have been updated to reflect current plan structure and economic environment.
- The mortality assumption has been updated to comply with current Actuarial Standards of Practice.
- The retirement, withdrawal, and disability decrements have been updated to match updates to the assumptions used in the Florida Retirement System valuation.
- Future retiree medical participation assumption has been updated to fall within actuary participation guidelines, and to better reflect recent plan experience.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**UNION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

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 Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	\$ 126,810.65
National School Lunch Program	10.555 (2)(A)	300	653,604.42
Summer Food Service Program for Children	10.559	323	9,041.88
Total United States Department of Agriculture			789,456.95
United States General Services Administration:			
Indirect:			
Florida Department of Management Services:			
Donation of Federal Surplus Personal Property	39.003 (2)(B)	None	1,000.00
United States Department of Education:			
Direct:			
Teacher Incentive Fund	84.374 (4)	N/A	39,496.04
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (3)	263	494,030.36
Special Education - Preschool Grants	84.173	267	23,798.48
Levy County District School Board:			
Special Education - Grants to States	84.027 (3)	None	3,766.67
Putnam County District School Board:			
Special Education - Grants to States	84.027 (3)	None	3,512.87
Total Special Education Cluster			525,108.38
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	45,852.00
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	608,562.34
Career and Technical Education - Basic Grants to States	84.048	161	46,935.00
Education for Homeless Children and Youth	84.196	127	23,750.00
Rural Education	84.358	110	42,377.00
Improving Teacher Quality State Grants	84.367	224	114,021.04
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	RL111, RD211	26,975.78
Putnam County District School Board:			
Teacher Incentive Fund	84.374 (4)	None	711.78
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	None	1,939.26
Total Indirect			1,436,232.58
Total United States Department of Education			1,475,728.62
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	59,960.45
Total Expenditures of Federal Awards			\$ 2,326,146.02

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 \$100,766.26 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) Donation of Federal Surplus Personal Property - Represents 23.3 percent of the original acquisition costs of the donated Federal surplus personal property obtained during the fiscal year.

(3) Special Education - Grants to States. Total CFDA No. 84.027 expenditures: \$501,309.90.

(4) Teacher Incentive Fund. Total CFDA No. 84.374 expenditures: \$40,207.82.

(5) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: \$28,915.04.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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*

Report on the Financial Statements

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 17, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds as described in our report on the Union County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 17, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

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, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on Special Education Cluster

As described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding CFDA Nos. 84.027 and 84.173, Special Education Cluster programs as described in Federal Awards Finding No. 1 for Matching, Level of Effort, and Earmarking – Maintenance of Effort. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualified Opinion on Special Education Cluster

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster programs for the fiscal year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major Federal program identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** for the fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 and 3. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 control 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. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 and 3 to be significant deficiencies.

Management's Response

Management's response to the findings identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 17, 2014

**UNION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs except for the Special Education Cluster (CFDA Nos. 84.027 and 84.173), which was qualified.
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:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**UNION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ADDITIONAL MATTERS

Finding No. 1: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances 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.

During the 2012-13 fiscal year, the District maintained seven bank accounts and at June 30, 2013, the District reported cash balances totaling \$2.6 million. However, the June 2013 bank account reconciliations for three bank accounts with bank balances totaling \$2.2 million, had certain unreconciled differences, as follows:

Account Description	Balance at June 30, 2013		
	General Ledger	Reconciled Bank	Difference
GENERAL PURPOSE	\$ 964,164.06	\$ 1,172,414.15	\$ (208,250.09)
ACCOUNTS PAYABLE	82,607.05	84,206.05	(1,599.00)
PAYROLL	668,044.61	424,797.35	243,247.26

We extended our procedures and determined that the differences above occurred mainly because District personnel made certain entries after the bank account reconciliations were prepared, and backdated the entries to June 30, 2013. However, after consideration of these backdated entries, there remained a difference of \$33,397.17 for the payroll bank account that, although requested, District personnel could not explain.

While our extended audit procedures determined amounts reported for cash on the financial statements are 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 properly completed bank account reconciliations, errors or fraud could occur without timely detection. A similar finding was noted in our report No. 2013-162.

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

Finding No. 2: Health Insurance

Section 1012.22(1)(c), Florida Statutes, requires that the Board adopt salary schedules to establish compensation of District employees. For the 2012-13 fiscal year, the Board-approved salary schedules required the District to contribute \$4,434.54 per year toward health insurance of full-time employees and Board Policy 6.321 prohibits the District from paying the health insurance contribution for dependents included in the employee's health insurance

premium. Also, pursuant to Section 112.0801, Florida Statutes, the District allows former employees and their dependents to participate in the District's health insurance plan and, pursuant to Board policy, contributes to the insurance premium for retirees who were employed on or before June 30, 2000, with at least 12 years' experience with the District.

During the 2012-13 fiscal year, 246 employees and retirees contributed \$679,639 to participate in the District's health insurance plan and the District contributed \$1,452,455 toward health insurance of these employees and retirees. However, the District did not have procedures, such as reconciliations of health insurance billings to payroll records, to ensure that health insurance payments are only for eligible participants. We extended our procedures to compare insurance provider billings with District records of employees participating in the District's health insurance plan and determined that, as of December 2013, the District continued to pay health insurance premiums for family coverage of a former employee who resigned, without retiring, in December 2012. Since Board contributions toward health insurance is limited to full-time employees or certain retirees, the basis for the Board's continued health insurance contributions for the former employee was not readily apparent. As such, from the former employee's termination date through December 2013, the District incurred \$17,886 in excessive health insurance premiums for the former employee.

Also, during the 2012-13 fiscal year, the District paid a total of \$465,117 for 213 employees and retirees in excess of the annual maximum Board-approved health insurance contribution (\$4,434.54 per eligible individual per year), in amounts ranging from \$2.59 to \$7,097.59 per individual. District personnel indicated that the District used the premium amounts that it would have paid for employees who decided not to participate in the District's health insurance plan to subsidize insurance premiums of those enrolled in the plan; however, this practice is contrary to the Board-approved salary schedule and Board policy. As a result, the District made \$483,003 of excessive health insurance premium payments for the 213 employees and retirees for the 2012-13 fiscal year.

Recommendation: The District should establish procedures to ensure that the Board contributions toward health insurance premium payments are only for eligible participants and that contribution amounts are consistent with Board-approved salary schedules.

Finding No. 3: Capital Assets

At June 30, 2013, the District's investment in capital assets totaled \$21.1 million, net of accumulated depreciation. To determine the balances reported in the financial statements for these assets, District personnel added the current fiscal year capital outlay expenditures to the balances reported in the prior fiscal year financial statements. While this procedure may fairly present financial statement balances, it is not a substitute for establishing and maintaining an adequate record system to account for the District's individual capital assets.

Our review disclosed differences between asset balances in the District's detailed subsidiary records and amounts reported in the financial statements at June 30, 2013, for the following capital asset types:

Description	June 30, 2013		Difference
	Per Note II.C. to the Financial Statements	Subsidiary Records	
Land	\$ 517,173.45	\$ 501,988.45	\$ 15,185.00
Buildings and Fixed Equipment	32,186,601.66	31,919,317.48	267,284.18
Improvements Other Than Buildings	1,346,502.57	2,036,174.89	(689,672.32)
Furniture, Fixtures, and Equipment	3,437,960.24	3,434,508.90	3,451.34
Net Difference			<u>\$ (403,751.80)</u>

Through inquiry and review of District records, we noted the following that contributed to these differences:

- In the 2010-11 fiscal year, the District accepted audit adjustments to reclassify \$245,961 from improvements other than buildings and \$22,533 from furniture, fixtures and equipment to buildings and fixed equipment. However, while these adjustments were recorded in the District's general ledger, the District did not adjust its subsidiary records for these amounts.
- Subsidiary records for improvements other than buildings included many items expensed in the general ledger in prior fiscal years.
- Subsidiary records for land erroneously excluded two land deletions from a prior fiscal year totaling \$15,185.

Also, because the District used the subsidiary records to compute depreciation, the District erroneously reported \$1,219,229.32 of accumulated depreciation for improvements other than buildings, which exceeded the total cost of the assets being depreciated by \$21,888.46. We extended our audit procedures to determine the adjustment necessary to properly report the accumulated depreciation, and District personnel accepted this adjustment. However, without accurate detailed subsidiary property records, based on applicable general ledger transactions, the District has limited assurance that proper accountability is established for these assets.

Recommendation: The District should strengthen procedures to ensure the adequacy of its records supporting capital assets.

Finding No. 4: Facilities Maintenance

The Director of Finance is responsible for coordinating outsourced construction and renovation projects, and the Maintenance Specialist, who is responsible for ensuring facilities are safe and suitable for their intended use, oversees maintenance personnel. Maintenance department personnel perform heating, ventilating, and air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the District had five full-time maintenance department employees, and the department's operating cost was \$453,831. Also, during the fiscal year, the District had no major construction projects. As shown on the District's Five-Year Facilities Work Plan approved by the Board on October 8, 2013, the District planned to spend no amounts on construction and \$618,160 on maintenance over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$34 million and, as shown on the Florida Department of Education's (FDOE) Florida Inventory of School Houses data, District facilities had an average age of 35 years.

Given the significant commitment of public funds to maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating maintenance techniques to determine the most cost-effective and efficient technique. In addition, performance evaluations could include established goals for maintenance operations, and measurable objectives or benchmarks that

are clearly defined, to document the extent to which goals and accountability for maintenance department employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Maintenance Techniques.** Maintenance-related jobs, such as plumbing, electrical and HVAC repairs, are routinely performed by maintenance department personnel based on safety and suitability priorities, although some jobs are outsourced to contractors. District personnel indicated that they had not established written policies and procedures for evaluating the various maintenance-related job techniques and, while they consider alternative techniques, they have not documented evaluations of the various approaches to determine, for each significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial maintenance technique.
- **Accountability.** The maintenance department had not established goals that identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the maintenance department could set goals such as completing maintenance-related jobs that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a job did not initially meet building code requirements, and to compare job costs to industry standards for similar work.

Additional goals could include setting benchmark time frames for routine jobs, and progress toward meeting the goals could be measured by comparing job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its maintenance department is operating as cost-effectively and efficiently as possible.

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

Finding No. 5: Bus Drivers

State Board of Education (SBE) Rule 6A-3.0141(6), Florida Administrative Code (FAC), requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) drivers' history records for school bus drivers prior to initial employment and the first day of the fall semester, and thereafter using automated weekly updates. Also, the District's Safe Driver Plan provides, in part, a point system for driving infractions that requires administrative actions against drivers, ranging from verbal warnings to employment termination, based on the points accumulated. In addition, Section 1012.465(2), Florida Statutes, provides that noninstructional employees, such as bus drivers, who are permitted access to school grounds when students are present or who have direct contact with students, must undergo certain background screenings at least every five years.

District personnel indicated that they monitored drivers' history records by reviewing the FDHSMV driver's history electronically through the FDOE school bus driver records system; however, District records did not evidence a weekly review to confirm drivers were appropriately licensed, contrary to SBE Rule 6A-3.0141(6), FAC. Our comparison of District records to FDHSMV driver's history records disclosed one substitute bus driver who drove regularly scheduled bus routes, and three scheduled trips for school activities, for a total of 19 days with a suspended license (for failure to pay a traffic citation) from April 17, 2012, until the driver's licence was restored on September 17, 2012. Further, there was no evidence that the District was aware of the employee's license suspension.

During the 2012-13 fiscal year, the District reimbursed another school district \$2,755 for five school bus drivers who drove school buses a total of 200 hours for the District. Although these drivers were employed as bus drivers in another school district, the District did not obtain and review the FDHSMV drivers' history records for these bus drivers or monitor their driving records, and did not verify that these drivers had the required background screenings. District personnel indicated that they relied on the school district that employed these bus drivers to monitor their drivers' records and to periodically perform background screenings. However, District records did not evidence an agreement with the other school district setting forth these responsibilities. Without appropriate monitoring of drivers' records and background screenings, there is an increased risk that bus drivers may have inappropriate driving histories and have unsuitable backgrounds to access students.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel review bus driver history automated weekly updates and ensure bus drivers undergo required background screenings.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses, and that required background screenings of school bus drivers are performed.

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 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the FDOE's instructional hours reporting procedures.

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. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2012-13 fiscal year, the District reported to the FDOE 6,378 instructional contact hours for 77 students enrolled in 321 adult general education classes. Our review of 646 hours reported for 10 students enrolled in 35 adult general education classes disclosed a net of 250 hours over-reported for 10 students in 32 classes. Although requested, District personnel were unable to provide an explanation for the differences. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our audit report Nos. 2012-097 and 2013-162.

Recommendation: The District should strengthen 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 hours misreported and contact the FDOE for proper resolution.

Finding No. 7: Virtual Instruction

Section 1002.45, Florida Statutes, establishes virtual instruction program (VIP) requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District contracted with the North East Florida Educational Consortium (NEFEC) to administer certain aspects of the VIP. During the 2012-13 fiscal year, 3 students were enrolled full-time, and 14 students were enrolled in one or two courses to supplement their school academic activity. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with the VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Additionally, the lack of written VIP policies and procedures may have contributed to the following instances of the District's noncompliance and control deficiencies:

- Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in VIPs, and Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely written notification of the open enrollment periods for their VIPs. The District's and NEFEC's Web sites have links with information about the District's VIP, and the District distributes information regarding the VIP at back-to-school night at the beginning of the school year; however, District records did not evidence that written notifications were provided directly to parents or legal guardians. Without such direct notifications, some parents or legal guardians may not have been informed of the available VIP options and the associated enrollment periods, potentially resulting in limited student access to virtual instruction types.
- Section 1002.455(1), Florida Statutes, authorizes students to participate in VIPs if they meet certain eligibility criteria as specified in Section 1002.455(2), Florida Statutes, such as attending a Florida public school in the prior school year and being funded by the Florida Education Finance Program. Although school district personnel indicated that student eligibility was verified subsequent to enrollment in a VIP, the school districts' records did not evidence the verification of each student's eligibility.
- Section 1012.55(1), Florida Statutes, requires that each person serving in an instructional capacity in any public school in any school district within the State, including personnel providing direct instruction to students through a virtual environment or through a blended virtual and physical environment, hold the certificate required by law. The District's contract with NEFEC provided that NEFEC was responsible for assigning teachers who are certified in their respective areas and for supervising the contracted teachers. However, the District did not request or obtain confirmation that the teachers were certified or were subject to required background screenings.
- Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance. NEFEC has a record each time that a student logs in to work on a course, and the District relies on NEFEC to maintain attendance and to inform the District if a student is not participating as necessary to remain in the course. However, the District did not maintain attendance information for the three students who were enrolled full-time and who took courses from locations other than at one of the District's schools. As such, District records did not evidence that these students satisfied the statutorily required compulsory attendance requirements.
- Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home. District personnel indicated that the NEFEC web site offers a hardship application; however, District records did not evidence direct communication with the

families. Without appropriately notifying parents of students in VIPs of the availability of computer equipment and Internet access, students may not have the computing resources required to successfully complete VIP courses. The District did not provide computers or Internet access to any students.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should ensure written notification to parents and students about participation in VIP, documented students' eligibility, documented verification that teachers who provide VIP services are appropriately certified and subject to required background screenings, documented verification that the VIP students complied with compulsory attendance requirements, and qualified VIP students are provided computer resources.

Finding No. 8: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our tests of selected access privileges to the District's finance and human resources (HR) applications disclosed that some District employees had access privileges that permitted employees to perform unnecessary and incompatible functions. Specifically, the Director of Finance and the Accountant had system-wide access privileges that allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data. In addition, the Director of Finance's job responsibilities included security within the applications. In response to our inquiry, District management indicated that systemwide access had been assigned to the Accountant for backup security administrator responsibilities.

The District had certain compensating controls in place, such as supervisory monitoring of expenditures. Nevertheless, complete update access privileges to the applications did not appear necessary for these employees' responsibilities and were contrary to an appropriate separation of end-user functions. Additionally, although logs of access to and modification of sensitive or critical tables, files, or transactions were available, the District did not have written policies and procedures in place for monitoring the logs. The existence of the inappropriate and unnecessary access privileges described above indicated a need for an improved assignment of access to functions within the finance and HR applications and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should ensure that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities. In addition, the District should develop written policies and procedures for monitoring application data logs.

Finding No. 9: Information Technology – Disaster Recovery

An important element of an effective internal control system over IT operations is a disaster recovery plan to help minimize data and asset loss in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel, the critical applications, provide for backups of critical data sets, and provide a

step-by-step plan for recovery. In addition, plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The District participates in the North East Florida Educational Consortium (NEFEC) and obtains certain IT services, such as financial, payroll, and other critical applications. The agreement provides that NEFEC will provide the District an alternate-processing site in the event of a disaster that interrupts critical IT operations; however, the District had not established a written comprehensive disaster recovery plan. The District could use the plan to assign employee responsibilities for recovery activities and identify specific District processes and procedures to be followed when NEFEC is inoperable or other events interrupt District operations to affect the recovery and restoration of financial, payroll, and other critical applications.

Without a detailed plan for the District's disaster recovery and annual testing of the plan, there is an increased risk that the District may be unable to continue critical operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations.

Recommendation: The District should develop a written comprehensive disaster recovery plan to assign employee responsibilities and specific District processes and procedures to be followed when NEFEC is inoperable or other events interrupt District operations to affect the recovery and restoration of financial, payroll, and other critical applications. Once established, the disaster recovery plan should be tested annually.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Pass-Through Entity: Florida Department of Education

Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: \$397,208.43

Matching, Level of Effort, and Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of local funds or the combined State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

The District did not have procedures to monitor compliance with the maintenance of effort requirement during the 2012-13 fiscal year. Using the most favorable calculation measure (in total, aggregate analysis based on FDOE calculation methodology), we determined that the District's local fiscal effort for special education services decreased from the 2011-12 fiscal year to the 2012-13 fiscal year, resulting in a maintenance of effort shortfall of \$397,208.43 as shown below:

Exceptional Student Education (ESE) Aggregate Analysis	Fiscal Year	
	2012-13	2011-12
Total General Fund ESE Expenditures	\$ 1,424,420.82	\$ 1,869,714.68
Less: Total State Effort from Below (1)	(658,339.39)	(706,424.82)
Required Local Effort	766,081.43	\$ 1,163,289.86
Less Required Local Effort from 2011-12 Fiscal Year	(1,163,289.86)	
Maintenance of Effort Shortfall	\$ (397,208.43)	
Note (1): Total State Effort Calculation		
State ESE Guaranteed Allocation	\$ 547,939.00	\$ 569,193.00
State ESE Weighted Funding	110,400.39	137,231.82
Total State ESE Effort Provided	\$ 658,339.39	\$ 706,424.82

Source: District Expenditure and FDOE Funding Records

The deficiency in maintenance of effort of \$397,208.43 represents questioned costs subject to disallowance by the grantor.

According to the FDOE's publication titled *Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), school districts are required to separately account for ESE expenditures in their general ledger using a specific ESE functional classification. The District indicated that the 2012-13 fiscal year shortfall occurred as a result of changing employee position codes to align with job code descriptions that moved the expenditures from the ESE functional classification; however, District records did not evidence that these changes were consistent with employees' actual duties performed and the basis upon which the position code changes were made was not readily apparent. As such, District records did not evidence that these position code changes impacted compliance with the maintenance of effort requirement. Without procedures to monitor the distribution of compensation costs by duties performed and applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services, and the grantor may reduce future Special Education Cluster program awards.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding the Matching, Level of Effort, Earmarking – Maintenance of Effort that is applicable to its Special Education Cluster programs, our report on the District's compliance with those requirements includes a qualification to that effect.

Recommendation: The District should establish controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with Federal maintenance of effort requirements or restore \$397,208.43 to the Special Education Cluster programs.

District Contact Person and Title: Renae Prevatt, Director of Finance

Federal Awards Finding No. 2:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Title I Grants to Local Educational Agencies (CFDA No. 84.010)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** \$82,179

Period of Availability of Federal Funds. Title 34, Section 80.23, Code of Federal Regulations, provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period unless carryover of unobligated funds is permitted. During the 2012-13 fiscal year, the District expended \$608,562.34 in Title I program funds, including \$431,306.89 Title I, Part A, Education of Disadvantaged Children and Youth program funds with a grant period of July 1, 2012, to June 30, 2013. The FDOE may approve the carryforward of unobligated balances of up to 15 percent of the fiscal year award amount and any remaining balance reverts to the grantor.

On May 31, 2013, the District used grant proceeds of \$18,050 for educational software subscriptions from one vendor for the period from June 23, 2013, to June 22, 2014, including \$17,654 applicable to the period subsequent to June 30, 2013, and \$64,525 for educational software subscriptions from another vendor for the period from August 1, 2013, to June 30, 2014. We were informed that the District expended the money to keep the anticipated unexpended fiscal year-end balance below the 15 percent carryforward threshold. However, the period of availability for the grant ended June 30, 2013, resulting in questioned costs of \$82,179.

Recommendation: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the \$82,179 of questioned costs or restore this amount to the Title I program.

District Contact Person and Title: Renae Prevatt, Director of Finance

Federal Awards Finding No. 3:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education - Grants to States (CFDA No. 84.027); Education for Homeless Children and Youth (CFDA No 84.196); Improving Teacher Quality State Grants (CFDA 84.367)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** \$69,564

Allowable Costs/Cost Principles. United States Office of Management and Budget Circular A-87, Attachment A, Section C, provides that for an expenditure to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal award and must be adequately documented. The District provides health insurance coverage to its employees as a fringe benefit and, as noted in Additional Matters – Finding No. 2, the Board authorized a District contribution of \$4,434.54 per employee towards the payment of the health insurance premium, including employees funded by Federal programs.

Employees who elected not to receive District-provided health insurance coverage were provided an option to participate in disability, dental, and increased life insurance coverage at the District's expense, including charges to Federal programs for employees who worked in the programs. While the costs of these other benefits were less than the costs of the Board-approved health insurance premium assessed to the Federal programs for employees

participating in the health insurance program, District records did not evidence the authority for assessing Federal programs for these insurance premiums. For 17 employees who elected not to receive health coverage using the District's health insurance coverage, the District incurred expenditures of \$69,564, including \$977 of indirect costs, to Federal programs for employees participating in disability, dental, and increased life insurance coverage in excess of the Board-established premium costs. As such, \$69,564 represents questioned costs subject to disallowance by the respective grantors.

The questioned costs included \$32,225 charged to Child Nutrition Cluster programs (CFDA Nos. 10.553, 10.555, and 10.559) for 8 employees; \$19,068 charged to the Title I program (CFDA No. 84.010) for 5 employees; \$9,756 charged to the Special Education – Grants to States program (CFDA No. 84.027) for 2 employees; \$3,104 charged to the Education for Homeless Children and Youth program (CFDA No. 84.196) for 1 employee; and \$4,434 charged to the Improving Teacher Quality program (CFDA No. 84.367) for 1 employee. Also, the District incurred questioned cost of \$977 for indirect cost related to unauthorized insurance premium costs charged to the Title I program. Without controls to ensure the proper authorization of Federal program expenditures, there is an increased risk of using program funds for purposes inconsistent with the grant terms.

Recommendation: The District should enhance its procedures to ensure that Federal program expenditures are appropriately authorized. Also, the District should document to the respective grantors the allowability of questioned costs of \$69,564 (including \$977 indirect costs) or restore these moneys to the appropriate Federal programs.

District Contact Person and Title: 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. 2013-162. The following table provides information on recurring District findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
Finding No. 1	Audit Report No. 2013-162, Finding No. 2	NA
Finding No. 6	Audit Report No. 2013-162, Finding No. 6	Audit Report No. 2012-097, Finding No. 5

NA - Not Applicable. (Note: Above chart limits recurring findings to two previous audit reports.)

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, 2013*

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

Audit Report No. and Federal Awards Finding No.	Program / Area	Brief Description	Status	Comments
2013-162 (1)	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); and State Fiscal Stabilization (SFSF) Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395) - Reporting	Improvements were needed in District procedures for reporting program information and related expenditures on the Schedule of Expenditures of Federal Awards.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF UNION COUNTY

Carlton Faulk, Superintendent
55 SW 6th Street
Lake Butler, FL 32054
(386) 496-2045 FAX 386-496-4819

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

March 6, 2014

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 14, 2014 for the Union County District School Board for the fiscal year ending June 30, 2013.

Finding No. 1: The District should enhance its procedures to ensure that bank account reconciliations are properly completed, including prompt identification and resolution of reconciling items.

District Response: The District believes the reconciliation process in place assures the detection of errors and fraud. The District will work to improve the process to clarify all transactions and differences considered in the bank reconciliation process.

Finding No.2: The District should establish procedures to ensure that the Board contributions toward health insurance premium payments are only eligible participants and that contribution amounts are consistent with Board-approved salary schedules.

District Response: The District will revise the Board-approved salary schedule to clearly outline the Board's intended plan of action relating to the payment of health insurance premiums to those employees who elect coverage and those benefits provided to opt-out employees. The District process for setting employee contributions and board contributions takes the opt-in and opt-out population into account. This consideration is a sound method for the Board to determine the annual cost to provide the benefit. Modifications to the individual tracking of the board contribution benefit may be altered in order to provide a more clear and transparent process for the individual transaction versus the overall process.

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

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3: The District should strengthen procedures to ensure the adequacy of its records supporting capital assets.

District Response: District personnel are continuing efforts to resolve and refine the capital asset subsidiary system. Ongoing work has spanned several fiscal periods in order to correct and clean data from past periods and prior accounting systems. Newly instated policies and procedures ensure recent additions and deletions are properly recorded and stated.

Finding No. 4: The District should consider developing written policies and procedures requiring the periodic evaluation of alternative significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing goals and objectives for the maintenance department personnel to identify cost-effectiveness or efficiency outcomes for department personnel.

District Response: The Superintendent annually reviews all maintenance department personnel for acceptable job performance. In addition, the District utilizes a work order tracking system for trouble calls and/or maintenance requests throughout the district. The District and Board will discuss possible solutions for the resolution of this finding. The District would benefit from a consortium driven initiative to lessen the burden of the undertaking due to the small size of the district and maintenance department.

Finding No. 5: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses, and that required background screenings of school bus drivers are performed.

District Response: The District has enhanced its current procedures, in addition to developing and implementing an additional procedure to verify compliance with licensure and background screenings.

Finding No. 6: The District should strengthen 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 hours misreported and contact the FDOE for proper resolution.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

District Response: In response to the prior year audit MIS contacted FDOE for detailed explanation on how to more accurately report contact hours for Adult Ed. The District implemented these procedures accordingly. District MIS staff nor the auditor could determine a pattern with the current records in question by the auditor, however, MIS staff have since discovered an error in the entry and processing of the data and has corrected the procedure. The District strives to record and report correct enrollment data. FDOE provides no errors or validations on contact hours versus enrollment dates.

Finding No. 7: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should ensure written notification to parents and students about participation in VIP, documented students' eligibility, documented verification that teachers who provide VIP services are appropriately certified and subject to required background screenings, documented verification that the VIP students complied with compulsory attendance requirements, and qualified VIP students are provided computer resources.

District Response: The District will develop a document outlining procedures for Virtual Instruction in our district. The document will be developed and put into place prior to the beginning of the 2014-15 school year.

Finding No. 8: The District should ensure that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities. In addition, the District should develop written policies and procedures for monitoring application data logs.

District Response: The District access structure is necessary to provide a proper contingency plan. However, the District will institute an additional compensating control to guard against inappropriate use or possible fraud. Security reports will be directed automatically from the Skyward system to an employee outside of the Finance Department for review periodically.

Finding No. 9: The District should develop a written comprehensive disaster recovery plan to assign employee responsibilities and specific District processes and procedures

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

to be followed when NEFEC is inoperable or other events interrupt District operations to affect the recovery and restoration of financial, payroll, and other critical applications. Once established, the disaster recovery plan should be tested annually.

District Response: All Financial, payroll, and SIS data is stored and backed up by NEFEC. The District backs up and stores electronic communications with Google. The District is covered under the Disaster Recovery Plans of these partners. The District will formalize the current process with a document addressing protocol in the event of NEFEC becoming inoperable.

Federal Awards Finding No. 1: The District should establish controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with Federal maintenance of effort requirements or restore \$397,208.43 to the Special Education Cluster programs.

District Response: The District will work with FDOE to resolve the maintenance of effort shortfall created by the functional change of staff assignments from the 2011-2012 to the 2012-2013 fiscal year.

Federal Awards Finding No. 2: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the \$82,179 of questioned costs or restore this amount to the Title I program.

District Response: The District will work with FDOE to resolve the allowability of the questioned costs.

Federal Awards Finding No. 3: The District should enhance its procedures to ensure that Federal program expenditures are appropriately authorized. Also, the District should document to the respective grantors the allowability of questioned costs of \$69,564 (including \$977 indirect costs) or restore these moneys to the appropriate Federal programs.

District Response: The District will work with FDOE to resolve the cited issue and provide documentation supporting the District methodology.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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