REPORT NO. 2013-053
DECEMBER 2012

COLLIER COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	District No.
Pat Carroll	1
Kathleen Curatolo	2
Barbara Berry, Vice Chair from 11-22-11	3
Julie Sprague, Chair to 11-21-11	4
Roy M. Terry, Vice Chair to 11-21-11, Chair from 11-22-11	5

Dr. Kamela Patton, 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 James A. Grattan, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. For the information technology portion of this audit, the audit team leader was Deidre Melton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

COLLIER COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

PAGE NO.

EXECUTIVE SUMMARY i

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 4

BASIC FINANCIAL STATEMENTS

- Statement of Net Assets 14
- Statement of Activities 16
- Balance Sheet – Governmental Funds 18
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 20
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 22
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 24
- Statement of Net Assets – Proprietary Funds 25
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds 26
- Statement of Cash Flows – Proprietary Funds 27
- Statement of Fiduciary Assets and Liabilities – Fiduciary Funds 28
- Notes to Financial Statements 29

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General and Major Special Revenue Funds 54
- Schedule of Funding Progress – Other Postemployment Benefits Plan 56
- Notes to Required Supplementary Information 57

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 58

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* 60

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 62

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 64

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 72

EXHIBIT A MANAGEMENT'S RESPONSE 73

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: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 3: Three of four construction management contracts tested lacked penalty clauses to ensure timely completion of construction projects.

Finding No. 4: District records did not document the basis for reporting $1,608,318 of resources as assigned fund balance in a capital projects fund, and the Board had not officially designated who had the authority to assign fund balances and express the intent of the specific purposes for such assignments.

Finding No. 5: Improvements were needed in monitoring claims paid by a service organization for the health self-insurance plan.

Finding No. 6: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.

Finding No. 7: District IT security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Student Financial Assistance Cluster, Migrant Education, and School Improvement Grants 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.

Audit Objectives and Scope

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

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

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in previous audit reports.

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

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Collier County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 6 percent of the assets and 20 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

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

As discussed in note 1 to the financial statements, the Redlands Christian Migrant Association Immokalee Community School (School) has been reported as a discretely presented component unit in prior fiscal years; however, the School does not meet the criteria of being a component unit of the District and, therefore, is not reported for the 2011-12 fiscal year. This affects the comparability of amounts reported for the 2010-11 fiscal year with amounts reported for the 2011-12 fiscal year.

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
November 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District School Board of Collier County's (District) annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2012. Please read it in conjunction with the District's financial statements which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- The District's total net assets decreased by $27.1 million, or 3 percent.
- General revenues totaled $459.1 million, or 94.8 percent of all revenues in the 2011-12 fiscal year, compared to $496.6 or 93.9 percent in the prior fiscal year. Program-specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled $25.2 million, or 5.2 percent, compared to $32.2, or 6.1 percent in the prior year.
- The assigned fund balance for the General Fund was $21.1 million, and unassigned fund balance for the General Fund was $50.7 million. The sum of the assigned and unassigned fund balances of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $71.8 million at June 30, 2012, or 18.9 percent of General Fund expenditures. The prior fiscal year sum of the assigned and unassigned fund balances in the General Fund was $91 million, or 25.7 percent of total General Fund expenditures.
- During the current fiscal year, General Fund expenditures and transfers out exceeded revenues and transfers in by $14.3 million. This may be compared to last fiscal year's results in which General Fund revenues and transfers in exceeded expenditures and transfers out by $22.8 million.
- The fund balance of the General Fund reflects a net decrease from $94.9 million to $80.6 million during the 2011-12 fiscal year. The reduction is primarily attributable to the use of prior fiscal year balances to maintain programs in a time of decreased funding. The District set aside funds in prior fiscal periods to offset future funding reductions due to the loss of Federal stabilization funds that helped to sustain programs during the 2009-10 and 2010-11 fiscal years.
- The District has a voter-approved quarter of a mill operating millage valid for four years through the 2012-13 fiscal year. This millage allows the District to assess up to a quarter mill in operating millage in exchange for the equivalent reduction in capital millage. The voter approved operating millage generated approximately $14.5 million during the 2011-12 fiscal year compared to $15.3 million during the prior fiscal year.

NON-FINANCIAL EVENTS

The District's full-time equivalent student (FTE) enrollment increased by 426 students, which was approximately 1 percent during the 2011-2012 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The proprietary funds statements offer short-term and long-term financial information about the activities the District operates as internal service funds, such as self-insurance.
- The fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the fiscal year. Figure A-1 shows how the various parts of this report are arranged and related to one another.

Figure A-1 Annual Financial Report

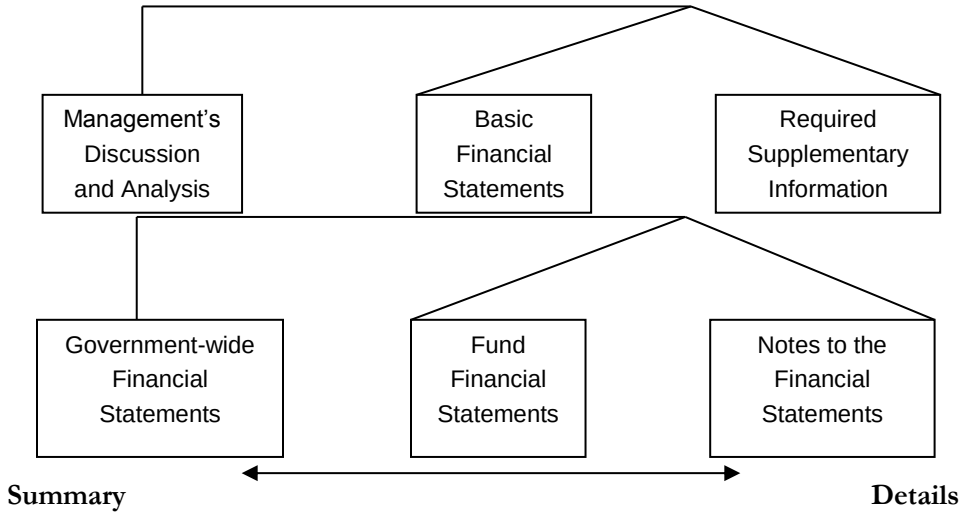


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section highlights the structure and content of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	**Fund Financial Statements**		
		Governmental Funds	***Proprietary Funds***	***Fiduciary Funds***
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as delivery of student instruction and building maintenance.	Activities the District operates similar to private businesses.	Instances in which the District administers resources on behalf of someone else, such as student activity funds.
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Net Assets Statement of Cash Flows	Statement of Fiduciary Assets and Liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both financial and capital, short-term and long-term; funds that do not currently contain capital assets, although they can.
Type of in-flow/out-flow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and deductions during the year, regardless of when cash is received or paid.

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current fiscal year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and changes in the District's net assets. Net assets (the difference between the District's assets and liabilities) are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax base and the condition of the school buildings and other facilities, must be considered.

In the government-wide statements, the District's activities are divided into two categories:

- *Governmental Activities*: Most of the District's basic services are included here, such as student instruction, transportation, maintenance and operations, and administration. Property taxes and State resources finance most of these activities.
- *Component Units*: The District includes two other entities in its report: the Marco Island Charter Middle School, Inc., and the Marco Island Academy, A Public Charter High School, Inc.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds rather than the District as a whole. Funds are accounting devices used to track specific sources of funding and spending on particular programs.

- Some funds are required by State law and debt covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts), or to show that it is properly using certain revenues (such as Federal grants).

The District has three kinds of funds:

- *Governmental Funds:* Most of the District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets can readily be converted to cash flow in and out, and 2) the balances left at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that assists the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, separate reconciliations explain the relationships and differences between these statements.
- *Proprietary Funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District uses internal service funds to report activities that provide supplies and services for its other programs and activities. The District has three internal service funds.
- *Fiduciary Funds:* The District is the trustee or fiduciary for assets that belong to others, such as the Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those for whom the assets are contributed. The District excludes these activities from the government-wide statements because it cannot use these funds to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The District's combined net assets decreased by $27.1 million, from $907.8 million at June 30, 2011, to $880.7 million at June 30, 2012.

Figure A-3

Condensed Statement of Net Assets
(in millions of dollars)

	Governmental Activities	
	June 30, 2012	June 30, 2011
Current and Other Assets	$ 334.8	$ 370.3
Capital Assets	1,078.7	1,090.7
Total Assets	1,413.5	1,461.0
Long-Term Liabilities	513.6	489.9
Other Liabilities	19.2	63.3
Total Liabilities	532.8	553.2
Net Assets:		
Invested in Capital Assets - Net of Related Debt	605.0	593.6
Restricted	194.5	216.3
Unrestricted	81.2	97.9
Total Net Assets	$ 880.7	$ 907.8

The largest portion of the District's net assets, 68.7 percent, reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets, 22.1 percent, represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets, 9.2 percent, may be used to meet the government's ongoing obligations to students, employees, and creditors.

The change in net assets is further depicted as a change in operating results, as shown in Figure A-4 below, which reflects comparisons with the prior period.

Figure A-4

Changes in Net Assets from Operating Results
(in millions of dollars)

	Governmental Activities	
	2011-12	2010-11
Program Revenues:		
Charges for Services	$ 7.6	$ 7.8
Operating Grants and Contributions	15.8	17.6
Capital Grants and Contributions	1.8	6.8
General Revenues:		
Property Taxes	322.0	349.7
Grants and Contributions not Restricted to Specific Programs	125.8	136.7
Other	11.2	10.2
Total Revenue	484.2	528.8
Functions/Program Expenses:		
Instruction	275.2	275.5
Pupil and Instructional Services	46.1	45.2
Administration and Business	40.0	43.0
Maintenance and Operations	105.9	105.3
Transportation	19.1	18.4
Other	25.0	25.9
Total Functions/Expenses	511.3	513.3
Increase (Decrease) in Net Assets	$ (27.1)	$ 15.5

Operating grants and contributions decreased by $1.8 million, directly due to the absence of $1.8 million in State revenue from Public Education Capital Outlay (PECO).

Declining property values and a decrease in the required local effort millage resulted in decreased collections of local taxes. Local taxes for capital purposes decreased by $4 million, and local taxes for operating purposes decreased by $23.7 million, for a total reduction of local tax collections of $27.7 million.

Grants and contributions not restricted to specific program revenues decreased by $10.9 million or 8 percent from the prior fiscal year. The following factors contributed to the change:

- $9.4 million decrease in Federal Education Jobs funding;
- $15.3 million elimination of Federal American Recovery and Reinvestment Act (ARRA) stabilization funds; and
- $5.3 million decrease in Federal ARRA Individuals With Disabilities Education Act funding.

These decreases were partially offset by:

- $12.5 million increase in State Florida Education Finance Program funding;
- $1 million increase in Federal through local funding; and
- $1.3 million increase in Workforce Development funding.

Other revenues increased by $1 million, reflecting a decrease in interest income of $1.7 million and an increase in miscellaneous general revenue of $2.7 million.

Instructional expenses, in total were comparable to the prior fiscal year, and represent 53.8 percent of total governmental activity expenses in the 2011-12 fiscal year.

Pupil and instructional services expenses increased $0.9 million primarily from an increase in costs related to salary and benefits.

Administration and business expenses declined $3 million, primarily from changes in salary and benefits costs.

Transportation expenses increased by $0.7 million or 3.8 percent, an increase which is predominately associated with upgrades to camera equipment on the school bus fleet.

Other expenses decreased $0.9 million or 3.5 percent, primarily from a reduction in interest expense on long-term debt service.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Major Governmental Funds

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

As of the end of the current fiscal year, the District's major governmental funds reported combined ending fund balances of $252.5 million, a decrease of $56.7 million in comparison with the prior fiscal year. The $56.7 million decrease is attributable to a decline in the General Fund of $14.3 million, a decline in the Local Capital Improvement Fund of $21.1 million, and a decline of $21.3 million from the noninclusion of the Other Debt Service Fund as a major fund. Unassigned fund balance of $50.7 million represents 20.1 percent of the ending fund balance and is available to meet the District's short-term spending needs. The restricted portion of fund balance is $175 million representing restricted revenue sources, and $21.2 is assigned by the District for specific use. The nonspendable portion of fund balance is $5.6 million, of which $0.7 million is in inventory and $4.9 million represents prepaid items.

The financial performance of the District as a whole is reflected in its governmental funds, with special emphasis to be placed on the General Fund. The General Fund is the chief operating fund of the District. The fund balance in the General Fund decreased from $94.9 million to $80.6 million. The decrease represents expenditures in excess of revenues and other financing sources by $14.3 million. The decrease required the District to utilize funds set aside in prior fiscal years to cover funding shortfalls. At the end of the current fiscal year, General Fund unassigned fund balance is $50.7 million, while the General Fund total fund balance is $80.6 million.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $3.9 million each, and the funding represents program revenues and expenditures targeted for specific purposes in accordance with ARRA and other Federal stimulus programs. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund, which is used to account for revenues produced by an ad valorem (property) tax levy authorized by the Board to support capital improvements, has a total fund balance of $171.9 million compared to $192.9 million in the preceding fiscal year. The net decrease of $21 million can be primarily attributed to the completion of significant projects. The District planned for an overall reduction in the fund balance of the Local Capital Improvement Fund during these adverse economic times.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District uses a school-based and department-based management model in the operations of its individual schools and departments. This means that the school principals and department managers are given the authority to make operational decisions within certain guidelines and to amend their respective budgets as necessary to effect those decisions. These budgetary decisions are limited to the specific resources allocated to the particular schools or departments. Even though the ultimate budget amendment authority resides with the Board, this delegated authority does cause variations between the original budget and the final budget. Other factors that can also cause variations include differences between projected and actual enrollment and State funding prorations due to Statewide revenue shortfalls. This fiscal year marked a change from the practice of accumulating reserves to help the District offset anticipated funding reductions from the national and Statewide economic downturn to the use of reserve balances to maintain programs in a time of funding reductions. The General Fund ending fund balance decreased $14.3 million, primarily from the use of reserves to maintain program services.

Federal Through State revenues decreased from the original budget amount by approximately $0.3 million because actual Medicaid revenues were lower than originally forecasted.

An overall decrease of $3.2 million in State funding sources from the original to final budget is partially attributable to the following factors:

- Decrease of 94 students from the amount originally forecasted, resulting in a loss of FEFP funding in the amount of $0.7 million;
- Funding for the School Recognition program decreased $0.4 million from a decline in eligible schools; and
- A State proration of funding of $0.8 million.

Actual local revenues increased by $2.4 million for the fiscal year when compared to the original budget, as District school taxes were approximately $0.9 million higher than originally forecasted, interest on investments declined $0.1 million, miscellaneous local revenue was $1.1 million higher, after school program revenue increased $0.4 million, and Workforce Program fees increased $0.1 million.

Appropriations for instruction reflect a $7.4 million variance between the final budget and actual expenditures, of which $4.1 million represents obligations incurred but not delivered or paid, i.e., assigned for outstanding purchase orders. Approximately $2.6 million was carried forward on behalf of instructional programs, which include restricted State categorical and other earmarked educational program funds, as well as school carry forwards for use in the subsequent fiscal year. Approximately $0.7 million represents unspent funds in various budgets at fiscal year-end.

Appropriations in the school administration function reflect a $0.7 million variance between the final budget and actual expenditures, of which $0.4 million was carried forward for schools and other cost centers for use in the 2012-13 fiscal year and $0.3 million represented unspent funds in various cost centers.

Actual expenditures for operation of plant were approximately $1.1 million less than the final budget. Amounts carried forward amounts for specific uses were approximately $0.2 million. Of the remainder, approximately $0.3 million represented unspent budget capacity for utilities, $0.4 million from unspent funds in various budgets designated as carry forward for use in the subsequent year, and $0.1 million left in various coast centers as unspent budget capacity.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental type activities as of June 30, 2012, amounts to $1.1 billion (net of accumulated depreciation). This investment in capital assets includes land and land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Additional information on the District's capital assets can be found in notes 5 and 15 of the financial statements.

Debt Administration

At June 30, 2012, the District had total long-term debt outstanding of $473.7 million. This amount was comprised of $4.9 million of bonds payable and $468.8 million of certificates of participation payable.

Retirement of long-term debt included $0.8 million of bonds payable and $22.6 million of certificates of participation payable.

Additional information on the District's long-term debt can be found in notes 6 through 8 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared, the District was aware of seven existing circumstances that could significantly affect its financial future.

- The economic slowdown in Florida continues to impact education. General State revenues are projected to remain low but stable.
- Property values have stabilized for the 2012-13 fiscal year but remain at substantially lower levels than earlier years. It is likely that property values will remain relatively constant with a slight increase attributable to new construction during the next couple of years.
- The District has a voter-approved operating millage that was renewed by voters in November 2012, for an additional four years through the 2016-17 fiscal year. The voters approved a millage up to a quarter of a mill in operating millage with the understanding that the District would reduce the capital outlay millage by the same amount. A quarter of a mill in taxes is approximately $14.5 million in General Fund tax revenue.
- In the 2012-13 fiscal year, the District will continue to use previously accumulated reserves to offset the economic decline experienced over the past few years. The District anticipated the economic downturn several years ago and intentionally set aside financial resources for future budget shortfalls. The District anticipates utilizing approximately $15.7 million during the 2012-13 fiscal year. Depending on future economic conditions, given stable revenue conditions and stable costs, the amounts set aside for future budget shortfalls should be sufficient to cover the 2012-13 fiscal year and two subsequent fiscal years. Over the long term, using fund balance to maintain programs is not sustainable. The District will continue its efforts to identify cost reductions and reduce spending over the next couple of years.

- The majority of Federal stabilization dollars have expired, so the District no longer has these resources to offset previously reduced revenues.
- The District is projected to experience about a 1 percent increase in student population during the 2012-13 fiscal year. The District has set aside a reasonable portion of its budgeted 2012-13 fiscal year revenue to offset State funding reductions in the event that enrollment is lower than anticipated.
- The District is still negotiating with its three collective bargaining unions on compensation. There are also several groups of employees not represented by unions. The District has not offered any salary increase at the time of issuance of these financial statements. Any increase in final negotiations would require the District to utilize additional reserves. The recurring nature of these costs would put a financial strain on the District in future years.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director of Financial Services, The District School Board of Collier County, 5775 Osceola Trail, Naples, Florida, 34109-0919.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 301,088,026	$ 1,908,220
Investments	4,204,323	
Accounts Receivable	429,793	127,145
Due from Other Agencies	3,080,453	350
Prepaid Items	4,880,111	65,339
Inventories	2,714,873	
Deferred Charges	3,183,311	
Note Receivable	12,243,208	
Restricted Cash		246,712
Restricted Investments	2,975,729	
Capital Assets:		
Nondepreciable Capital Assets	129,930,924	
Depreciable Capital Assets, Net	948,731,490	183,204
TOTAL ASSETS	$ 1,413,462,241	$ 2,530,970
LIABILITIES		
Salaries and Benefits Payable	$ 2,529,358	$
Payroll Deductions and Withholdings	1,829,971	
Accounts Payable	3,944,716	60,884
Construction Contracts Payable	364,436	
Construction Contracts Payable - Retainage	607,188	
Due to Other Agencies	1,474,308	
Accrued Interest Payable	8,126,190	
Deposits Payable	1,000	
Deferred Revenue	357,263	
Long-Term Liabilities:		
Portion Due Within One Year	46,183,466	75,000
Portion Due After One Year	467,362,946	25,000
Total Liabilities	532,780,842	160,884
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	604,953,709	183,204
Restricted for:		
State Required Carryover Programs	719,575	
Debt Service	10,041,035	
Capital Projects	172,647,410	290,510
Food Service	8,672,682	
Other Purposes	2,465,876	66,353
Unrestricted	81,181,112	1,830,019
Total Net Assets	880,681,399	2,370,086
TOTAL LIABILITIES AND NET ASSETS	$ 1,413,462,241	$ 2,530,970

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

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	$ 275,189,561	$ 2,265,897	$	$
Pupil Personnel Services	19,193,075			
Instructional Media Services	5,757,362			
Instruction and Curriculum Development Services	9,785,214			
Instructional Staff Training Services	9,850,822			
Instruction Related Technology	1,549,789			
School Board	1,189,848			
General Administration	2,282,004			
School Administration	26,609,029			
Facilities Acquisition and Construction	37,329,283			744,848
Fiscal Services	2,254,147			
Food Services	18,535,975	5,349,865	15,838,230	
Central Services	7,632,597			
Pupil Transportation Services	19,077,919			
Operation of Plant	34,403,903			
Maintenance of Plant	15,699,875			
Administrative Technology Services	2,493,513			
Loss on Disposal of Capital Assets	89,760			
Unallocated Interest on Long-Term Debt	22,515,996			1,042,607
Total Primary Government	$ 511,439,672	$ 7,615,762	$ 15,838,230	$ 1,787,455
Component Units				
Charter Schools	$ 3,814,251	$ 0	$ 225,000	$ 0
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning, as Previously Reported				
Change in Charter School Beginning Net Assets				
Net Assets - Beginning, as Adjusted				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental Activities	Units
$ (272,923,664)	$
(19,193,075)	
(5,757,362)	
(9,785,214)	
(9,850,822)	
(1,549,789)	
(1,189,848)	
(2,282,004)	
(26,609,029)	
(36,584,435)	
(2,254,147)	
2,652,120	
(7,632,597)	
(19,077,919)	
(34,403,903)	
(15,699,875)	
(2,493,513)	
(89,760)	
(21,473,389)	
(486,198,225)	
	(3,589,251)
249,163,792	
72,812,584	
125,828,954	3,870,098
2,305,544	
8,963,738	
459,074,612	3,870,098
(27,123,613)	280,847
907,805,012	2,234,604
	(145,365)
	2,089,239
$ 880,681,399	$ 2,370,086

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	$ 80,875,232	$ 21,617	$ 173,142,804
Investments			
Accounts Receivable	190,499		17,898
Due from Other Funds	865,397		
Due from Other Agencies	387,769	102,485	16,413
Prepaid Items	4,880,111		
Inventories	1,332,196		
Note Receivable	12,243,208		
Restricted Investments			
TOTAL ASSETS	$ 100,774,412	$ 124,102	$ 173,177,115
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 2,098,514	$ 22,393	$ 44,557
Payroll Deductions and Withholdings	1,612,780	10,902	29,574
Accounts Payable	2,749,030	60,770	443,235
Construction Contracts Payable			253,439
Construction Contracts Payable - Retainage			540,622
Due to Other Funds		18,318	
Due to Other Agencies	1,279,798	11,719	13,839
Deposits Payable	1,000		
Deferred Revenue	12,424,433		
Total Liabilities	20,165,555	124,102	1,325,266
Fund Balances:			
Nonspendable:			
Inventory	717,768		
Prepaid Items	4,880,111		
Total Nonspendable Fund Balance	5,597,879		
Restricted for:			
State Required Carryover Programs	719,575		
Debt Service			
Capital Projects			171,851,849
Carryforwards	2,465,876		
Food Service			
Total Restricted Fund Balance	3,185,451		171,851,849
Assigned to:			
Capital Projects			
Carryforwards	21,152,944		
Total Assigned Fund Balance	21,152,944		
Unassigned Fund Balance	50,672,583		
Total Fund Balances	80,608,857		171,851,849
TOTAL LIABILITIES AND FUND BALANCES	$ 100,774,412	$ 124,102	$ 173,177,115

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

Other Governmental Funds	Total Governmental Funds
$ 20,217,167	$ 274,256,820
4,204,323	4,204,323
74,410	282,807
	865,397
2,573,786	3,080,453
	4,880,111
1,382,677	2,714,873
	12,243,208
2,975,729	2,975,729
$ 31,428,092	$ 305,503,721
$ 352,441	$ 2,517,905
162,770	1,816,026
309,723	3,562,758
110,997	364,436
66,566	607,188
847,079	865,397
158,690	1,464,046
	1,000
176,038	12,600,471
2,184,304	23,799,227
1,382,677	2,100,445
	4,880,111
1,382,677	6,980,556
	719,575
18,167,227	18,167,227
795,561	172,647,410
	2,465,876
7,290,005	7,290,005
26,252,793	201,290,093
1,608,318	1,608,318
	21,152,944
1,608,318	22,761,262
	50,672,583
29,243,788	281,704,494
$ 31,428,092	$ 305,503,721

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

Total Fund Balances - Governmental Funds		$ 281,704,494
Amounts reported for governmental activities in the statement of net assets are different because:		
Note receivable amounts to be received in future years are not available to liquidate liabilities in the governmental funds and are reported as deferred revenue until amounts are available, but are accrued in the government-wide statements when earned.		12,243,208
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.		1,078,662,414
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		3,183,311
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		15,052,574
Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due.		(8,126,190)
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Certificates of Participation Payable, Net	$ 468,785,615	
Bonds Payable, Net	4,923,090	
Other Postemployment Benefits Payable	252,916	
Compensated Absences Payable	28,076,791	(502,038,412)
Total Net Assets - Governmental Activities		$ 880,681,399

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 477,538	$	$
Federal Through State and Local	1,918,632	3,857,785	
State	79,863,635		
Local:			
Property Taxes	249,163,792		72,812,584
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	10,432,762		543,826
Total Local Revenues	259,596,554		73,356,410
Total Revenues	341,856,359	3,857,785	73,356,410
Expenditures			
Current - Education:			
Instruction	236,812,447	2,612,766	
Pupil Personnel Services	15,576,894	172,776	
Instructional Media Services	5,733,704	15,133	
Instruction and Curriculum Development Services	5,337,371	35,968	
Instructional Staff Training Services	2,796,304	480,277	
Instruction Related Technology	1,452,874	95,551	
School Board	1,161,210		
General Administration	1,368,180	103,035	
School Administration	25,561,725	90,667	
Facilities Acquisition and Construction	511,694		10,641,204
Fiscal Services	2,227,972		
Food Services			
Central Services	7,154,815	163,958	
Pupil Transportation Services	18,311,529		
Operation of Plant	34,365,491	538	
Maintenance of Plant	15,515,478		
Administrative Technology Services	2,255,856	84,798	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	622,711		24,842,198
Other Capital Outlay	3,147,022	2,318	
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	379,913,277	3,857,785	35,483,402
Excess (Deficiency) of Revenues Over Expenditures	(38,056,918)		37,873,008
Other Financing Sources (Uses)			
Transfers In	23,766,605		
Proceeds from Sale of Capital Assets	19,460		
Transfers Out			(58,963,718)
Total Other Financing Sources (Uses)	23,786,065		(58,963,718)
Net Change in Fund Balances	(14,270,853)		(21,090,710)
Fund Balances, Beginning	94,879,710		192,942,559
Fund Balances, Ending	$ 80,608,857	$ 0	$ 171,851,849

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

Other Governmental Funds	Total Governmental Funds
$ 4,797,706	$ 5,275,244
45,763,988	51,540,405
2,234,337	82,097,972
	321,976,376
6,127,388	6,127,388
5,349,865	5,349,865
2,692,199	13,668,787
14,169,452	347,122,416
66,965,483	486,036,037
19,653,867	259,079,080
3,329,580	19,079,250
2,762	5,751,599
4,256,230	9,629,569
6,497,918	9,774,499
	1,548,425
	1,161,210
775,609	2,246,824
695,510	26,347,902
1,366,490	12,519,388
	2,227,972
18,324,512	18,324,512
94,324	7,413,097
502,481	18,814,010
23,836	34,389,865
14,494	15,529,972
	2,340,654
1,093,533	26,558,442
484,216	3,633,556
22,640,000	22,640,000
23,287,173	23,287,173
103,042,535	522,296,999
(36,077,052)	(36,260,962)
41,048,094	64,814,699
400	19,860
(5,850,981)	(64,814,699)
35,197,513	19,860
(879,539)	(36,241,102)
30,123,327	317,945,596
$ 29,243,788	$ 281,704,494

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

Net Change in Fund Balances - Governmental Funds		$ (36,241,102)
Amounts reported for governmental activities in the statement of activities are different because:		
Note receivable amounts to be received in future years are accrued in the government-wide statements, but the receivable does not provide current financial resources and is not recognized in the governmental funds until available. This is the change in notes receivable.		(2,094,087)
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period.		(11,954,606)
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 assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(89,760)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period.		22,640,000
Premiums, refunding costs, and debt issuance costs are reported in the governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the government-wide statements.		
Net decrease in expenses from unamortized premiums	$ 1,578,921	
Net increase in expenses from refunding costs	(805,369)	
Net increase in expenses from deferred charges	(378,220)	395,332
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the government-wide statements. This is the reduction in accrued interest in the current period.		375,846
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 earned in excess of the amount paid in the current fiscal year.		(842,729)
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.		(57,916)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		745,409
Change in Net Assets - Governmental Activities		$ (27,123,613)

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

COLLIER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	26,831,206
Accounts Receivable		146,986
TOTAL ASSETS	$	26,978,192
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	$	11,453
Payroll Deductions and Withholdings		13,945
Accounts Payable		381,958
Due to Other Agencies		10,262
Estimated Insurance Claims Payable		8,115,000
Total Current Liabilities		8,532,618
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		3,393,000
Total Liabilities		11,925,618
NET ASSETS		
Unrestricted		15,052,574
TOTAL LIABILITIES AND NET ASSETS	$	26,978,192

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

COLLIER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	$ 49,673,994
OPERATING EXPENSES	
Salaries	451,960
Employee Benefits	108,183
Purchased Services	5,785,076
Materials and Supplies	12,193
Capital Outlay	668
Insurance Claims	42,520,719
Other Expenses	132,833
Total Operating Expenses	49,011,632
Operating Income	662,362
NONOPERATING REVENUES	
Interest Revenue	83,047
Change in Net Assets	745,409
Total Net Assets - Beginning	14,307,165
Total Net Assets - Ending	$ 15,052,574

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

COLLIER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

		Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Premiums	$	49,527,008
Cash Payments to Suppliers for Goods and Services		(6,003,856)
Cash Payments to Employees for Services		(534,745)
Cash Payments for Insurance Claims		(42,943,719)
Net Cash Provided by Operating Activities		44,688
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		83,047
Net Increase in Cash and Cash Equivalents		127,735
Cash and Cash Equivalents, Beginning		26,703,471
Cash and Cash Equivalents, Ending	$	26,831,206

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	$	662,362
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Increase in Accounts Receivable		(146,986)
Decrease in Due to Other Agencies		(8,015)
Decrease in Accounts Payable		(65,071)
Increase in Salaries and Benefits Payable		11,453
Increase in Payroll Deductions and Withholdings		13,945
Decrease in Estimated Insurance Claims Payable		(423,000)
Total Adjustments		(617,674)
Net Cash Provided by Operating Activities	$	44,688

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 3,445,731
LIABILITIES	
Internal Accounts Payable	$ 3,445,731

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. The Collier County School Board Foundation, Inc. (Foundation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 6. Due to the substantive economic relationship between the District and the Foundation, the financial activities of the Foundation are included in the accompanying basic financial statements. Separate financial statements for the Foundation are not published.

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's other component units.

The Marco Island Charter Middle School, Inc., and the Marco Island Academy, A Public Charter High School, Inc. (Charter Schools), are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under charters approved by their sponsor, the Collier County District School Board. The Charter Schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.

The financial data reported on the accompanying statements was derived from the Charter Schools' audited financial statements for the fiscal year ended June 30, 2012. The audit reports are filed in the District's administrative offices.

Prior Year Adjustment. The Redlands Christian Migrant Association Immokalee Community School (School) has been reported as a discretely presented component unit in prior fiscal years; however, as the School is considered a program of the Redlands Christian Migrant Association, Inc., the School is not a component unit of

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

the District and is not reported in the District's financial statements for the 2011-12 fiscal year. As result of this prior year adjustment, the net assets of the component units as a whole have been adjusted as follows:

Net Assets - Beginning of year, as previously reported	$ 2,234,604
Prior Period Adjustment to Beginning Net Assets	(145,365)
Net Assets, Beginning of Year, as Adjusted	$ 2,089,239

Basis of Presentation:

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

  Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is allocated to functions based upon the specific programs or activities with which the capital assets are associated.

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

  The effects of interfund activity have been eliminated from the government-wide financial statements, except for interfund services provided and used.

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

  The District reports the following major governmental funds:

  - General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
  - Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
  - Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on certificates of participation.

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

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Funds – to account for the District's individual self-insurance programs and employee benefits plan.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

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

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

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for employee health insurance, workers' compensation, and flex care premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

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

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

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

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

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

Investments made locally consist of a repurchase agreement and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on a moving weighted-average basis for the maintenance, transportation, and food service inventories, 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, and that textbooks inventory is stated at last invoice price. The costs of inventories are recorded as expenditures when used rather than purchased for all inventories except donated foods. The inventories at fiscal year-end, excluding textbooks, are reported as nonspendable fund balance.

Prepaid Items. Prepaid items are reported in the governmental funds under the purchases method.

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

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

recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

Description	Estimated Lives
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	40 years
Furniture, Fixtures, and Equipment	5 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

Long-Term Liabilities. Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond and certificates of participation (COPs) premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and COPs liabilities are reported net of the applicable bond premium or discount and costs resulting from refundings.

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

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

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

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

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

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

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

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

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

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

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Collier County Tax Collector at fiscal year-end but not yet remitted to the District.

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- The District's total net assets decreased by $27.1 million, or 3 percent.

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	38 Day Average	$ 30,515,271
Fund B	5.73 Year Average	4,056,939
Debt Service Accounts	6 Months	147,384
Master Repurchase Agreement with Bank of America (2)	November 18, 2021	2,975,729
Total Investments, Reporting Entity		$ 37,695,323

Notes:

(1) Investments are reported as cash equivalents for financial statement reporting purposes.

(2) Investment is held under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZABs) financing arrangement. Collateral for this agreement is held with the United States Bank in United States Treasury Inflation Protected Securities for $3,551,179. See note 6.

- 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's investment policy limits investments of current short-term funds to a maximum of 12 months. Investments of bond reserves, construction monies, and other core funds shall have a term appropriate to the need for moneys, and in accordance with debt covenants, but in no event shall exceed three years.

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

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

- Credit Risk

  Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(16), 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 (SEC) 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; direct obligations of the United States Treasury; Federal agencies and instrumentalities; rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel; securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and other investments authorized by law or by resolution for a school district or a special district.

  The District's investment policy limits investments to Florida PRIME; United States Treasury securities, including but not limited to notes, bills, bonds, strips, and State and local government series; obligations of United States Government agencies and instrumentalities; SEC registered money market funds with the highest rating and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; securities or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940; certificates of deposit in State qualified public depositories; and other investments permitted by State statute and not prohibited by this policy.

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

  As of June 30, 2012, the District's investment in Florida Prime is rated AAAm by Standard & Poor's. Fund B is unrated.

  The District's investment in a master repurchase agreement with Bank of America is authorized under a forward delivery agreement with the QZABs paying agent. The forward delivery agreement authorizes the investment of available sinking fund amounts in certain eligible securities, including, without limitation, direct obligations of the Department of the Treasury of the United States of America, and obligations of the following Federal agencies, which obligations represent the full faith and credit of the United States of America: Farmers Home Administration, General Services Administration, Small Business Administration, Government National Mortgage Association, United States Department of Housing and Urban Development, and Federal Housing Administration.

- Custodial Credit Risk

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

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

kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault.

The District's investment policy requires that securities, with the exception of certificates of deposit, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District be properly designated as an asset of the District. A third party custodian is defined as any bank depository charted by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State of Florida. Certificates of deposit shall be placed in the provider's safekeeping department for the term of the deposit.

- Concentration of Credit Risk

  The District does not have a formal investment policy that limits the amount the District may invest in any one issuer. More than 5 percent of the District's investments consist of a repurchase agreement associated with its QZABs. These investments are 8 percent of the District's total investments and 100 percent of the investments reported in other nonmajor funds on the governmental funds' balance sheet.

4. NOTE RECEIVABLE

Pursuant to Section 1013.68(6), Florida Statues, in March 2002, the District entered into an interlocal loan agreement to loan $29,176,952 of its Classroom First Program allocation from the State of Florida to the Osceola County District School Board. In return, the Osceola County District School Board agreed to repay the amount the District would have otherwise received from the State. The effective interest rate on the loan is 5.26 percent. Repayment of the loan and related interest consists of 105 installments of $401,693, seven per year, through May 31, 2017. If an installment payment is not made when due, the State of Florida will make payment to the District within 10 days of notification of nonpayment. As such, the District considers the receivable totally collectible and did not report an allowance for uncollectible accounts.

The note receivable at June 30, 2012, is $12,243,208, as shown in the schedule below:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 2,811,853	$ 2,204,236	$ 607,617
2014	2,811,853	2,320,178	491,675
2015	2,811,853	2,442,219	369,634
2016	2,811,853	2,570,679	241,174
2017	2,811,853	2,705,896	105,957
Total	$ 14,059,265	$ 12,243,208	$ 1,816,057

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

5. 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	$ 85,270,681	$ 1,787	$	$ 85,272,468
Land Improvements - Nondepreciable	33,922,905			33,922,905
Construction in Progress	13,260,064	10,527,469	13,051,982	10,735,551
Total Capital Assets Not Being Depreciated	132,453,650	10,529,256	13,051,982	129,930,924
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	38,023,673	553,686		38,577,359
Buildings and Fixed Equipment	1,207,131,155	26,066,973	29,866	1,233,168,262
Furniture, Fixtures, and Equipment	63,559,626	5,348,850	2,202,481	66,705,995
Motor Vehicles	30,928,696	950,640	488,945	31,390,391
Audio Visual Materials	58,552		2,160	56,392
Computer Software	15,098,434	133,434	157,428	15,074,440
Total Capital Assets Being Depreciated	1,354,800,136	33,053,583	2,880,880	1,384,972,839
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	8,065,010	1,923,519		9,988,529
Buildings and Fixed Equipment	303,141,953	31,213,654	20,036	334,335,571
Furniture, Fixtures, and Equipment	50,285,903	5,805,186	2,129,584	53,961,505
Motor Vehicles	21,851,401	2,630,097	488,945	23,992,553
Audio Visual Materials and	57,157	310	2,159	55,308
Computer Software	13,145,582	912,697	150,396	13,907,883
Total Accumulated Depreciation	396,547,006	42,485,463	2,791,120	436,241,349
Total Capital Assets Being Depreciated, Net	958,253,130	(9,431,880)	89,760	948,731,490
Governmental Activities Capital Assets, Net	$1,090,706,780	$ 1,097,376	$ 13,141,742	$1,078,662,414

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 15,986,708
Pupil Personnel Srvices	98,715
Instructional Media Services	2,003
Instruction and Curriculum Development Services	145,416
Instructional Staff Training Services	65,168
Board of Education	27,685
General Administration	32,877
School Administration	241,111
Facilities Acquisition and Construction	24,819,794
Fiscal Services	24,981
Food Services	221,866
Central Services	213,719
Pupil Transportation Services	276,810
Operation of Plant	13,612
Maintenance of Plant	164,955
Administrative Technology Services	150,043
Total Depreciation Expense - Governmental Activities	$ 42,485,463

6. CERTIFICATES OF PARTICIPATION

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

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1995 (Partially Refunded)	$ 7,945,000	6.25	2013	$ 57,000,000
Series 2001B, Refunding	2,430,000	5.5	2013	19,995,000
Series 2005, Refunding	34,300,000	3.5 - 5.0	2016	40,485,000
Series 2005A, Refunding	106,345,000	5.25	2022	106,345,000
Series 2005-QZAB	4,192,000	None	2021	4,192,000
Series 2006	198,730,000	4.5 - 5.0	2026	221,470,000
Series 2007	80,905,000	4.0 - 5.0	2027	96,205,000
Series 2010, COPS Refunding	27,000,000	2.74	2022	27,675,000
Subtotal	461,847,000			
Plus: Unamortized Premiums	11,766,864			
Less: Unamortized Costs on Refunding	(4,828,249)			
Total Certificates of Participation	$ 468,785,615			

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

The District entered into a master financing arrangement on August 1, 1992, which arrangement was characterized as a lease-purchase agreement, with the Collier County School Board Foundation, Inc. (Foundation), whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of COPs, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Foundation, with a rental fee of $10 per year. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. The master lease-purchase agreement is renewable for successive one-year terms through February 15, 2022. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the certificates for the remaining term of the ground leases.

The District properties included in the various ground leases under this arrangement include Immokalee Middle School, Lely Elementary School, Lake Trafford Elementary School, Vineyards Elementary School, Laurel Oak Elementary School, Oakridge Middle School, Barron Collier High School, Pine Ridge Middle School, Highlands Elementary School, Manatee Middle School, Manatee Elementary School, Gulfview Middle School, Immokalee High School, Lorenzo Walker Institute of Technology, Everglades City School, Gulf Coast High School, Pelican Marsh Elementary School, Calusa Park Elementary School, Sabal Palm Elementary School, North Naples Middle School, Palmetto Ridge High School, Golden Gate High School, Pinecrest Elementary School, Golden Gate Middle School, Village Oaks Elementary School, Mike Davis Elementary School, Marco Charter Middle School, Elementary "L" School, Immokalee Technical Center, Naples High School Gymnasium, and Lorenzo Walker Technical High School.

With the exception of the Series 2005-QZABs, the lease payments are payable by the District semiannually, on August 15 and February 15, and must be remitted by the District as of the preceding June and January 15th, respectively.

The 2005-QZABs were issued by the Foundation under a special program whereby the certificates, bearing an original issue date of November 18, 2005, will mature in full on November 18, 2021. There is no interest cost for borrowing moneys under this program. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of $523,907 for five consecutive years began on November 18, 2005. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement until the certificates mature. The certificates are secured by the assets held under the trust agreement in the event of cancellation or default.

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 44,910,811	$ 22,940,000	$ 21,970,811
2014	44,859,781	23,970,000	20,889,781
2015	44,895,705	24,990,000	19,905,705
2016	44,951,861	26,105,000	18,846,861
2017	45,002,535	27,315,000	17,687,535
2018-2022	135,333,751	90,520,000	44,813,751
2023-2025	139,948,649	109,127,000	30,821,649
2026-2027	152,077,400	136,880,000	15,197,400
Total Minimum Lease Payments	651,980,493	461,847,000	190,133,493
Plus: Unamortized Premiums	11,766,864	11,766,864	
Less: Unamortized Costs on Refunding	(4,828,249)	(4,828,249)	
Total Certificates of Participation	$ 658,919,108	$ 468,785,615	$ 190,133,493

7. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	$ 3,005,000	5.0	2017
Series 2005B, Refunding	1,845,000	5.0	2018
Total Minimum Principal Payments	4,850,000		
Plus: Unamortized Premiums	126,983		
Less: Unamortized Costs of Refunding	(53,893)		
Total Bonds Payable	$ 4,923,090		

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	$ 1,062,500	$ 820,000	$ 242,500
2014	1,061,500	860,000	201,500
2015	1,068,500	910,000	158,500
2016	1,078,000	965,000	113,000
2017	1,019,750	955,000	64,750
2018	357,000	340,000	17,000
Total Minimum Bond Payments	5,647,250	4,850,000	797,250
Plus: Unamortized Premiums	126,983	126,983	
Less: Unamortized Costs on Refunding	(53,893)	(53,893)	
Total State School Bonds	$ 5,720,340	$ 4,923,090	$ 797,250

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable, Net	$491,404,549	$	$ 22,618,934	$468,785,615	$ 22,940,000
Bonds Payable, Net	5,717,708		794,618	4,923,090	820,000
Other Postemployment Benefits Payable	195,000	432,092	374,176	252,916	
Estimated Insurance Claims Payable	11,931,000	42,520,719	42,943,719	11,508,000	8,115,000
Compensated Absences Payable	27,234,062	15,151,195	14,308,466	28,076,791	14,308,466
Total Governmental Activities	$536,482,319	$ 58,104,006	$ 81,039,913	$513,546,412	$ 46,183,466

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the internal service funds, as discussed in note 16.

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 865,397	$
Special Revenue:		
Federal Economic Stimulus		18,318
Nonmajor Governmental		847,079
Total	$ 865,397	$ 865,397

At fiscal year-end, the District had expenditures in its nonmajor governmental funds for special revenue projects that had not yet been reimbursed by the grantor agencies. These expenditures were paid from the General Fund. Also at fiscal year-end, the District had expenditures in its Special Revenue - Federal Economic Stimulus Fund not yet reimbursed by the grantor agencies. These expenditures were paid from the General Fund.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 23,766,605	$
Capital Projects:		
Local Capital Improvement		58,963,718
Nonmajor Governmental	41,048,094	5,850,981
Total	$ 64,814,699	$ 64,814,699

Transfers to the General Fund were to reimburse expenditures for repairs and maintenance projects, property casualty insurance premiums, equipment purchases, and for other operational purposes. Transfers to the nonmajor governmental funds were to provide moneys for scheduled debt service payments for principal, interest, and other debt service costs.

10. FUND BALANCE REPORTING

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

- Nonspendable

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

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

- Restricted

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

- Committed

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

- Assigned

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

- Unassigned

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

The following is a schedule of fund balances by category at June 30, 2012:

	Major Funds				
	General	Special Revenue - Federal Economic	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances					
Nonspendable:					
Inventories	$ 717,768	$	$	$ 1,382,677	$ 2,100,445
Prepaid Items	4,880,111				4,880,111
Restricted:					
State Required Carryover Programs	719,575				719,575
Food Service				7,290,005	7,290,005
Debt Service				18,167,227	18,167,227
Capital Projects			171,851,849	795,561	172,647,410
Workforce Programs	2,235,187				2,235,187
School Improvement	205,695				205,695
Dealers Sales Tax Collections	24,994				24,994
Assigned:					
Next Fiscal Year Deficit	15,680,682				15,680,682
Purchases Outstanding	4,151,877				4,151,877
School Carry Forwards	1,230,385				1,230,385
FTE Audit	90,000				90,000
Capital Projects				1,608,318	1,608,318
Unassigned	50,672,583				50,672,583
Total Fund Balances	$ 80,608,857	$ 0	$ 171,851,849	$ 29,243,788	$ 281,704,494

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

- Minimum Fund Balance Policy

  Pursuant to Board Policy 6210, the Board has set a goal of 4 percent of annual resources designated as a strategic reserve. The strategic reserve shall only be utilized by a supermajority vote from members of the Board. As of June 30, 2012, the Board had designated $14 million of the unassigned fund balance as a strategic reserve. Pursuant to Board Policy 6210, the Board has set a goal of 1 percent of annual resources designated as a contingency reserve. The Superintendent has the authority to utilize the contingency reserve, and is required to report such use to the Board at a subsequent Board meeting. As of June 30, 2012, the District had $3.5 million of unassigned fund balance designated for contingencies such as State revenue shortages and FTE revenue shortfalls.

11. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Categorical Educational Program - Class Size Reduction	$50,288,355
Florida Education Finance Program	18,304,106
Workforce Development Program	7,569,731
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,787,456
Voluntary Pre-K	1,436,746
School Recognition	1,351,822
Food Service Supplement	315,648
Discretionary Lottery Funds	147,507
Workforce Performance Based Initiative	112,629
State License Tax	106,657
Charter School Capital Outlay Funding	82,055
Adult Handicapped	50,000
Miscellaneous	545,260
Total	$82,097,972

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

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

12. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	3.279	$ 197,625,952
Basic Discretionary Local Effort	0.748	45,082,102
Voted School Tax:		
Operating	0.250	15,067,548
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.250	75,337,737
Total	5.527	$ 333,113,339

13. FLORIDA RETIREMENT SYSTEM

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

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

participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal year ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $24,340,305, $26,831,343, and $19,532,722, respectively, which were equal to the required contributions for each fiscal year.

There were 1,185 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled $4,047,600, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 123 retirees received postemployment health care benefits, and 167 retirees received postemployment life insurance benefits. The District provided required contributions of $374,176 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling $1,302,490 which represents 5.3 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:

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

Description	Amount
Normal Cost (service cost for one year)	$ 215,616
Amortization of Unfunded Actuarial Accrued Liability	211,280
Interest on Normal Cost and Amortization	8,239
Annual Required Contribution	435,135
Interest on Net OPEB Obligation	7,800
Adjustment to Annual Required Contribution	(10,843)
Annual OPEB Cost (Expense)	432,092
Contribution Toward the OPEB Cost	(374,176)
Increase in Net OPEB Obligation	57,916
Net OPEB Obligation, Beginning of Year	195,000
Net OPEB Obligation, End of Year	$ 252,916

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 408,225	87.3%	$ 179,336
2010-11	403,700	96.1%	195,000
2011-12	432,092	86.6%	252,916

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $3,799,594 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $3,799,594 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $245,055,258, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.6 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

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

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 used the projected unit credit actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2012, as well as the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent initially for the 2011-12 fiscal year, reduced to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

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

Major Funds				
General	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 407,429	$ 0	$ 10,925,039	$ 1,374,682	$ 12,707,150

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

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

Project	Contract Amount	Completed to Date	Balance Committed
Avalon Elementary School - HVAC and Interior Renovations			
Architect	$ 216,676	$ 159,918	$ 56,758
Contractor	2,110,964	465,459	1,645,505
Bethune Education Center - New Construction			
Architect	539,571	515,461	24,110
Contractor	30,530	6,660	23,870
East Naples Middle School - Air Handler Replacement			
Architect	49,995	42,495	7,500
Contractor	1,025,748	27,365	998,383
Gulfview Middle School - HVAC Replacement			
Architect	351,561	276,314	75,247
Contractor	4,526,394	2,314,814	2,211,580
Naples High School - Lighting and Roof and Freezer Replacement			
Architect	46,384	29,424	16,960
Contractor	685,992	123,330	562,662
Pine Ridge Middle School - HVAC Renovation			
Architect	468,300	447,300	21,000
Poinciana Elementary School - HVAC Renovation			
Architect	285,595	268,269	17,326
Contractor	3,820,878	2,827,810	993,068
Shadow Lawn Elementary School - Roof and HVAC			
Architect	206,529	164,177	42,352
Contractor	2,572,791	2,369,354	203,437
Total	$ 16,937,908	$ 10,038,150	$ 6,899,758

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Collier County District School Board is a member of the Preferred Governmental Insurance Trust (Trust) under which local governmental entities have established a combined limited self-insurance program for property and automobile protection by the participating members of the Trust. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Board of Trustees for the Trust is comprised of elected or appointed officials from the participating members. The Trust is administered by Public Risk Underwriters.

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

The District has contracted with a third-party administrator (TPA) to manage the health and hospitalization self-insurance program, including the processing, investigating, and payment of claims. The TPA notifies the District of the scheduled claims disbursements, and the District transfers the required funds into the District's Health Care Claims Account. The TPA then draws on this account to pay claims submitted by District employees, their dependents, and participating retirees. Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District also contracts with a TPA to manage its workers' compensation self-insurance program that includes provisions for specific excess loss reinsurance. The TPA handles the processing, investigating, and payment of claims. The District's program is reviewed annually by an actuary to determine the long-term exposure for workers' compensation claims. The trend over the last few years has been adverse, and claims exposure and related long-term liabilities have increased substantially.

A liability in the amount of $11,508,000 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable for the health and hospitalization and workers' compensation self-insurance programs at June 30, 2012.

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2010-11	$ 11,978,000	$ 43,585,923	$ (43,632,923)	$ 11,931,000
2011-12	11,931,000	42,520,719	(42,943,719)	11,508,000

Other required insurance coverage such as general liability, automobile, and student accident is being 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.

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

17. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2011-12 fiscal year:

	Total	Group Health Insurance	Workers' Compensation Insurance	Employee Benefit Plan
Total Assets	$ 26,978,192	$ 12,276,276	$ 14,378,898	$ 323,018
Liabilities and Net Assets:				
Accounts Payable	$ 381,958	$ 369,447	$ 12,511	$
Salary and Wages Payable	11,453	8,393	3,060	
Payroll Deductions and Withholdings Payable	13,945	4,603	9,342	
Due to Other Agencies	10,262	8,742	1,378	142
Estimated Insurance Claims Payable	11,508,000	5,890,000	5,618,000	
Unrestricted Net Assets	15,052,574	5,995,091	8,734,607	322,876
Total Liabilities and Net Assets	$ 26,978,192	$ 12,276,276	$ 14,378,898	$ 323,018
Revenues:				
Premium Contributions Paid by Employer	$ 43,475,544	$ 42,142,882	$ 1,332,662	$
Premium Contributions Paid by Employee	4,990,587	3,561,557		1,429,030
Premium Contributions Paid by Retirees	1,207,863	1,207,783		80
Interest Income	83,047	34,020	48,171	856
Total Revenues	49,757,041	46,946,242	1,380,833	1,429,966
Total Expenses	(49,011,632)	(46,367,585)	(1,115,212)	(1,528,835)
Change in Net Assets	$ 745,409	$ 578,657	$ 265,621	$ (98,869)

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 450,000	$ 477,538	$ 477,538	$
Federal Through State and Local	2,203,217	1,918,632	1,918,632	
State	83,026,599	79,863,635	79,863,635	
Local:				
Property Taxes	248,270,806	249,163,792	249,163,792	
Miscellaneous	8,921,708	10,432,762	10,432,762	
Total Local Revenues	257,192,514	259,596,554	259,596,554	
Total Revenues	342,872,330	341,856,359	341,856,359	
Expenditures				
Current - Education:				
Instruction	252,301,124	244,205,374	236,812,447	7,392,927
Pupil Personnel Services	15,722,689	15,673,202	15,576,894	96,308
Instructional Media Services	5,038,844	5,766,023	5,733,704	32,319
Instruction and Curriculum Development Services	5,338,839	5,394,172	5,337,371	56,801
Instructional Staff Training Services	2,891,661	2,902,867	2,796,304	106,563
Instruction Related Technology	1,502,520	1,455,021	1,452,874	2,147
School Board	1,680,578	1,549,266	1,161,210	388,056
General Administration	1,081,033	1,396,156	1,368,180	27,976
School Administration	26,306,872	26,283,266	25,561,725	721,541
Facilities Acquisition and Construction	1,537,055	747,850	511,694	236,156
Fiscal Services	2,374,140	2,327,088	2,227,972	99,116
Central Services	8,362,005	7,507,061	7,154,815	352,246
Pupil Transportation Services	18,929,501	18,578,466	18,311,529	266,937
Operation of Plant	40,099,655	35,445,673	34,365,491	1,080,182
Maintenance of Plant	15,975,289	15,610,036	15,515,478	94,558
Administrative Technology Services	2,416,111	2,296,209	2,255,856	40,353
Fixed Capital Outlay:				
Facilities Acquisition and Construction		622,711	622,711	
Other Capital Outlay		3,147,022	3,147,022	
Total Expenditures	401,557,916	390,907,463	379,913,277	10,994,186
Excess (Deficiency) of Revenues Over Expenditures	(58,685,586)	(49,051,104)	(38,056,918)	10,994,186
Other Financing Sources (Uses)				
Transfers In	24,019,630	23,766,605	23,766,605	
Proceeds from Sale of Capital Assets	10,000	19,461	19,460	(1)
Total Other Financing Sources (Uses)	24,029,630	23,786,066	23,786,065	(1)
Net Change in Fund Balances	(34,655,956)	(25,265,038)	(14,270,853)	10,994,185
Fund Balances, Beginning	94,879,710	94,879,710	94,879,710	
Fund Balances, Ending	$ 60,223,754	$ 69,614,672	$ 80,608,857	$ 10,994,185

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 6,280,794	$ 6,525,500	$ 3,857,785	$ (2,667,715)
6,280,794	6,525,500	3,857,785	(2,667,715)
3,660,352	3,717,395	2,612,766	1,104,629
408,146	380,809	172,776	208,033
14,510	16,131	15,133	998
16,682	38,229	35,968	2,261
909,792	668,363	480,277	188,086
290,628	256,689	95,551	161,138
82,817	205,624	103,035	102,589
123,331	303,782	90,667	213,115
431,483	703,652	163,958	539,694
21,515			
538	1,103	538	565
321,000	231,405	84,798	146,607
	2,318	2,318	
6,280,794	6,525,500	3,857,785	2,667,715
$ 0	$ 0	$ 0	$ 0

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2009	$ 0	$ 3,893,973	$ 3,893,973	0.0%	$ 238,232,373	1.6%
July 1, 2010		3,692,145	3,692,145	0.0%	233,080,927	1.6%
July 1, 2011		3,799,594	3,799,594	0.0%	245,055,258	1.6%

Note: (1) Projected Unit Credit Actuarial Cost Method

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 1,618,617	$
National School Lunch Program	10.555	300, 350	4,925,368	
Summer Food Service Program for Children	10.559	323	108,440	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	2,129,285	
National School Lunch Program	10.555 (2)(A)	300, 350	6,042,854	
Total Child Nutrition Cluster			14,824,564	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	16,000	
Team Nutrition Grants	10.574	360	2,589	
Fresh Fruit and Vegetable Program	10.582	330	236,651	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	330	201,624	
Total United States Department of Agriculture			15,281,428	
United States Department of Commerce:				
Direct:				
Congressionally Identified Awards and Projects	11.469	N/A	8,702	
United States Department of Housing and Urban Development:				
Indirect:				
Florida Department of Community Affairs:				
Collier County Board of County Commissioners:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	10-DB-D4-09-21-01-K09	1,084,653	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	413,927	
United States Department of Energy:				
Indirect:				
University of Central Florida:				
ARRA - State Energy Program	81.041 (2)(B)	None	75,646	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	7,395	
Federal Pell Grant Program	84.063	N/A	1,335,732	
Total Student Financial Assistance Cluster			1,343,127	
Indian Education - Grants to Local Educational Agencies	84.060	N/A	7,082	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	9,094	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	N/A	590,706	
Total Direct			1,950,009	
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	9,423,770	5,479
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	736,753	
Total Title I, Part A Cluster			10,160,523	5,479
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	9,059,692	
Special Education - Preschool Grants	84.173	266, 267	259,655	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	233,803	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	1,929	
University of South Florida:				
Special Education - Grants to States	84.027	None	7,603	
Total Special Education Cluster			9,562,682	

COLLIER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect (Continued):				
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	$ 190,384	$
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,641,442	
Total School Improvement Grants Cluster			1,831,826	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	50,934	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	161	
Total Educational Technology State Grants Cluster			51,095	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	692,346	
Migrant Education - State Grant Program	84.011	217	4,921,963	
Career and Technical Education - Basic Grants to States	84.048	151, 161	457,053	
Education for Homeless Children and Youth	84.196	127	120,495	
Charter Schools	84.282	298	225,000	225,000
English Language Acquisition Grants	84.365	102	1,351,864	
Improving Teacher Quality State Grants	84.367	224	1,158,073	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	1,102,991	
Education Jobs Fund	84.410	541	140,706	
Southwest Florida Workforce Development Board:				
Twenty-First Century Community Learning Centers	84.287	None	394,364	
Washington County District School Board:				
Reading First State Grants	84.357	None	9,750	
Total Indirect			32,180,731	230,479
Total United States Department of Education			34,130,740	230,479
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	2,847,698	31,608
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	None	420,928	
Total United States Department of Health and Human Services			3,268,626	31,608
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	477,537	
Total Expenditures of Federal Awards			$ 54,741,259	$ 262,087

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 $161,025 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(B) State Energy Program - Includes $75,646 representing the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Head Start. Expenditures include $451 for grant number/program year 04CH3193/45 and $2,847,247 for grant number/program year 04CH3193/46.

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

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

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
November 29, 2012

AUDITOR GENERAL
STATE OF FLORIDA

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

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
November 29, 2012

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Student Financial Assistance Cluster (CFDA Nos. 84.007 and 84.063); Migrant Education (CFDA No. 84.011); and School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	$1,642,237
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

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

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

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities and extra duty supplements, and also provided differentiated pay salary supplements to lead teachers at alternative schools for school demographics and to those teaching additional classes in lieu of having a planning period for level of job performance difficulties.

In addition, for the critical shortage areas differentiated pay factor, the union contract provided differentiated pay to Immokalee and Everglades City areas and specialized teachers for impaired or handicapped students. However, District records did not evidence the establishment of specific criteria for determining these critical shortage areas. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining instructional personnel.

Without Board-adopted policies and procedures for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Follow-up to Management's Response to Finding Nos. 1 and 3:

The District's response indicates disagreement with Finding Nos. 1 and 3 primarily because there are no statutory provisions requiring the Board to adopt formal policies and procedures for documenting the differentiated pay process or requiring the inclusion of penalty clauses in construction contracts. However, operational audits, pursuant to Section 11.45(1)(g), Florida Statutes, are not limited to identifying areas of statutory noncompliance, but also include an evaluation of management's performance in establishing and maintaining internal controls. These findings identify control weaknesses and make recommendations for improving operations and safeguarding assets.

Finding No. 2: Facilities Management

The facilities management department is responsible for managing construction and renovation projects. During the 2011-12 fiscal year, the facilities management department employed 12 full-time employees, including project management and real property assets personnel, and the department's operating cost was $19 million. Also, during this fiscal year, the District had expenditures totaling $37 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 20, 2011, the District planned to spend an additional $210.1 million on these projects over the next four fiscal years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was $1 billion and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 19 years.

The facilities maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The facilities maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, this department employed 160 full-time employees, including grounds and maintenance personnel, and the department's operating cost was $20 million.

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

- **Alternative Construction Methods or Maintenance Techniques**. The District primarily awards construction contracts to design professionals and construction contractors using construction management entity guaranteed maximum price construction methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities, although some of these jobs are outsourced to local vendors. District personnel provided District records evidencing the evaluation of various construction methods and indicated that the evaluation of maintenance-related job techniques is an objective of the facilities maintenance department's standard operating procedures; however, they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques to determine which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and

documented evaluations consistent with such policies and procedures, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. The District's facilities management and maintenance departments have established short-term and long-term goals and, based on our inquiry and review of District records, District procedures included consideration of whether construction and maintenance projects met applicable building codes, safety standards, and projected completion dates; however, our review disclosed that construction and maintenance goals did not sufficiently address accountability for these departments. For example, one of the goals for the facilities management department included building efficient and effective facilities. Examples of facilities maintenance department goals included providing a safe, secure, well-maintained, efficient, clean, and healthful learning environment. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities planning and maintenance departments are operating as effectively and as cost-efficiently as possible.

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

Follow-up to Management's Response to Finding No. 2:

The District's response indicates that District management has learned that the construction management process currently in use is the most beneficial to the District in providing quality construction while controlling costs. However, the point of our finding is that Board-adopted written policies and procedures, and documentation of the process used to determine construction methods, would reduce the risk of the District not using the most cost-effective and beneficial construction method.

Finding No. 3: Construction Management Contracts – Penalty Clauses

Section 1013.47, Florida Statutes, provides that construction contracts, in part, contain the time limits in which construction is to be completed and penalties to be paid by the contractor for any failure to comply with the terms of the contract. The District typically requires contractors to provide performance bonds at the inception of construction projects and the District retains final payment (e.g., 10 percent of a construction contract) until satisfactory completion of the projects.

To determine whether contracts contained sufficient remedies for contractor noncompliance, we reviewed four construction management contracts totaling $16 million that had construction activity during the 2011-12 fiscal year. The contracts established projected completion dates, but three of the contracts totaling $15 million lacked penalty clauses for failure to comply with terms of the contracts. While the performance bonds and retainage provide some measure of protection against unsatisfactory completion of construction projects, establishing financial penalties may

further assist the District in holding contractors responsible and increasing their incentive to complete projects as required.

Recommendation: The District should enhance its procedures to ensure that contracts contain penalty clauses for failure to comply with terms of the contracts.

Finding No. 4: Fund Balance Reporting

The Governmental Accounting Standards Board has established accounting and financial reporting standards for all governments reporting governmental funds that clarify definitions for governmental fund types and establish criteria for classifying fund balances into specifically defined classifications. One of the classifications, assigned fund balance, represents resources that are constrained by the intent of the governing body (Board), or a Board-authorized body or official, to be used for specific purposes. In addition, capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

On the District's 2011-12 fiscal year annual financial report submitted to the Florida Department of Education, as presented for audit, certain unrestricted resources totaling $1,608,318 were reported as assigned fund balance in a capital projects fund. District personnel initially indicated that these resources were unspent unrestricted resources retained in the local capital improvement fund for capital project purposes from previous fiscal years but, upon further inquiry, District personnel indicated that these moneys were most likely unspent ad valorem tax levy proceeds. Also, the Board established a policy that defines assigned fund balance as amounts the Board intends to use for a specific purpose as expressed by the Board or by an official or committee to which the Board delegates the authority. However, at June 30, 2012, the Board had not officially designated a body or official the authority to assign fund balances and express the intent of the specific purposes for such assignments.

Further, District records did not identify the fiscal year tax levy that generated the proceeds and neither the District's Five-Year Facilities Work Plan nor other District records evidenced the specific capital outlay purposes for which these resources were assigned. Without official action to identify those responsible for establishing assigned fund balances, and District records evidencing the specific intended uses of those balances, financial statement users may misunderstand the Board's intent regarding assigned fund balances.

Recommendation: The Board should officially designate an individual the authority to assign fund balances and express the intent of the specific purposes for such assignments. In addition, the District should document in its records the intended use of the unrestricted resources of $1,608,318 in the capital projects funds.

Finding No. 5: Health Self-Insurance Plan

Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a third-party administrator (TPA) to administer its health self-insurance plan including processing, investigating, and paying claims. During the 2011-12 fiscal year, the District had plan claims expenses totaling $43 million.

The District paid $35,500 to an auditing firm to perform a comprehensive claims expenses review of payments by the TPA from January 2010 to September 2011, and the results of the review were presented in a report dated March 2012. Of $54 million in claims expenses for the review period, the auditing firm identified duplicate payments, claim payments to ineligible program participants, inappropriate discounts applied to claims expenses, and other

errors, resulting in overpayments totaling $210,744. Further, for claims expenses made from October 2011 to June 2012, District records did not evidence any efforts to ensure the propriety of these expenses totaling $28.3 million nor did the District request or obtain from its TPA (service organization) a service organization report as described in *Statement on Standards for Attestation Engagements No. 16* (SSAE 16), *Reporting on Controls at a Service Organization*. An SSAE 16 report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of controls to determine whether they are operating effectively. The report also requires a service organization's management to provide a written assertion regarding the effectiveness of controls. While our claims expenses tests evidenced that these expenses were properly classified and materially correct on the District's financial statements, our procedures do not substitute for the District's responsibility to establish adequate controls over health claims expenses.

The District recovered the overpayments totaling $210,744 and, according to District personnel, will terminate the contract with its TPA, effective December 31, 2012, and enter into a contract with a new TPA, effective January 1, 2013.

Recommendation: The District should continue its efforts to effectively monitor its health plan claims expenses. Such procedures could include requiring that the service organization provide, through independent auditors, service organization reports covering internal controls over the processing of health claims expenses.

Finding No. 6: 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 and contractors access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees and contractors from performing incompatible functions or functions outside of their areas of responsibility. Clear division of roles and responsibilities within the established overall IT function helps preclude the possibility of a single employee or contractor subverting a critical process. For example, the functions of application development, maintenance, and administration; system programming, administration, and maintenance; network administration and maintenance; and security administration are typically separated. Periodically reviewing IT access privileges assigned to employees and contractors promotes good internal control and is necessary to ensure that employees and contractors cannot access IT resources inconsistent with their assigned job responsibilities.

Although the District performed a periodic review of employee and contractor access privileges and changes to user profiles, our tests of selected access privileges to the District's operating system and network disclosed some access privileges that permitted employees and contractors to perform incompatible functions or were no longer necessary. Specifically:

- Four programmers, two contractors, and three computer operations employees were assigned a group profile that included special operating system authority to create, change, and delete user profiles. In addition, one of the four programmers had the ability to create, change, and delete user profiles through direct assignment of a special operating system authority. The ability to maintain user profiles is appropriate only for those employees or contractors who are assigned security administrator responsibilities. Two of the four programmers had special operating system authority to change system communication configurations, including Internet connection settings. The ability to configure and change system communication configurations is more appropriate for those employees or contractors who are assigned system or network administration responsibilities.

- One network specialist was assigned a group profile that included special operating system authority to create, change, and delete user profiles; hold, release, change, and cancel other users' jobs; and save and restore all system objects. This access is appropriate for employees or contractors who are assigned responsibilities other than network administration.
- Five network accounts had domain administrator privileges that were no longer used by the District for application administration. Administrator access privileges are typically limited to employees or contractors who are responsible for performing network administration duties or services that require complete access to network resources. Additionally, inactive user accounts may not have appropriate user network authentication controls in effect or be monitored for use, increasing the risk of compromise and unauthorized network hardware, software, or configuration changes.

In response to our inquiry, District management indicated that the special authority related to user profiles had been granted to the employees described above for the installation of auxiliary system software used for student scheduling. However, the special authority granted in the operating system also supported other applications, such as the finance, human resource, and payroll applications. Consequently, although the District had compensating controls in place (e.g., department supervisor monitoring of budget and actual expenditures) to mitigate the risks of the access control deficiencies, the existence of the inappropriate or unnecessary access privileges described above increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

District management indicated, in October 2012, that the special operating system authority privileges had been removed for the employees and contractors described above and that the five network accounts had been deactivated.

Recommendation: The District should improve its review of access privileges and timely remove any inappropriate or unnecessary access detected.

Finding No. 7: Information Technology – Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2010-065.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except that current Finding No. 7 was also noted as Finding No. 5 in our report No. 2010-065.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Cherry, Bekaert, & Holland, LLP		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

The District School Board of Collier County

5775 Osceola Trail • Naples, Florida 34109-0919
(239) 377-0212 • (239) 377-0206 FAX

November 30, 2012

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

Dear Mr. Martin:

We are receipt of your preliminary and tentative audit findings for the year ended June 30, 2012. Pursuant to the provisions of Section 11.45 (4)(d), Florida Statutes, we respectfully submit the following statements concerning the preliminary and tentative findings.

Response No. 1: Compensation and Salary Schedules

The District does not agree with this finding.

The School Board has adopted a formal policy on compensation for all personnel. Please refer to attached School Board Policy 3410 Compensation. Pursuant to Florida Statute, compensation for instructional personnel is negotiated through the collective bargaining process and annually approved and adopted by the School Board.

Florida Statute 1012.22(1)(c) does not require that the Board adopt formal policy and procedures for documenting the differentiated pay process of instructional personnel. It does require that the Board adopt a salary schedule or schedules to be used for the basis of paying all school employees. Salary schedules for all employees are adopted annually through Board approval of the compensation schedules. In addition, the salary schedules for all employees covered by collective bargaining agreements are adopted through approval of the collective bargaining agreements negotiated annually.

This is different from, for example, the directive in the next section of the statute, F.S. 1012.22(2) requiring the adoption of policies with respect to leave ("adopt policies relating to personnel leave as follows :").

Thus the District contends that there is no statutory provision requiring the Board to adopt formal policies and procedures for documenting the differentiated pay process of instructional personnel.

COLLIER COUNTY CHARACTER EDUCATION TRAITS

Citizenship Cooperation Honesty Kindness Patriotism Perseverance
Respect Responsibility Self-Control Tolerance

THE COLLIER COUNTY PUBLIC SCHOOL SYSTEM IS AN EQUAL ACCESS/EQUAL OPPORTUNITY INSTITUTION FOR EDUCATION AND EMPLOYMENT

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Response No. 2: Facilities Management

Alternative Construction Methods or Maintenance Techniques

Alternative Construction Methods

The District disagrees with the recommendation to establish Board approved policies and procedures to evaluate other construction methods. Through vast experience over many years, the District has learned that the construction management process currently in use is the most beneficial to the District in providing quality construction while controlling costs. The current processes in place by the District were thoroughly vetted and reviewed during the "Best Practices Review," conducted by the State of Florida, Office of Program Policy and Governmental Accountability (OPPAGA). The District was awarded the Seal of Best Financial Practices which demonstrates that current procedures were accepted as best practices in construction and maintenance.

Maintenance Techniques

The District agrees to incorporate procedures to evaluate maintenance techniques into the Maintenance Standard Operating Procedure Manual.

Accountability

The District agrees to develop additional goals and objectives for the facilities management and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

Response No. 3: Construction Management Agreement – Penalty Clause

The District disagrees with this finding. The Auditor General has written that F.S. 1013.47 provides, in part, that construction contracts contain both time limits in which construction is to be completed and "penalties to be paid by the contractor for failure to comply with the terms of the contract." Upon review of four District construction management agreements, the Auditor General found they lacked penalty clauses for failure to comply with the terms of the contract. The Auditor General acknowledged that the District requires contractors to provide performances bonds at the inception of construction projects and retains 10% of the contract as retainage until satisfactory completion of the given projects.

Yet, while recognizing that performance bonds and retainage "provide some measure of protection" against unsatisfactory project completion, the Auditor General added that "establishing financial penalties may further assist the District in holding contractors responsible and increasing their incentive to complete projects as required."

The Auditor General's usage of the language "may further assist" is significant. It is a clear recognition that within the language of the statute there is no statutory requirement to have penalty provisions in the contract. F.S. 1013.47 provides that "the board may require the contractor to pay a penalty for any failure to comply with the terms of the contract and may provide an incentive for early completion." Thus, the statute is clear that whether to include penalty and/or incentive provisions in a construction contract is discretionary with the School Board. There is no legal requirement to do so.

Indeed, other than a suggestion, couched as a recommendation, that a penalty provision might be a good idea, there is no legal basis for the finding (it is certainly not grounded in statute) nor is there indication that any identifiable practice has not been followed.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Response No. 4: Fund Balance Reporting

The District accepts the recommendation of the audit and will revise its current Board Policy to specifically designate an individual the authority to assign fund balances. Furthermore, when such funds are being assigned for future use the District will budget these funds specifically for such future use.

Prior to the audit, the District had amended Board Policy 6100 to provide the Superintendent the authority to take all necessary steps to comply with the reporting requirements of the Governmental Accounting Standards Board (GASB 54) pertaining to fund balance reporting. The District classified this specific fund balance as assigned based upon the nature of the source of revenue. In addition, these funds were intended for capital use in future periods. At that time the District believed that Board Policy 6100 was written sufficiently to provide the authority to assign fund balance.

Response No. 5: Health Self-Insurance Plan

The District accepts the recommendation. The District is currently working with a new Third Party Administrator and will implement these procedures.

Response No. 6: Information Technology – Access Privileges

The District accepts this finding and is implementing a process of routine review of access privileges and timely removal of any unnecessary privileges.

Response No. 7: Information Technology – Security Controls – User Authentication

The District accepts the recommendation and will further refine user authentication controls. The District did have security controls already in place at the time of the audit which provided for user authentication and the restriction of access attempts ensuring adequate controls over confidential student, staff and financial data.

Sincerely,

Kamela Patton

Kamela Patton, Ph.D.
Superintendent

KP/RCS:cll
L086