

FLAGLER COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Andrew S. Dance	1
Colleen A. Conklin	2
Peter S. Palmer, Vice Chair to 8-17-09 (1) (2)	3
Trevor Tucker from 12-16-09	3
Susan C. Dickinson, Vice Chair from 11-17-09 (2)	4
Evelyn L. Shellenberger, Chair	5

Bill Delbrugge, Superintendent

Note (1) Deceased, position remained vacant from 8-18-09 to 12-15-09.

Note (2) Vice Chair position remained vacant from 8-18-09 to 11-16-09.

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 Patricia A. Wormeck, CPA, and the audit was supervised by Keith A. Wolfe, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**FLAGLER COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness as summarized below.

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.

MATERIAL WEAKNESS

Finding No. 1: Improvements were needed in financial reporting procedures to ensure that account balances, transactions, note disclosures, and required supplementary information are properly reported.

ADDITIONAL MATTERS

Finding No. 2: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 4: Enhancements were needed in controls over the District's purchasing card program.

Finding No. 5: Certain District employees did not timely file statements of financial interests with the supervisor of elections, contrary to Section 112.3145(2), Florida Statutes.

Finding No. 6: The District could improve its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Title I, Part A Cluster; Special Education Cluster; and State Fiscal Stabilization Fund Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

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

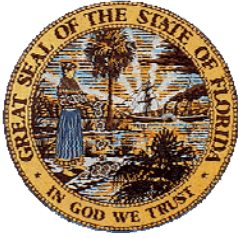
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a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

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-110.

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, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
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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 Flagler County District School Board, as of and for the fiscal year ended June 30, 2010, 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 19 percent of the assets and 58 percent of the liabilities of the aggregate remaining fund information. In addition, 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 Flagler County District School Board as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Flagler 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** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 49) 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 *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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
February 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Flagler County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 45.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- In total, net assets decreased \$11,993,551, which represents a 6 percent decrease from the 2008-09 fiscal year.
- General revenues total \$122,161,573, or 91 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$11,508,210, or 9 percent of all revenues.
- Expenses total \$145,663,334; only \$11,508,210 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$11,993,551.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$5,265,096 at June 30, 2010, or 6 percent of total General Fund expenditures.
- The District's total debt decreased by \$4,520,000, or approximately 5 percent. The key factor in this decrease was the annual payments applied against the outstanding principal balances.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Component units – The District presents five separate legal entities in this report including the Flagler County Education Direct-Support Organization, Inc.; The Flagler Auditorium Governing Board, Inc.; and Imagine Schools at Town Center, Heritage Academy, Inc., and Palm Harbor Academy, Inc. charter schools. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

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

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

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

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

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

The District uses private-purpose trust funds to account for scholarship funds established by private donors.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-10	6-30-09
Current and Other Assets	\$ 31,925,735	\$ 39,318,671
Capital Assets	258,621,093	267,474,933
Total Assets	290,546,828	306,793,604
Long-Term Liabilities	93,915,783	98,998,200
Other Liabilities	5,198,883	4,369,691
Total Liabilities	99,114,666	103,367,891
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	171,602,037	175,935,658
Restricted	19,295,812	26,944,476
Unrestricted	534,313	545,579
Total Net Assets	\$ 191,432,162	\$ 203,425,713

The largest portion of the District's net assets (89 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 (10 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (1 percent) may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

Operating Results for the Year			
	Governmental Activities		
	6-30-10	6-30-09	
Program Revenues:			
Charges for Services	\$ 5,407,860	\$ 5,372,231	
Operating Grants and Contributions	4,379,287	8,006,014	
Capital Grants and Contributions	1,721,063	6,211,784	
General Revenues:			
Property Taxes, Levied for Operational Purposes	61,153,842	64,344,916	
Property Taxes, Levied for Capital Projects	14,706,845	20,266,767	
Local Sales Tax	3,903,710	3,849,335	
Grants and Contributions Not Restricted to Specific Programs	40,601,917	28,935,987	
Unrestricted Investment Earnings	161,154	237,828	
Miscellaneous	1,634,105	1,443,959	
Total Revenues	133,669,783	138,668,821	
Functions/Program Expenses:			
Instruction	74,554,275	72,574,260	
Pupil Personnel Services	7,018,313	6,368,436	
Instructional Media Services	1,062,937	1,020,455	
Instruction and Curriculum Development Services	943,219	1,320,553	
Instructional Staff Training Services	898,660	813,926	
Instruction Related Technology	634,343	645,201	
School Board	327,808	360,479	
General Administration	1,192,689	1,818,923	
School Administration	5,270,222	5,602,796	
Facilities Acquisition and Construction	21,916,176	13,719,369	
Fiscal Services	1,025,406	1,168,834	
Food Services	5,707,656	5,510,207	
Central Services	773,290	769,349	
Pupil Transportation Services	5,577,584	5,290,800	
Operation of Plant	8,673,301	8,778,718	
Maintenance of Plant	2,436,884	2,404,860	
Administrative Technology Services	4,473	82,530	
Community Services	3,574,661	4,021,270	
Unallocated Interest on Long-Term Debt	4,071,437	4,048,326	
Total Functions/Program Expenses	145,663,334	136,319,292	
Increase (Decrease) in Net Assets	\$ (11,993,551)	\$ 2,349,529	

Capital grants and contributions revenue decreased by \$4,490,721, or 72 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The decrease in funding is mainly due to completion or near completion of certain construction projects during the 2008-09 fiscal year and decreases in new State appropriations.

Operating grants and contributions revenue decreased by \$3,626,727, or 45 percent, due primarily to student transportation funding being reclassified from program revenues to general revenues due to changes in State funding methodology.

Unrestricted grants and contributions revenue increased by \$11,665,930, or 40 percent. The increase in funding is mainly due to American Recovery and Reinvestment Act (ARRA) funds received during the 2009-10 fiscal year.

Property tax revenues decreased by \$8,750,996, or 10 percent, as a result of a decrease in taxable assessed values.

Instruction expenses increased by \$1,980,015 primarily due to funding received from Federal ARRA Economic Stimulus grants, which partially funded the hiring of instructional personnel.

Facilities acquisition and construction expenses increased by \$8,196,807 primarily due to maintenance and repairs at Wadsworth Elementary and Buddy Taylor Middle schools.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The focus of the District's governmental fund statements 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$5,265,096, while the total fund balance is \$8,068,319. The unreserved fund balance decreased by \$312,150, while the total fund balance increased by \$2,263,559 during the fiscal year. The total fund balance increased as a result of the 0.25 critical needs millage levied and utilizing Federal stimulus funds to fund the cost of salaries and benefits for classroom teachers and aides.

The Special Revenue – ARRA Economic Stimulus Fund has total revenues and expenditures of \$7,097,513 each. The funding was mainly used for instruction and instruction related expenditures. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Special Revenue – Other Fund has total revenues and expenditures of \$4,968,941 each. The funding was mainly used for instruction and instruction related expenditures. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$5,421,766, which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances total \$955,499, the majority of which is earmarked for projects at Wadsworth Elementary and Buddy Taylor Middle schools. The fund balance decreased in the current fiscal year mainly from reduced taxable property values and related revenues, and a \$5,995,544 transfer to debt service for payment of principal and interest.

The Capital Projects – Other Fund has a total fund balance of \$7,754,581, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$1,582,102, or 26 percent. The increase is primarily due to fewer construction projects during 2009-10 fiscal year, as the majority of the District's projects were completed during the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2009-10 fiscal year, the District amended its General Fund budget several times. Final budgeted amounts are in line with original budgeted amounts. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$5,184,030, or 5 percent, less than final budget amounts. The decrease in expenditures was mostly offset by a corresponding increase in expenditures of Federal stimulus funding in the Special Revenue – ARRA Economic Stimulus Fund. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$6,479,457.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$258,621,093 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

A major capital asset event during the current fiscal year included the completion of construction at Rymfire Elementary School K-8 Center.

Additional information on the District's capital assets can be found in Notes 5 and 17, to the financial statements.

Long-Term Debt

At June 30, 2010, the District has total long-term debt outstanding of \$87,185,000. This amount is comprised of \$76,975,000 of certificates of participation payable and \$10,210,000 of bonds payable. During the fiscal year, retirement of debt amounted to \$4,520,000.

Additional information on the District's long-term debt can be found in Notes 7 through 9 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Effective for the 2009-10 fiscal year, the District began receiving one-time ARRA appropriations. The intent of these funds is to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only two to three years.

Beginning with the 2010-11 school year, the District will have to meet class-size amendment requirements at the classroom level, rather than at the current school-wide average. The maximum number of students in each core class will be 18 students in prekindergarten through grade 3; 22 students in grades 4 through 8; and 25 students in grades 9 through 12. The District anticipates hiring 26 teachers at a cost of \$1,132,127 to meet these new requirements.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, other required supplementary information, financial statements, and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Flagler County District School Board, P.O. Box 755, Bunnell, FL 32210.

BASIC FINANCIAL STATEMENTS

FLAGLER COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2010

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 25,917,202.20	\$ 1,058,251.00
Investments	181,563.14	80,510.00
Accounts Receivable	61,179.52	66,420.00
Deposits Receivable	10,012.50	
Prepaid Items		265,787.00
Due from Other Agencies	2,241,212.56	
Inventories	432,213.26	2,194.00
Restricted Investments	1,082,351.57	
Investment in Joint Venture	2,000,000.00	
Capital Assets:		
Nondepreciable Capital Assets	10,066,422.64	
Depreciable Capital Assets, Net	248,554,670.33	375,585.00
TOTAL ASSETS	\$ 290,546,827.72	\$ 1,848,747.00
LIABILITIES		
Salaries and Benefits Payable	\$ 116,193.31	\$ 132,896.00
Payroll Deductions and Withholdings	2,824,558.77	
Accounts Payable	2,014,144.38	161,416.00
Construction Contracts Payable	118,843.11	
Construction Contracts Payable - Retainage	59,583.87	
Due to Other Agencies	21,375.27	223,317.00
Deposits Payable	18,716.70	
Deferred Revenue	25,468.00	10,911.00
Long-Term Liabilities:		
Portion Due Within One Year	5,522,078.27	
Portion Due After One Year	88,393,704.65	189,586.00
Total Liabilities	99,114,666.33	718,126.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	171,602,036.88	339,248.00
Restricted for:		
State Required Carryover Programs	2,803,223.03	
Debt Service	1,729,072.70	
Capital Projects	14,282,994.14	33,017.00
School Food Service	480,521.76	
Permanent Funds and Endowments - Nonexpendable		14,394.00
Other Purposes		460,384.00
Unrestricted	534,312.88	283,578.00
Total Net Assets	191,432,161.39	1,130,621.00
TOTAL LIABILITIES AND NET ASSETS	\$ 290,546,827.72	\$ 1,848,747.00

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 74,554,275.47	\$ 3,632,293.34	\$	\$
Pupil Personnel Services	7,018,313.25			
Instructional Media Services	1,062,937.44			
Instruction and Curriculum Development Services	943,218.65			
Instructional Staff Training Services	898,659.99			
Instruction Related Technology	634,343.43			
School Board	327,807.53			
General Administration	1,192,688.93			
School Administration	5,270,221.88			
Facilities Acquisition and Construction	21,916,175.77			1,460,572.33
Fiscal Services	1,025,406.21			
Food Services	5,707,655.77	1,739,819.12	4,132,547.19	
Central Services	773,290.07			
Pupil Transportation Services	5,577,583.48	35,747.10		
Operation of Plant	8,673,300.73			
Maintenance of Plant	2,436,884.35		246,740.00	
Administrative Technology Services	4,472.51			
Community Services	3,574,661.20			
Unallocated Interest on Long-Term Debt	4,071,437.32			260,490.65
Total Primary Government	\$ 145,663,333.98	\$ 5,407,859.56	\$ 4,379,287.19	\$ 1,721,062.98
Component Units				
Charter Schools/Educational Foundations	\$ 6,765,704.00	\$ 563,281.00	\$ 840,362.00	\$ 78,709.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
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	Units
Activities	
\$ (70,921,982.13)	\$
(7,018,313.25)	
(1,062,937.44)	
(943,218.65)	
(898,659.99)	
(634,343.43)	
(327,807.53)	
(1,192,688.93)	
(5,270,221.88)	
(20,455,603.44)	
(1,025,406.21)	
164,710.54	
(773,290.07)	
(5,541,836.38)	
(8,673,300.73)	
(2,190,144.35)	
(4,472.51)	
(3,574,661.20)	
(3,810,946.67)	
(134,155,124.25)	
	(5,283,352.00)
61,153,842.50	
14,706,844.95	
3,903,709.69	
40,601,916.64	5,068,118.00
161,154.07	5,569.00
1,634,105.22	409,738.00
122,161,573.07	5,483,425.00
(11,993,551.18)	200,073.00
203,425,712.57	930,548.00
\$ 191,432,161.39	\$ 1,130,621.00

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 8,978,825.41	\$ 139,911.06	\$ 98,902.35
Investments	835.25		
Accounts Receivable	51,573.73		
Deposits Receivable	10,012.50		
Due from Other Funds	1,700,167.91		
Due from Other Agencies	375,028.50	181,807.75	711,207.93
Inventories	228,916.94		
Restricted Investments			
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 11,345,360.24</u></u>	<u><u>\$ 321,718.81</u></u>	<u><u>\$ 810,110.28</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 89,364.03	\$ 356.82	\$ 15,197.87
Payroll Deductions and Withholdings	2,801,336.04	17,469.15	281.76
Accounts Payable	342,156.64	93,911.53	164,931.67
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds		188,606.04	629,698.98
Deposits Payable	18,716.70		
Deferred Revenue	25,468.00	21,375.27	
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>3,277,041.41</u>	<u>321,718.81</u>	<u>810,110.28</u>
Fund Balances:			
Reserved for State Required Carryover Programs	2,803,223.03		
Reserved for Encumbrances			
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	5,265,095.80		
Special Revenue Funds			
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>8,068,318.83</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 11,345,360.24</u></u>	<u><u>\$ 321,718.81</u></u>	<u><u>\$ 810,110.28</u></u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 6,611,416.74	\$ 7,248,295.46 117,145.90	\$ 2,839,851.18 63,581.99 9,605.79	\$ 25,917,202.20 181,563.14 61,179.52 10,012.50 1,700,167.91
	932,385.11	40,783.27 203,296.32 1,082,351.57	2,241,212.56 432,213.26 1,082,351.57
<u>\$ 6,611,416.74</u>	<u>\$ 8,297,826.47</u>	<u>\$ 4,239,470.12</u>	<u>\$ 31,625,902.66</u>
\$	\$	\$ 11,274.59 5,471.82 695,171.64	\$ 116,193.31 2,824,558.77 2,014,144.38 118,843.11 59,583.87 1,700,167.91 18,716.70 46,843.27
717,958.36 118,843.11 21,898.43 330,950.68	14.54 543,231.34	37,685.44 7,680.87	
<u>1,189,650.58</u>	<u>543,245.88</u>	<u>757,284.36</u>	<u>6,899,051.32</u>
955,499.38		491,251.11 1,729,072.70	2,803,223.03 1,446,750.49 1,729,072.70
		480,521.76 781,340.19	5,265,095.80 480,521.76 13,002,187.56
<u>4,466,266.78</u>	<u>7,754,580.59</u>	<u>781,340.19</u>	<u>13,002,187.56</u>
<u>5,421,766.16</u>	<u>7,754,580.59</u>	<u>3,482,185.76</u>	<u>24,726,851.34</u>
<u>\$ 6,611,416.74</u>	<u>\$ 8,297,826.47</u>	<u>\$ 4,239,470.12</u>	<u>\$ 31,625,902.66</u>

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010**

Total Fund Balances - Governmental Funds **\$ 24,726,851.34**

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 258,621,092.97

Investment in joint venture used in governmental activities is not a financial resource and, therefore, is not reported as an asset in governmental funds. 2,000,000.00

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

Bonds Payable	\$ 10,210,000.00	
Certificates of Participation Payable	76,975,000.00	
Compensated Absences Payable	4,952,996.64	
Special Retirement Benefits Payable	1,014,000.00	
Other Postemployment Benefits Payable	635,132.00	
Estimated Liability for Arbitrage Payable	128,654.28	
		(93,915,782.92)

Total Net Assets - Governmental Activities **\$ 191,432,161.39**

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

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**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Intergovernmental:			
Federal Direct	\$ 121,023.62	\$	\$
Federal Through State and Local	207,442.32	7,097,513.38	4,968,941.09
State	28,259,934.13		
Local:			
Property Taxes	61,371,945.94		
Local Sales Taxes			
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	4,747,897.98		
	<u>94,708,243.99</u>	<u>7,097,513.38</u>	<u>4,968,941.09</u>
Total Revenues			
	<u>94,708,243.99</u>	<u>7,097,513.38</u>	<u>4,968,941.09</u>
Expenditures			
Current - Education:			
Instruction	56,449,440.94	6,434,041.84	3,221,473.62
Pupil Personnel Services	6,053,186.51	106,495.97	844,415.16
Instructional Media Services	1,033,184.20	1,566.57	8,287.58
Instruction and Curriculum Development Services	680,044.45	21,531.77	233,376.42
Instructional Staff Training Services	189,377.50	257,637.22	519,653.54
Instruction Related Technology	636,179.76		
School Board	327,048.76		
General Administration	353,131.16	10,390.54	32,606.40
School Administration	5,289,545.87		14,576.64
Facilities Acquisition and Construction	6,800.00		
Fiscal Services	1,005,514.98		6,124.84
Food Services			
Central Services	768,263.99		
Pupil Transportation Services	4,631,353.87	3,093.73	9,871.88
Operation of Plant	8,516,316.21		
Maintenance of Plant	2,331,858.66	49,415.65	
Administrative Technology Services	51,922.39		
Community Services	3,615,562.30		13,840.35
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	106,140.67	213,340.09	64,714.66
Debt Service:			
Principal			
Interest and Fiscal Charges	84,388.77		
	<u>92,129,260.99</u>	<u>7,097,513.38</u>	<u>4,968,941.09</u>
Total Expenditures			
	<u>92,129,260.99</u>	<u>7,097,513.38</u>	<u>4,968,941.09</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,578,983.00</u>		
Other Financing Sources (Uses)			
Transfers In	931,932.14		
Proceeds from Sale of Capital Assets	42,814.12		
Insurance Loss Recoveries	50,568.31		
Transfers Out	(1,340,739.08)		
	<u>(315,424.51)</u>		
Total Other Financing Sources (Uses)			
	<u>(315,424.51)</u>		
Net Change in Fund Balances	2,263,558.49		
Fund Balances, Beginning	5,804,760.34		
	<u>8,068,318.83</u>	<u>0.00</u>	<u>0.00</u>
Fund Balances, Ending			
	<u>\$ 8,068,318.83</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		4,022,505.64	121,023.62
		1,548,075.63	16,296,402.43
			29,808,009.76
14,706,844.95			76,078,790.89
	3,903,709.69		3,903,709.69
	706,648.24		706,648.24
		1,739,819.12	1,739,819.12
23,896.68	9,369.38	168,417.23	4,949,581.27
<u>14,730,741.63</u>	<u>4,619,727.31</u>	<u>7,478,817.62</u>	<u>133,603,985.02</u>
			66,104,956.40
			7,004,097.64
			1,043,038.35
			934,952.64
			966,668.26
			636,179.76
			327,048.76
			396,128.10
			5,304,122.51
17,980,698.68	2,236,021.13	1,678,881.21	21,902,401.02
			1,011,639.82
		5,614,227.78	5,614,227.78
			768,263.99
			4,644,319.48
			8,516,316.21
			2,381,274.31
			51,922.39
			3,629,402.65
501,230.45		691,548.82	1,192,779.27
323,347.40	58,948.36	155,826.77	922,317.95
		4,520,000.00	4,520,000.00
		3,963,827.62	4,048,216.39
<u>18,805,276.53</u>	<u>2,294,969.49</u>	<u>16,624,312.20</u>	<u>141,920,273.68</u>
<u>(4,074,534.90)</u>	<u>2,324,757.82</u>	<u>(9,145,494.58)</u>	<u>(8,316,288.66)</u>
	1,250,000.00	8,093,681.51	10,275,613.65
		778.12	43,592.24
(6,288,176.71)	(1,992,656.08)	(654,041.78)	50,568.31
			(10,275,613.65)
<u>(6,288,176.71)</u>	<u>(742,656.08)</u>	<u>7,440,417.85</u>	<u>94,160.55</u>
(10,362,711.61)	1,582,101.74	(1,705,076.73)	(8,222,128.11)
15,784,477.77	6,172,478.85	5,187,262.49	32,948,979.45
<u>\$ 5,421,766.16</u>	<u>\$ 7,754,580.59</u>	<u>\$ 3,482,185.76</u>	<u>\$ 24,726,851.34</u>

**FLAGLER 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, 2010**

Net Change in Fund Balances - Governmental Funds \$ (8,222,128.11)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays. (8,825,477.39)

In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. However, in the statement to activities, the cost of those assets is allocated over their estimated useful lives. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (28,362.77)

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.

Bonds Payable	\$	2,020,000.00	
Certificates of Participation Payable		2,500,000.00	4,520,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amounts earned in the current period. 850,977.02

In the statement of activities, the cost of special retirement benefits is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for special retirement benefits. This is the net amount of special retirement benefits paid in excess of the amounts earned in the current period. 36,000.00

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. (301,339.00)

The change in estimated liability for arbitrage rebate is reported in the statement of activities, but does not require the use of current financial resources and is not reported in the governmental funds. (23,220.93)

Change in Net Assets - Governmental Activities \$ (11,993,551.18)

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2010**

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 99,920.62	\$ 1,043,773.00
TOTAL ASSETS	<u>\$ 99,920.62</u>	<u>\$ 1,043,773.00</u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 1,043,773.00
Total Liabilities	<u>0.00</u>	<u>\$ 1,043,773.00</u>
NET ASSETS		
Assets Held in Trust for Scholarships	<u>99,920.62</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 99,920.62</u>	

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2010**

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Investment Earnings	\$ 165.58
	<u> </u>
DEDUCTIONS	
Scholarship Payments	500.00
	<u> </u>
Change in Net Assets	(334.42)
Net Assets - Beginning	100,255.04
	<u> </u>
Net Assets - Ending	<u><u>\$ 99,920.62</u></u>

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Flagler County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Flagler County District School Board (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 Flagler County.

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

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

- **Blended Component Unit.** The Flagler County School Board Leasing Corporation (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's other component units.

The Flagler County Education Direct-Support Organization, Inc. (DSO), is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. The DSO is considered to be a discretely presented component unit of the District because the District must approve all members of the DSO's Board, and the District has the ability to impose its will on the DSO. It is considered to be discretely presented instead of blended because the two boards are not the same.

The Flagler Auditorium Governing Board, Inc. (Auditorium), is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property to make expenditures to and for the benefit of the District. The nature and significance of the Auditorium's relationship with the District causes them to be considered a component unit.

The charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, except that Imagine School at Town Center, LLC, doing business as Imagine Schools at Town Center, is organized as a limited liability company pursuant to Chapter 608, Florida Statutes, and Section 1002.33, Florida Statutes. These charter schools operate under charters approved by its sponsor, the Flagler County District School Board.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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.

Audits of the DSO, the Auditorium, and three charter schools: Heritage Academy, Inc.; Imagine Schools at Town Center; and Palm Harbor Academy, Inc., for the fiscal year ended June 30, 2010, were conducted by independent certified public accountants. The audit reports are filed in the District's administrative offices.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the primary government 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 associated with the District's functions and is allocated to those functions.

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- 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.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

- Capital Projects – Other Fund – to account for various financial resources required to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund types:

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

➤ **Basis of Accounting**

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The Flagler County Education Direct-Support Organization, Inc., is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The Flagler Auditorium Governing Board, Inc., is accounted for as a governmental entity engaged exclusively in business-type activities using the economic resources measurement focus and the accrual basis of accounting.

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

➤ **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 SBA Debt Service accounts for investment of debt service moneys, amounts placed with 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 SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by 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 money market mutual funds and commercial paper and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Restricted Assets**

Certain invested assets held by a trustee under a trust agreement, in the name of the District, in connection with a Qualified Zone Academy Bonds (QZAB) Program sinking fund are classified as restricted assets because they are set aside for repayment of the QZAB debt at maturity as required by applicable debt covenants.

➤ **Inventories**

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 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:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	40 years
Furniture, Fixtures, and Equipment	5 years
Motor Vehicles	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.

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

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

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

➤ **State Revenue Sources**

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. 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 reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

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

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

➤ **District Property Taxes**

The School 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 Flagler County Property Appraiser, and property taxes are collected by the Flagler County Tax Collector.

The Board adopted the 2009 tax levy on September 15, 2009. 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 Flagler 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.

➤ **Educational Impact Fees**

Flagler County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2004. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The authorized uses include, but are not limited to, acquisition, construction, expansion and equipping of educational sites and educational capital facilities necessitated by new development. Because the educational impact fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements.

➤ **Local Government Infrastructure Surtax (Local Sales Tax)**

On September 12, 2002, the citizens of Flagler County approved a one-cent sales tax authorized under Section 212.055(2), Florida Statutes, to be collected through December 2012. The District receives one-half of the one-cent sales tax collected from Flagler County, which is pledged for the debt service payments on the Sales Tax Revenue Bonds, Series 2004, as discussed in Note 8.

➤ **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:

- 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 School 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.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	\$ 20,579,048.67
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	81,710.74
Debt Service Accounts	6 Months	63,581.99
Money Market Mutual Funds (2):		
Dreyfus Institutional Reserves Treasury Prime Fund	Less Than One Year	36,270.41
Commercial Paper (3)	October 27, 2010	1,082,351.57
Total Investments, Primary Government		<u>\$ 21,842,963.38</u>

Notes:

(1) Investment reported as a cash equivalent.

(2) Money market mutual funds are invested in United States Treasury Securities and repurchase agreements relating to such securities.

(3) This investment is held by a paying agent in connection with a Qualified Zone Academy Bonds financing arrangement. (See Note 7)

Interest Rate Risk

- The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. 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. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any 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; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

- The District's investments in 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 SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in the Dreyfus Institutional Reserves Treasury Prime Fund is rated AAA/V1+ by Fitch Ratings.
- The District's investment in commercial paper is authorized under a forward delivery agreement with the Qualified Zone Academy Bonds paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amount in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's. The District's investment in commercial paper was rated A-1 by Standard & Poor's.

Custodial Credit Risk

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

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, reported in the other governmental funds, are in commercial paper issued by Intesa Funding, LLC. These investments are 94 percent of the District's total investments reported in these aggregated nonmajor governmental funds.

4. RECEIVABLES

The majority of receivables are due from other governmental agencies. These receivables and the remaining accounts receivable are considered fully collectible. As such, no allowance for uncollected accounts receivable is accrued.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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	\$ 9,013,811.21	\$	\$	\$ 9,013,811.21
Construction in Progress	15,161,847.96	425,864.68	14,535,101.21	1,052,611.43
Total Capital Assets Not Being Depreciated	24,175,659.17	425,864.68	14,535,101.21	10,066,422.64
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,374,748.52	26,438.03		6,401,186.55
Buildings and Fixed Equipment	279,265,662.91	15,262,722.77		294,528,385.68
Furniture, Fixtures, and Equipment	16,445,807.09	802,683.80	1,596,174.45	15,652,316.44
Motor Vehicles	12,536,098.71	101,489.15	771,169.85	11,866,418.01
Audio Visual Materials and Computer Software	1,789,681.03	31,000.00		1,820,681.03
Total Capital Assets Being Depreciated	316,411,998.26	16,224,333.75	2,367,344.30	330,268,987.71
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,107,196.26	303,121.19		3,410,317.45
Buildings and Fixed Equipment	52,404,762.17	7,413,209.67		59,817,971.84
Furniture, Fixtures, and Equipment	8,364,562.56	2,242,213.44	1,571,752.32	9,035,023.68
Motor Vehicles	7,547,537.24	933,036.31	767,229.21	7,713,344.34
Audio Visual Materials and Computer Software	1,688,666.07	48,994.00		1,737,660.07
Total Accumulated Depreciation	73,112,724.30	10,940,574.61	2,338,981.53	81,714,317.38
Total Capital Assets Being Depreciated, Net	243,299,273.96	5,283,759.14	28,362.77	248,554,670.33
Governmental Activities Capital Assets, Net	\$ 267,474,933.13	\$ 5,709,623.82	\$ 14,563,463.98	\$ 258,621,092.97

**FLAGLER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 8,926,604.65
Instruction and Curriculum Development Services	7,863.20
General Administration	802,502.02
Food Services	126,778.39
Pupil Transportation Services	910,661.84
Operation of Plant	99,906.57
Maintenance of Plant	54,795.84
Community Services	11,462.10
Total Depreciation Expense - Governmental Activities	\$ 10,940,574.61

6. CHANGES IN SHORT-TERM DEBT

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$	\$ 10,000,000	\$ 10,000,000	\$

Proceeds from the tax anticipation note were used for the payment of operating expenses incurred in operating the District's schools for the 2009-10 fiscal year. The note was issued on September 17, 2009, under the provisions of Section 1011.13, Florida Statutes, with stated interest rate of 1.15 percent. The note was repaid on March 15, 2010.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

7. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2010, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1998 (Partially Refunded)	\$ 2,075,000	4.625 - 4.75	2013	\$ 16,815,000
Series 2001A	1,290,000	5.452	2017	1,290,000
Series 2001B	925,000	6.609	2014	2,510,000
Series 2005A	56,200,000	3.5 - 5.0	2031	60,720,000
Series 2005B	11,485,000	3.5 - 4.5	2024	11,675,000
Series 2005 - QZAB	5,000,000	0.0	2022	5,000,000
Total Minimum Lease Payments	\$ 76,975,000			

The District entered into a master financing arrangement on April 1, 1998, which arrangement was characterized as a lease-purchase agreement, with the Flagler School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of certificates of participation to be repaid from the proceeds of rents paid by the District.

On October 1, 2005, the District entered into a financing arrangement to advance-refund the Certificates of Participation, Series 1998, maturing on April 1st in the years 2013, 2014, 2018, and 2023, totaling \$10,830,000, and issued on behalf of the District by the Leasing Corporation. The refunding issue was made pursuant to the Master Lease-Purchase Agreement dated April 1, 1998, and the Supplemental Trust Agreement dated October 1, 2005. The refunding was accomplished through the issuance of Certificates of Participation, Series 2005B, totaling \$11,675,000, to be repaid from the proceeds of rents paid by the District.

On October 1, 2005, the District entered into a financing arrangement for Series 2005 – Qualified Zone Academy Bonds (QZAB) Certificates of Participation issued under a special program whereby the certificates, commencing on October 27, 2005, will mature in full on October 27, 2021, for the original \$5,000,000 amount. There is no interest cost for borrowing moneys under this program. The financing proceeds were used for improvements and to acquire technology-related equipment at two designated schools, which are leased by the District from the Leasing Corporation. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$257,691 for 16 consecutive years began on October 27, 2006. 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 accumulate pursuant to the forward delivery agreement and are held under a trust agreement until the certificate mature. The Series 2005-QZAB issue is secured by the assets held under the trust agreement in the event of cancellation or default.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of \$10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangements, which may be up to approximately 30 years from the date of inception of the arrangements.

A summary of the lease terms is as follows:

Certificates	Lease Term
Series 1998 (Partially Refunded)	Earlier of date Series 2005B is paid in full or July 1, 2023
Series 2001A	Earlier of date paid in full or July 1, 2016
Series 2001B	Earlier of date paid in full or July 1, 2013
Series 2005A	Earlier of date paid in full or July 1, 2030
Series 2005B	Earlier of date paid in full or July 1, 2023

The District properties included in the ground lease under this arrangement include:

- Portions of the campus at Flagler-Palm Coast High School on Highway 100, West of Interstate 95, in Bunnell.
- The Corporate Plaza Building used for administrative offices and adult education classrooms, including the 7.44 acre site, located at One Corporate Drive, Palm Coast, Florida.
- Rymfire Elementary School.
- Matanzas High School.
- Government Services Building.
- Various School Facility Renovations.

With the exception of the Series 2005-QZAB issue described above, the lease payments are payable by the District semiannually, on August 1 and February 1, and must be remitted by the District as of the 15th day of the month preceding the payment dates. 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:

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 6,026,562.36	\$ 2,600,000.00	\$ 3,426,562.36
2012	6,018,055.56	2,705,000.00	3,313,055.56
2013	6,006,130.93	2,825,000.00	3,181,130.93
2014	6,008,986.35	2,970,000.00	3,038,986.35
2015	6,004,331.70	3,110,000.00	2,894,331.70
2016-2020	28,819,138.55	16,685,000.00	12,134,138.55
2021-2025	31,672,656.25	23,850,000.00	7,822,656.25
2026-2030	21,447,750.00	18,060,000.00	3,387,750.00
2031	4,274,250.00	4,170,000.00	104,250.00
Total Minimum Lease Payments	<u>\$ 116,277,861.70</u>	<u>\$ 76,975,000.00</u>	<u>\$ 39,302,861.70</u>

8. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2003A	\$ 675,000	3.00 - 4.25	2023
Series 2005B, Refunding	1,565,000	5.0	2020
District Revenue Bonds:			
Series 1998	2,280,000	4.6 - 5.0	2028
Sales Tax Revenue Bonds:			
Series 2004	<u>5,690,000</u>	2.625 - 3.125	2012
Total Bonds Payable	<u>\$ 10,210,000</u>		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

➤ State School Bonds

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

➤ District Revenue Bonds

Capital Improvement Revenue Bonds, Series 1998, issued in the amount of \$3,010,000, are authorized by Chapter 1011, Florida Statutes, and Section 550.135, Florida Statutes, as supplemented by Chapter 30131, Laws of Florida (1955), as amended by Chapter 71-367, 71-639, and 73-466, Laws of Florida. The principal and interest on the bonds are paid solely from, and secured by, a prior lien upon and pledge of that portion of the money distributed to the District from the State's Pari-mutuel Tax

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District.

The District has pledged a total of \$5,807,941.25 of pari-mutuel tax revenues in connection with the District Revenue Bonds of 1998, described above. During the 2009-10 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$184,865 (83 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on August 1, 2028.

➤ **Sales Tax Revenue Bonds**

The School Board issued Sales Tax Revenue Bonds, Series 2004, in the amount of \$15,635,000. These bonds are authorized by Chapter 1001 Florida Statutes, and Chapter 212, Florida Statutes. These bonds are secured by a pledge of proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. Proceeds of the bonds were used to acquire, construct, and equip a new elementary school and paying certain costs and expenses incurred in connection with the issuance of the bonds.

The District pledged a total of \$17,606,046.53 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2004 Sales Tax Revenue Bond issue described above. During the 2009-10 fiscal year, the District recognized sales tax revenues totaling \$3,903,709.69 and expended \$1,992,653.13 (51 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt, or September 1, 2012.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 264,045.00	\$ 160,000.00	\$ 104,045.00
2012	266,645.00	170,000.00	96,645.00
2013	268,745.00	180,000.00	88,745.00
2014	275,401.25	195,000.00	80,401.25
2015	266,331.25	195,000.00	71,331.25
2016-2020	1,321,206.25	1,115,000.00	206,206.25
2021-2023	244,462.50	225,000.00	19,462.50
Total State School Bonds	2,906,836.25	2,240,000.00	666,836.25
District Revenue Bonds:			
2011	186,565.00	75,000.00	111,565.00
2012	187,960.00	80,000.00	107,960.00
2013	189,040.00	85,000.00	104,040.00
2014	184,875.00	85,000.00	99,875.00
2015	185,500.00	90,000.00	95,500.00
2016-2020	928,125.00	525,000.00	403,125.00
2021-2025	925,000.00	670,000.00	255,000.00
2026-2029	739,000.00	670,000.00	69,000.00
Total District Revenue Bonds	3,526,065.00	2,280,000.00	1,246,065.00
Sales Tax Revenue Bonds:			
2011	1,987,003.13	1,845,000.00	142,003.13
2012	1,984,362.50	1,895,000.00	89,362.50
2013	1,980,468.75	1,950,000.00	30,468.75
Total Sales Tax Revenue Bonds	5,951,834.38	5,690,000.00	261,834.38
Total	<u>\$ 12,384,735.63</u>	<u>\$ 10,210,000.00</u>	<u>\$ 2,174,735.63</u>

9. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 12,230,000.00	\$	\$ 2,020,000.00	\$ 10,210,000.00	\$ 2,080,000.00
Certificates of Participation Payable	79,475,000.00		2,500,000.00	76,975,000.00	2,600,000.00
Compensated Absences Payable	5,803,973.66		850,977.02	4,952,996.64	713,423.99
Special Retirement Benefits Payable	1,050,000.00	66,000.00	102,000.00	1,014,000.00	
Estimated Liability for Arbitrage Payable	105,433.35	23,220.93		128,654.28	128,654.28
Other Postemployment Benefits Payable	333,793.00	468,863.00	167,524.00	635,132.00	
Total Governmental Activities	<u>\$ 98,998,200.01</u>	<u>\$ 558,083.93</u>	<u>\$ 5,640,501.02</u>	<u>\$ 93,915,782.92</u>	<u>\$ 5,522,078.27</u>

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 1,700,167.91	\$
Special Revenue:		
ARRA Economic Stimulus		188,606.04
Other		629,698.98
Capital Projects:		
Local Capital Improvement		330,950.68
Other		543,231.34
Nonmajor Governmental		7,680.87
Total	<u>\$ 1,700,167.91</u>	<u>\$ 1,700,167.91</u>

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be paid within 12 months.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 931,932.14	\$ 1,340,739.08
Capital Projects:		
Local Capital Improvement		6,288,176.71
Other	1,250,000.00	1,992,656.08
Nonmajor Governmental	8,093,681.51	654,041.78
Total	<u>\$ 10,275,613.65</u>	<u>\$ 10,275,613.65</u>

The transfers out of capital projects funds and the General Fund were to provide debt service principal and interest payments and to assist in funding maintenance operations of the District.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

11. RESERVE FOR 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 Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund and Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. Additionally, there were no purchase orders outstanding for grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund and Special Revenue – Other Fund at June 30, 2010.

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	\$ 13,489,590.00
Florida Education Finance Program	10,314,578.00
Workforce Development Program	2,355,791.42
Adults With Disabilities	835,437.10
Motor Vehicle License Tax (Capital Outlay and Debt Service)	507,741.89
Classrooms First Program	493,208.00
School Recognition Program	474,845.00
Voluntary Prekindergarten	422,881.36
Gross Receipts Tax (Public Education Capital Outlay)	146,091.00
Charter School Capital Outlay Funds	100,649.00
Miscellaneous	667,196.99
Total	\$ 29,808,009.76

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.270	\$ 53,268,683.00
Basic Discretionary Local Effort	0.748	7,560,719.92
Critical Operating Needs	0.250	2,526,978.58
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	15,161,871.50
Total	<u>7.768</u>	<u>\$ 78,518,253.00</u>

14. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to 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. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida 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 Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military 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, and death benefits, and annual cost-of-living adjustments.

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
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 0.05 percent for administrative costs of PEORP.

(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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$5,918,294, \$5,578,121, and \$5,593,653, respectively, which were equal to the required contributions for each fiscal year. There were 258 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$872,637.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on 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.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

15. SPECIAL TERMINATION BENEFITS

School Board policy provides for the payment of special retirement incentive bonuses of \$6,000 to qualifying employees at the date of their retirement. In addition to payments for accrued leave balances, the District recorded expenditures of \$102,000 during the 2009-10 fiscal year for these special retirement incentive bonuses. The reported amount of \$1,014,000 represents the District's estimated liability for future payments to qualified employees as of June 30, 2010.

16. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the 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. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and 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 other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 39 retirees received other postemployment benefits. The District provided required contributions of \$167,524 toward the annual OPEB cost, net of retiree contributions totaling \$312,702, which represents 0.5 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board 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 Plan, and changes in the District's net OPEB obligation:

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Amount
Normal Cost (service cost for one year)	\$ 336,642
Amortization of Unfunded Actuarial Accrued Liability	119,305
Interest on Normal Cost and Amortization	5,950
Annual Required Contribution	461,897
Interest on Net OPEB Obligation	18,476
Adjustment to Annual Required Contribution	(11,510)
Annual OPEB Cost (Expense)	468,863
Contribution Toward the OPEB Cost	(167,524)
Increase in Net OPEB Obligation	301,339
Net OPEB Obligation, Beginning of Year	333,793
Net OPEB Obligation, End of Year	<u>\$ 635,132</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010 and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0.0%	\$ 0
2008-09	461,897	27.7%	333,793
2009-10	468,863	35.7%	635,132

Funded Status and Funding Progress. As of March 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$3,579,153, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,579,153 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$63,355,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.6 percent.

Actuarial valuations of an ongoing 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 plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

The District's initial OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2010, and the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.5 percent for the 2009-10 fiscal year, reducing gradually each year, to an ultimate rate of 4.9 percent after 75 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 28 years.

17. CONSTRUCTION CONTRACT COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Old Kings Elementary School, Additions and Renovation:			
Contractor	\$ 548,164.40	\$ 292,389.67	\$ 255,774.73
Architect	41,620.80	36,995.90	4,624.90
Total	<u>\$ 589,785.20</u>	<u>\$ 329,385.57</u>	<u>\$ 260,399.63</u>

18. JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement, and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain: (a) an ongoing financial interest or (b) ongoing financial responsibility. As discussed below, the District participates in a joint venture.

The District entered into an agreement with the Volusia County District School Board and the Daytona State College, pursuant to Section 163.01, Florida Statutes, and Chapter 98-302, Laws of Florida, to construct and operate a charter technical career center. The charter technical career center does business as the Volusia Flagler Advanced Technology Center, Inc. (ATC), a separate legal entity, and is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, and Section 1002.34, Florida Statutes. Because the sponsoring governments (sponsors) have an on-going financial interest and financial

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

responsibility, the ATC is considered a joint venture. The ATC Board of Directors, which oversees the ATC's operations, has 11 members: one member is the chief executive officer from a sponsor, and is appointed on a rotating basis from each sponsor to a one-year term; six members are appointed by the sponsors (two members are appointed by each sponsor); and four members are elected by the seven appointed board members. The current agreement is effective until June 30, 2011, and may be renewed by written mutual agreement of the sponsors.

The District's capital contribution was \$2,000,000 as provided in the agreement and is reported as an investment in joint venture in the Statement of Net Assets. The agreement provides a vested interest for each sponsor for the purposes of recouping of investments and the allocating of assets and assuming liabilities upon termination of the agreement. In the event of termination of the agreement, the capital assets purchased by the ATC will be appraised and sold. The profits will revert to the sponsors based on their proportionate equity in the ATC as defined by the agreement. As of June 30, 2010, the District's proportionate share of profits to be distributed in the event of termination of the agreement was 11.8 percent.

The agreement requires participants to make pro-rata contributions for ATC annual operating costs. Additionally, should enrollment of the ATC exceed expectations, sponsors must make additional pro-rata contributions as required by the agreement. Annual required contributions by each sponsor are adjusted annually to cover the estimated annual operating costs of the ATC. The District did not make a contribution for operating costs for the 2009-10 fiscal year.

The total cost to construct the ATC facility was \$25,500,000 and was financed through capital contributions from each sponsor as provided in the agreement. However, Volusia County District School Board holds title to, and is considered the owner of, the facility and the site on which the facility is located. Pursuant to the agreement, Volusia County District School Board must lease the facility to Daytona State College for a period of 40 years.

Daytona State College serves as fiscal agent for the joint venture.

The ATC is accounted for as a proprietary joint venture. An audit of the ATC's financial statements was conducted by an independent certified public accountant, and copies of the audit report can be obtained from the ATC's administrative office or the District's administrative office.

19. INTERLOCAL AGREEMENT

On September 8, 2005, the School Board entered into an interlocal agreement with Flagler County (County) pursuant to Section 163.01, Florida Statutes, to construct and use an administrative office facility. The District owns 44.2 percent and the County owns 55.8 percent of the facility which represents their respective share of office space. The facility is owned by the participants as tenants in common in proportion to their ownership interest. The costs and expenses of maintaining the facility and any capital improvements are the responsibility of each party in their respective share of office space. The operating costs necessary to

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

operate, maintain, repair, and replace the common areas are to be shared equally by each participant. The District's share of operating costs was \$206,319.12 for the 2009-10 fiscal year.

The District disbursed a total of \$10,225,611 for the construction of its respective share of office space. A separate grounds lease agreement was executed with the County for land upon which the District's office space is located. The ground lease agreement provides for an annual rental payment of \$10.

20. 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 Flagler County District School Board is a member of the North East Florida Educational Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

Employee group health, hospitalization, dental, and life insurance coverage is being provided through purchased commercial coverage.

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

21. SUBSEQUENT EVENTS

The District has authorized the issuance of a tax anticipation note (Note) in the amount of \$10,000,000. The proceeds will be used for operating expenses for the fiscal year ended June 30, 2011. The closing of the Note took place on October 8, 2010, and the Note matures on February 15, 2011. The stated interest rate is 0.91 percent.

REQUIRED SUPPLEMENTARY INFORMATION

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 100,000.00	\$ 100,000.00	\$ 121,023.62	\$ 21,023.62
Federal Through State and Local State	150,000.00	150,000.00	207,442.32	57,442.32
	29,304,870.00	28,255,693.10	28,259,934.13	4,241.03
Local:				
Property Taxes	65,019,112.00	61,313,544.27	61,371,945.94	58,401.67
Miscellaneous		4,747,897.98	4,747,897.98	
Total Revenues	94,573,982.00	94,567,135.35	94,708,243.99	141,108.64
Expenditures				
Current - Education:				
Instruction	59,645,789.00	59,918,023.15	56,449,440.94	3,468,582.21
Pupil Personnel Services	6,064,389.00	6,118,547.09	6,053,186.51	65,360.58
Instructional Media Services	1,124,023.00	1,113,835.60	1,033,184.20	80,651.40
Instruction and Curriculum Development Services	873,026.00	873,785.41	680,044.45	193,740.96
Instructional Staff Training Services	238,336.00	248,315.16	189,377.50	58,937.66
Instruction Related Technology	728,108.00	682,053.28	636,179.76	45,873.52
School Board	339,709.00	339,709.00	327,048.76	12,660.24
General Administration	421,485.00	460,258.97	353,131.16	107,127.81
School Administration	5,302,761.00	5,357,748.55	5,289,545.87	68,202.68
Facilities Acquisition and Construction	67,736.00	16,736.00	6,800.00	9,936.00
Fiscal Services	1,110,872.00	1,044,529.14	1,005,514.98	39,014.16
Central Services	793,262.00	798,723.64	768,263.99	30,459.65
Pupil Transportation Services	4,540,660.00	4,788,030.26	4,631,353.87	156,676.39
Operation of Plant	8,445,075.00	9,020,544.36	8,516,316.21	504,228.15
Maintenance of Plant	2,603,050.00	2,591,521.15	2,331,858.66	259,662.49
Administrative Technology Services	28,240.00	54,111.09	51,922.39	2,188.70
Community Services	3,273,479.00	3,630,118.45	3,615,562.30	14,556.15
Fixed Capital Outlay:				
Other Capital Outlay		106,700.67	106,140.67	560.00
Debt Service:				
Interest and Fiscal Charges		150,000.00	84,388.77	65,611.23
Total Expenditures	95,600,000.00	97,313,290.97	92,129,260.99	5,184,029.98
Excess (Deficiency) of Revenues Over Expenditures	(1,026,018.00)	(2,746,155.62)	2,578,983.00	5,325,138.62
Other Financing Sources (Uses)				
Transfers In	3,526,018.00	926,018.00	931,932.14	5,914.14
Proceeds from Sale of Capital Assets		42,000.00	42,814.12	814.12
Insurance Loss Recoveries		8,000.00	50,568.31	42,568.31
Transfers Out		(1,341,000.00)	(1,340,739.08)	260.92
Total Other Financing Sources (Uses)	3,526,018.00	(364,982.00)	(315,424.51)	49,557.49
Net Change in Fund Balances	2,500,000.00	(3,111,137.62)	2,263,558.49	5,374,696.11
Fund Balances, Beginning	4,700,000.00	4,700,000.00	5,804,760.34	1,104,760.34
Fund Balances, Ending	\$ 7,200,000.00	\$ 1,588,862.38	\$ 8,068,318.83	\$ 6,479,456.45

Special Revenue - ARRA Economic Stimulus Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 8,167,341.00	\$ 7,097,513.38	\$ 7,097,513.38	\$	\$ 5,618,244.00	\$ 4,968,941.09	\$ 4,968,941.09	\$
8,167,341.00	7,097,513.38	7,097,513.38		5,618,244.00	4,968,941.09	4,968,941.09	
7,256,933.00	6,434,041.84	6,434,041.84		3,115,320.00	3,221,473.62	3,221,473.62	
217,814.00	106,495.97	106,495.97		949,249.00	844,415.16	844,415.16	
	1,566.57	1,566.57			8,287.58	8,287.58	
22,650.00	21,531.77	21,531.77		286,488.00	233,376.42	233,376.42	
429,042.00	257,637.22	257,637.22		544,366.00	519,653.54	519,653.54	
10,350.00	10,390.54	10,390.54		52,795.00	32,606.40	32,606.40	
					14,576.64	14,576.64	
					6,124.84	6,124.84	
99,610.00	3,093.73	3,093.73		137,262.00	9,871.88	9,871.88	
130,942.00	49,415.65	49,415.65					
				532,764.00	13,840.35	13,840.35	
	213,340.09	213,340.09			64,714.66	64,714.66	
8,167,341.00	7,097,513.38	7,097,513.38		5,618,244.00	4,968,941.09	4,968,941.09	
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
March 1, 2009	\$	0 \$	\$ 3,579,153	0.0%	\$ 63,355,000	5.6%

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

1. BUDGETARY BASIS OF ACCOUNTING

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

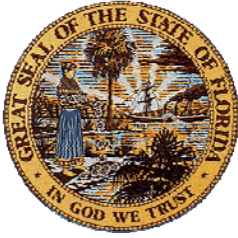
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010**

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	\$ 884,632.40	\$
National School Lunch Program	10.555	300	2,596,368.76	
Summer Food Service Program for Children	10.559	323	147,729.27	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	319,123.21	
Total Child Nutrition Cluster			3,947,853.64	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants, Limited Availability	10.579	371	39,167.55	
Fresh Fruit and Vegetable Program	10.582	330	74,652.00	
Total United States Department of Agriculture			4,061,673.19	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	2,178,651.11	
Special Education - Preschool Grants	84.173	267	27,762.54	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	1,852,383.11	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	29,132.79	
Total Special Education Cluster			4,087,929.55	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	1,592,940.39	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	532,896.00	
Total Title I, Part A Cluster			2,125,836.39	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	13,110.94	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	11,719.35	
Total Educational Technology State Grants Cluster			24,830.29	
Education of Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education of Homeless Children and Youth	84.196	127	20,000.00	
ARRA - Education of Homeless Children and Youth, Recovery Act	84.387	127	15,738.38	
Total Education of Homeless Children and Youth Cluster			35,738.38	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	4,061,848.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	554,628.20	
Total State Stabilization Fund Cluster			4,616,476.20	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	104,429.00	36,504.00
Career and Technical Education - Basic Grants to States	84.048	161	241,782.57	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	17,926.29	
Charter Schools	84.282	298	231,855.91	
Twenty-First Century Community Learning Centers	84.287	244	13,840.35	
English Language Acquisition Grants	84.365	102	68,224.17	
Improving Teacher Quality State Grants	84.367	224	363,429.28	
School Improvement Grants	84.377	126	12,483.10	
Putnam County District School Board:				
Reading First State Grants	84.357	None	12,055.57	
Total United States Department of Education			11,956,837.05	36,504.00
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	70,449.87	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	121,023.62	
Total Expenditures of Federal Awards			\$ 16,209,983.73	\$ 36,504.00

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

(2) Noncash Assistance - National School Lunch Programs. Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

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 Flagler County District School Board as of and for the fiscal year ended June 30, 2010, 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 was modified to include 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 Flagler 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 a 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. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

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.

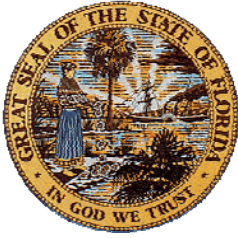
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
February 28, 2011



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

Compliance

We have audited the Flagler County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (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, 2010. 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*. 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, 2010.

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
February 28, 2011

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
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 <i>Circular A-133</i> ?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392-ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$486,299
Auditee qualified as low-risk auditee?	No

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, indicated improvements could be made in financial reporting procedures. For example:

- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District must report a fund as major when the fund's assets, liabilities, revenues, or expenditures represent at least 10 percent of the total governmental funds for these respective classifications. However, District personnel overreported expenditures and construction contracts payable, totaling approximately \$830,000 each in the Capital Projects - Local Capital Improvement Fund and \$530,000 each in the Other Governmental Funds. Consequently, the District did not identify and consider that the Special Revenue Fund - Other Fund met the requirements to be separately reported as a major fund. Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their related balances and transactions, and ensures compliance with GAAP.
- Governmental funds that are not classified as a major fund must be combined into a separate other governmental funds' column. However, for the other governmental funds column, the District omitted restricted investments, totaling approximately \$1 million, held by a bond paying agent, potentially causing financial statement users to misunderstand the investment activities of the District. In addition, this resulted in the total liabilities and fund balance of the other governmental funds column exceeding total assets by \$1 million, contrary to GAAP.
- The basic financial statements are required to include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. The District entered into a short-term tax anticipation note for \$10 million, pursuant to Section 1011.13, Florida Statutes, but excluded the required note disclosures, such as the term of the note, purpose for the financing, and source of repayment, from the notes to financial statements. Without such disclosures, financial statement users may make incorrect conclusions about the District's debt activities.
- GAAP require certain supplementary information be included in the District's annual financial report, such as budgetary comparison schedules for major special revenue funds; however, the District did not properly report certain original budget amounts for the Special Revenue – ARRA Economic Stimulus Fund. The differences for the various functions ranged from underreporting \$743,000 to overreporting \$54,000, possibly limiting financial statement users from effectively understanding budgetary controls over the major special revenue funds.

These reporting errors occurred mainly because District personnel did not perform effective review procedures to ensure that the District properly reported amounts and disclosed information in the financial statements. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's financial statements and required supplementary information were materially correct, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in previous reports, most recently in our report No. 2010-110.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances, transactions, note disclosures, and required supplementary information are properly reported.

ADDITIONAL MATTERS

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional personnel and school administrators based on student performance. While instructional personnel and school administrators' performance appraisal forms included student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employees' performance assessments nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation forms did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Subsequent to our inquiry, the District established a committee to revise the assessment procedures, and plans to have new evaluation procedures and forms developed by May 2011, effective for the 2011-12 fiscal year.

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow 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 for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., 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 2009-10 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contract did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes.

The instructional personnel salary schedule and union contract evidenced consideration of differentiated pay for additional responsibilities beyond the normal work day, such as supplements for athletic and drama coaches and department chairpersons; and for school demographics and level of job performance difficulties of instructional personnel assigned to the area alternative learning center. The salary schedule identified the area alternative learning center as a "hard to staff" school (i.e., critical shortage area); however, District records did not sufficiently evidence the basis for identifying the school as a critical shortage area. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining personnel at the area alternative learning center.

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule evidenced consideration of additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may

be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and that the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 4: Purchasing Cards

The District used purchasing cards to expedite the purchase of selected goods and services. The District assigned purchasing cards to 82 employees and departments. The District incurred total purchasing card expenditures of approximately \$1.3 million during the 2009-10 fiscal year. As a control measure, most single transaction purchasing card limits were set below \$1,500, with monthly limits not exceeding \$3,000. The District contracted with a financial institution to provide the purchasing cards and to process purchases; however, as similarly noted in our report No. 2010-110, controls over purchasing card use could be improved, as follows:

- The District generally used cardholder monthly reports, signed by the cardholder and applicable supervisor, to evidence approval of purchasing card charges. We reviewed 40 reports from April and May 2010, with expenditures totaling approximately \$114,000, to determine whether the monthly reports evidenced approval. Our review disclosed that the cardholders and supervisors did not sign 14 of the 40 reports. Documented approval of purchasing card charges by cardholders and supervisory personnel evidences responsibility for such charges and serves to establish prior authorization to make payments.
- Certain District administrative personnel were issued purchasing cards with a single purchase transaction limit of \$15,000 or more and monthly limits up to \$50,000. Our comparison of usage to credit limits for these cardholders disclosed single transaction or monthly credit limits that appeared excessive based on actual purchases during the 2009-10 fiscal year, as shown below:

	Single Transaction Limit	Actual Highest Single Transaction	Monthly Limit	Actual Highest Monthly Total
Senior Director of Operations	\$ 15,000	\$ 12,555	\$ 50,000	\$ 12,732
Director of Fleet Services	28,000	7,090	28,000	26,882
Director of Federal Programs	25,000	4,836	25,000	5,792
Director of Technology	20,000	3,188	20,000	16,264

Subsequent to our inquiry, in October 2010, the Director of Purchasing evaluated the limits for the above employees and reduced the single transaction limits for consistency with their card usage. Effective controls to monitor the reasonableness of purchasing card credit limits reduces the risk of unauthorized use.

Recommendation: The District should enhance its purchasing card procedures to ensure that purchasing card charges are timely approved, and purchasing card credit limits are reasonable based on the actual card use.

Finding No. 5: Statement of Financial Interest

Pursuant to Section 112.3145(2), Florida Statutes, each local officer must file, with the supervisor of elections, a statement of financial interests (statement) no later than July 1 of each year. Section 112.3145(1), Florida Statutes

(2009), specifies that local officers for a school district include purchasing agents having the authority to make any purchases exceeding \$15,000 (increased to \$20,000 by the 2010 Florida Statutes). Our review disclosed that, as of January 2011, three of four employees with purchasing card limits exceeding \$20,000 did not file a statement of financial interests, due July 1, 2010, for the 2009 calendar year. District personnel indicated that the employees did not file the statements because they were unaware of these requirements. When local officers timely file required financial disclosure forms, a public record exists to properly disclose the financial associations of such officers, including potential conflicts of interest.

Recommendation: **The District should ensure that all local officers timely file the required statement of financial interests with the supervisor of elections.**

Finding No. 6: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a course and the withdrawal date or end-of-class date, whichever is sooner. In addition, FDOE procedures for reporting instructional hours provide that institutions must develop a procedure for withdrawing students for nonattendance and the standard for setting the withdrawal date shall be six consecutive absences from a course schedule.

For the 2009-10 fiscal year, the District reported 165,989 adult general education contact hours to FDOE. Our tests of 1,848 hours reported for 25 students enrolled in 14 adult general education courses disclosed the District misreported hours, ranging from 188 hours underreported to 301 hours overreported, or 113 net hours overreported, for 11 students in 5 classes. The errors occurred because District personnel entered incorrect student withdrawal and attendance dates in FDOE's reporting system. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: **The District should enhance controls over the reporting of instructional contact hours for adult general education courses to FDOE. The District should also contact FDOE to determine proper resolution of the misreported hours.**

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

Except as discussed in preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-110.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*FLAGLER COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010*

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
2010-110		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Flagler County Public Schools

P. O. Box 755 ■ 1769 E. Moody Blvd. ■ Bunnell, FL 32110
Phone (386) 437-7526 ■ Fax (386) 437-7577
www.flaglerschools.com

BOARD OF EDUCATION

Sue Dickinson
Chairman
District 4

Andy Dance
Vice Chairman
District 1

Colleen Conklin
Board Member
District 2

Trevor Tucker
Board Member
District 3

John Fischer
Board Member
District 5

Student School Board Member
Ryan McDermott
Flagler Palm Coast H.S.

Student School Board Member
Marilena Dias
Matanzas H.S.

Teacher of the Year
Agatha Lee
Belle Terre Elementary School

Employee of the Year
Margaret Carcagente
Belle Terre Elementary School

Janet Valentine
Superintendent

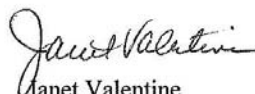
February 28, 2011

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

Dear Mr. Martin:

Please find attached our response to the Preliminary and Tentative Audit Findings and Recommendations for the fiscal year ending June 30, 2010. Our responses follow the order of the findings cited. Should additional information be required, please contact Mr. Tom Tant, Chief Financial Officer.

Sincerely,


Janet Valentine
Superintendent

Attachment

Cc: Board Members

JV:bjf

Raising Student Achievement Every Day, Every Way

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Improvements were needed in procedures to ensure that the District properly reported amounts and disclosed information in the financial statements.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances, transactions, note disclosures and required supplementary information are properly reported.

Response:

The District installed a new accounting software system on January 1, 2010, that will enhance the recording and reporting requirements to improve the preparation of the Annual Financial Report. The implementation of the new system included the carrying-forward of financial transactions from the old system to the new system that added weeks to our closing process, delayed the issuance of the annual financial report and abbreviated the review process. In the future, the accounting department will have additional experience with the new system along with on going training from NEFEC and Skyward. Once the new system is fully implemented, this will facilitate additional time to spend reviewing the financial statements before they are submitted to the School Board and FDOE.

ADDITIONAL MATTERS

Finding No. 2: Performance Assessments

District records did not sufficiently evidence a correlation between student performance and the employees' performance assessments nor was that student performance the primary factor for the overall evaluation rating.

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Response:

The District is implementing the Race To The Top which will institute new evaluating documents to be used for all instructional personnel and school-based administrators. Pilot appraisal/evaluations will be completed in the 4th quarter of this fiscal year, the schedule of implementation will be submitted to FDOE in June 2011. The school administrators will be trained this summer and the implementation of the initial appraisal system for core courses will begin in the 2011-12 school year.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 3: Compensation and Salary Schedules

Formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Response:

The District will adopt formal policies and procedures identifying a portion of each instructional employee's compensation are based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules. The District is implementing the Race To The Top which will institute new evaluating documents to be used for all instructional personnel and school-based administrators. Pilot appraisal/evaluations will be completed in the 4th quarter of this fiscal year, the timeline the schedule of implementation will be submitted to FDOE in June 2011. The school administrators will be trained this summer and the implementation of the initial appraisal system for core courses will begin in the 2011-12 school year.

Finding No. 4: Purchasing Cards

Cardholders and supervisors did not sign monthly reports evidenced approval and certain district administrative personnel were issued purchasing cards with a single purchase transaction limit of \$15,000 or more and monthly limits up to \$50,000.

Recommendation: The District should enhance its purchasing card procedures to ensure that purchasing card charges are timely approved, and purchasing card credit limits are reasonable based on the actual card use.

Response:

The District purchasing card program has been revised to enhance the controls and approval structure as recommended by the audit. All monthly reports are being reviewed and signed by the card holder's supervisor.

Finding No. 5: Statement of Financial Interest

District personnel did not file a statement of financial interest (statement) with the supervisor of elections by July 1 of each year.

Recommendation: The District should ensure that all local officers timely file the required statement of financial interests with the supervisor of elections.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Response:

The District has implemented additional controls to limit purchasing card maximum per day credit limit to less than \$15,000 to avoid this filing requirement in the future. Those who have the requirements to file the Statement of Financial Interest forms due June 30, 2011, have been notified.

Finding No. 6: Adult General Education Courses

District errors occurred in recording and reporting education contact hours to FDOE because of incorrect student withdrawal and attendance dates in FDOE's reporting system.

Recommendation: The District should enhance controls over the reporting of instructional contact hours for adult general education courses to FDOE. The District should also contact FDOE to determine proper resolution of the misreported hours.

Response:

The District has reviewed and retrained district adult educational employees to ensure proper procedures are being followed in the reporting of education contact hours.