

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2011



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Board members and the Superintendents who served during the 2010-11 fiscal year are listed below:

	<u>District No.</u>
Andrew S. Dance, Vice Chair from 11-16-10	1
Colleen A. Conklin	2
Trevor D. Tucker	3
Susan C. Dickinson, Chair from 11-16-10 Vice Chair to 11-15-10	4
Evelyn L. Shellenberger to 11-15-10, Chair	5
John L. Fischer from 11-16-10	5

Bill Delbrugge to 7-30-10, Superintendent

Janet Valentine from 7-1-10, Superintendent

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

The audit team leader was Tina Z. Myers 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

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

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

ADDITIONAL MATTERS

Finding No. 1: 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 (2010).

Finding No. 2: 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 (2010), 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 (2010).

Finding No. 3: The District could improve its controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 4: District records did not always evidence that sales surtax proceeds were used consistent with restrictions governing these proceeds.

Finding No. 5: The District assigned \$2,027,481 of unrestricted resources in a capital projects fund; however, at June 30, 2011, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended uses of the funds.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster, State Fiscal Stabilization Fund Cluster, and Education Jobs Fund were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the 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. 2011-123.

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, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, 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, 2011, 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 26 percent of the assets and 56 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, 2011, 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, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget 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
March 9, 2012

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, 2011. 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 47.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- In total, net assets decreased \$3,379,748, which represents a 2 percent decrease from the 2009-10 fiscal year.
- General revenues total \$119,825,064, or 92 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$10,858,196, or 8 percent of all revenues.
- Expenses total \$134,063,008. Only \$10,858,196 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$3,379,748.
- The fund balance of the General Fund totals \$8,922,439 at June 30, 2011, or 10 percent of total General Fund revenues. These fund balances include \$284,614 of nonspendable funds, \$3,384,942 of restricted funds, \$1,532,748 of assigned funds, and \$3,720,135 of unassigned funds.
- The District's total debt decreased by \$4,680,000, or approximately 5 percent, as the annual payments were applied against the outstanding 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 District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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 – Other Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – 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, 2011, compared to net assets as of June 30, 2010:

	Net Assets, End of Year	
	Governmental	
	Activities	
	<u>6-30-11</u>	<u>6-30-10</u>
Current and Other Assets	\$ 33,061,201	\$ 31,925,735
Capital Assets	<u>249,388,311</u>	<u>258,621,093</u>
Total Assets	<u>282,449,512</u>	<u>290,546,828</u>
Long-Term Liabilities	88,866,705	93,915,783
Other Liabilities	<u>5,530,393</u>	<u>5,198,883</u>
Total Liabilities	<u>94,397,098</u>	<u>99,114,666</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	166,883,311	171,602,037
Restricted	17,965,829	19,295,812
Unrestricted	<u>3,203,274</u>	<u>534,313</u>
Total Net Assets	<u>\$ 188,052,414</u>	<u>\$ 191,432,162</u>

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, 2011, and June 30, 2010, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 4,949,816	\$ 5,407,860
Operating Grants and Contributions	4,196,833	4,379,287
Capital Grants and Contributions	1,711,547	1,721,063
General Revenues:		
Property Taxes, Levied for Operational Purposes	53,535,082	61,153,842
Property Taxes, Levied for Capital Projects	12,343,072	14,706,845
Local Sales Tax	4,022,596	3,903,710
Grants and Contributions Not Restricted to Specific Programs	48,775,885	40,601,917
Unrestricted Investment Earnings	118,073	161,154
Miscellaneous	1,030,356	1,634,105
Total Revenues	130,683,260	133,669,783
Functions/Program Expenses:		
Instruction	77,124,865	74,554,275
Pupil Personnel Services	7,098,573	7,018,313
Instructional Media Services	1,020,148	1,062,937
Instruction and Curriculum Development Services	835,488	943,219
Instructional Staff Training Services	1,139,447	898,660
Instruction Related Technology	670,890	634,343
School Board	370,245	327,808
General Administration	1,232,473	1,192,689
School Administration	5,676,806	5,270,222
Facilities Acquisition and Construction	6,664,246	21,916,176
Fiscal Services	1,087,804	1,025,406
Food Services	5,699,091	5,707,656
Central Services	795,193	773,290
Pupil Transportation Services	5,498,811	5,577,584
Operation of Plant	8,819,324	8,673,301
Maintenance of Plant	2,388,543	2,436,884
Administrative Technology Services	315,687	4,473
Community Services	3,768,872	3,574,661
Unallocated Interest on Long-Term Debt	3,856,502	4,071,437
Total Functions/Program Expenses	134,063,008	145,663,334
Decrease in Net Assets	\$ (3,379,748)	\$ (11,993,551)

The largest revenue source is property taxes (50 percent). Revenues from State sources comprise 28 percent of total revenues and for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

Property tax revenues decreased by \$9,982,533, or 13 percent, as a result of a decrease in taxable assessed values.

Unrestricted grants and contributions revenues increased by \$8,173,968, or 20 percent, primarily due to an increase in FEFP revenues from the State and new funding received for the Education Jobs Fund program.

Miscellaneous revenues decreased by \$603,749, or 37 percent, as a result of a decrease in rental of school facilities and other local revenues.

Instruction expenses represent 58 percent of total governmental expenses in the 2010-11 fiscal year. Instruction expenses increased by \$2,570,590, or 3 percent, primarily due to funding received from Federal Economic Stimulus grants, which partially funded the costs of instructional personnel.

Facilities acquisition and construction expenses decreased by \$15,251,930, or 70 percent, primarily due to the completion of maintenance and repairs at Wadsworth Elementary and Buddy Taylor Middle schools.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$3,720,135, while the total fund balance is \$8,922,439. During the fiscal year, total fund balance increased by \$854,120, or 11 percent, primarily as a result of moneys transferred in from capital projects funds to help fund the District's maintenance operations.

The Special Revenue – Other Fund has total revenues and expenditures of \$5,698,652 each and the Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$7,757,002 each. The resources of these funds were mainly used for instruction and instruction-related expenditures. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate fund balances.

The Debt Service – Other Fund has a total fund balance of \$5,776,059, which is restricted for principal, interest, and related costs of debt service. During the fiscal year, the fund balance increased by \$4,666,514 primarily because of transfers of \$4,089,679 and \$297,773, received from the Capital Projects – Local Capital Improvement Fund and General Fund, respectively, to pay subsequent fiscal years' principal and interest.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,321,092, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$727,962 earmarked for projects at various schools. The fund balance decreased by \$4,100,674, or 76 percent, primarily due to a \$4,089,679 transfer to Debt Service – Other Fund to pay subsequent fiscal years' principal and interest.

The Capital Projects – Other Fund has a total fund balance of \$7,213,463, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$200,139 earmarked for various technology purchases. The fund balance decreased by \$541,118, or 7 percent, primarily as a result of teacher and student laptops and iPads purchased at various schools in conjunction with the District's technology initiatives.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2010-11 fiscal year, the District amended its General Fund budget several times. Final budgeted revenue amounts are in line with original budgeted amounts. Final budgeted expenditures are higher than original budgeted amounts by \$2,518,516, or 3 percent. Budget revisions were due primarily to a 2 percent increase in salaries approved by the Board during the current fiscal year.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$7,016,987, or 7 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District and funding received from Federal Economic Stimulus grants, which partially funded costs of instructional personnel. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$1,516,068.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$249,388,311 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

Major capital asset events during the current fiscal year included the District completing the additions and renovations on Old Kings Elementary School. There are no major construction projects planned at June 30, 2011.

Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of \$82,505,000, comprised of \$8,130,000 of bonds payable and \$74,375,000 of certificates of participation payable. During the current fiscal year, retirement of debt amounted to \$4,680,000.

State School Bonds outstanding at June 30, 2011, totaling \$2,080,000, 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. The remainder of the District's long-term debt is secured solely by specified revenue sources.

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

Due to continued shortfalls in anticipated State tax revenues, the District has been notified by the Governor's Office to expect additional State revenue shortfalls for the 2011-12 fiscal year. Plans have been developed to contend with the revenue shortfall, including reducing the budgeted contingency reserve by approximately \$1,500,000, eliminating all nonessential travel and capital purchases, and leaving employee vacancies unfilled.

The latest enrollment projections indicate an increase of approximately 270 students during the 2011-12 fiscal year, which will offset the State revenue shortfall to some extent.

For the 2010-11 fiscal year, the District received appropriations under the American Recovery and Reinvestment Act (ARRA) and Education Jobs Act. 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. The majority of these monies have been fully spent at June 30, 2011.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the 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, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Units</u>
ASSETS		
Cash and Cash Equivalents	\$ 22,251,958.51	\$ 799,893.00
Restricted Cash and Cash Equivalents		178,389.00
Investments	124,544.11	
Accounts Receivable, Net	17,584.65	48,639.00
Deposits Receivable	10,012.50	
Due from Other Agencies	2,415,483.07	449,495.00
Prepaid Items		285,342.00
Inventories	462,563.08	409.00
Investment in Joint Venture	2,000,000.00	
Restricted Investments	1,387,401.42	
Cash with Fiscal Agent	4,391,654.07	
Investments, Noncurrent		131,657.00
Capital Assets:		
Nondepreciable Capital Assets	9,724,483.18	
Depreciable Capital Assets, Net	<u>239,663,827.81</u>	<u>322,806.00</u>
TOTAL ASSETS	<u>\$ 282,449,512.40</u>	<u>\$ 2,216,630.00</u>
LIABILITIES		
Salaries and Benefits Payable	\$ 818,015.73	\$ 172,969.00
Payroll Deductions and Withholdings	2,505,489.82	
Accounts Payable	1,230,665.21	692,683.00
Construction Contracts Payable	421,431.00	
Construction Contracts Payable - Retainage	16,777.00	
Accrued Interest Payable		22,411.00
Deposits Payable	18,716.70	
Deferred Revenue	519,298.84	32,012.00
Long-Term Liabilities:		
Portion Due Within One Year	5,316,735.93	104,501.00
Portion Due After One Year	<u>83,549,968.60</u>	<u>68,165.00</u>
Total Liabilities	<u>94,397,098.83</u>	<u>1,092,741.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	166,883,310.99	254,641.00
Restricted for:		
State Required Carryover Programs	3,384,941.76	
Debt Service	6,429,549.75	
Capital Projects	7,442,493.61	
Food Service	708,843.52	2,545.00
Permanent Funds and Endowments-Nonexpendable		14,394.00
Other Purposes		429,624.00
Unrestricted	<u>3,203,273.94</u>	<u>422,685.00</u>
Total Net Assets	<u>188,052,413.57</u>	<u>1,123,889.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 282,449,512.40</u>	<u>\$ 2,216,630.00</u>

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, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 77,124,864.55	\$ 2,214,950.42	\$	\$
Pupil Personnel Services	7,098,572.73			
Instructional Media Services	1,020,148.37			
Instruction and Curriculum Development Services	835,488.38			
Instructional Staff Training Services	1,139,447.47			
Instruction Related Technology	670,890.33			
School Board	370,244.49			
General Administration	1,232,473.15			
School Administration	5,676,805.95			
Facilities Acquisition and Construction	6,664,245.49			1,024,783.75
Fiscal Services	1,087,804.26			
Food Services	5,699,090.87	1,538,793.06	4,196,833.37	
Central Services	795,192.78			
Pupil Transportation Services	5,498,811.41	62,242.57		
Operation of Plant	8,819,324.02			
Maintenance of Plant	2,388,543.15			420,624.00
Administrative Technology Services	315,687.03			
Community Services	3,768,871.74	1,133,830.00		
Unallocated Interest on Long-Term Debt	3,856,502.39			266,139.18
Total Primary Government	\$ 134,063,008.56	\$ 4,949,816.05	\$ 4,196,833.37	\$ 1,711,546.93
 Component Units				
Charter Schools/Education and Auditorium DSOs	<u>\$ 7,713,567.00</u>	<u>\$ 691,330.00</u>	<u>\$ 856,978.00</u>	<u>\$ 0.00</u>
 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.

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Units</u>
<u>Activities</u>	
\$ (74,909,914.13)	\$
(7,098,572.73)	
(1,020,148.37)	
(835,488.38)	
(1,139,447.47)	
(670,890.33)	
(370,244.49)	
(1,232,473.15)	
(5,676,805.95)	
(5,639,461.74)	
(1,087,804.26)	
36,535.56	
(795,192.78)	
(5,436,568.84)	
(8,819,324.02)	
(1,967,919.15)	
(315,687.03)	
(2,635,041.74)	
(3,590,363.21)	
<u>(123,204,812.21)</u>	
	<u>(6,165,259.00)</u>
53,535,082.43	
12,343,071.46	
4,022,595.89	
48,775,885.43	6,138,642.00
118,073.12	5,537.00
<u>1,030,356.06</u>	<u>14,348.00</u>
<u>119,825,064.39</u>	<u>6,158,527.00</u>
(3,379,747.82)	(6,732.00)
<u>191,432,161.39</u>	<u>1,130,621.00</u>
<u>\$ 188,052,413.57</u>	<u>\$ 1,123,889.00</u>

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	\$ 10,953,335.75	\$ 68,866.95	\$ 149,988.28	\$ 252.68
Investments	60,221.91			
Accounts Receivable	16,400.66			
Deposits Receivable	10,012.50			
Due from Other Funds	1,019,674.15			
Due from Other Agencies	435,126.69	557,885.62	11,654.11	
Inventories	284,614.75			
Restricted Investments				1,387,401.42
Cash with Fiscal Agent				4,391,654.07
	\$ 12,779,386.41	\$ 626,752.57	\$ 161,642.39	\$ 5,779,308.17
TOTAL ASSETS				
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 758,374.19	\$ 33,999.00	\$	\$
Payroll Deductions and Withholdings	2,500,144.19	2,993.71		
Accounts Payable	475,887.71	417,573.32	6,338.01	
Construction Contracts Payable				
Construction Contracts Payable - Retainage				
Due to Other Funds	77,733.56	172,186.54	155,304.38	3,248.82
Deposits Payable	18,716.70			
Deferred Revenue	26,090.84			
	3,856,947.19	626,752.57	161,642.39	3,248.82
Total Liabilities				
Fund Balances:				
Nonspendable:				
Inventory	284,614.75			
Restricted for:				
State Required Carryover Programs	3,384,941.76			
Debt Service				5,776,059.35
Capital Projects				
Food Service				
Total Restricted Fund Balance	3,384,941.76			5,776,059.35
Assigned to:				
Capital Projects				
School Operations	1,532,748.00			
Total Assigned Fund Balance	1,532,748.00			
Unassigned Fund Balance	3,720,134.71			
	8,922,439.22			5,776,059.35
Total Fund Balances				
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,779,386.41	\$ 626,752.57	\$ 161,642.39	\$ 5,779,308.17

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
\$ 2,268,818.33	\$ 6,388,740.39 4,541.69	\$ 2,421,956.13 59,780.51 1,183.99	\$ 22,251,958.51 124,544.11 17,584.65 10,012.50
	34,650.42 870,419.02	43,083.14 540,397.63 177,948.33	1,097,407.71 2,415,483.07 462,563.08 1,387,401.42 4,391,654.07
<u>\$ 2,268,818.33</u>	<u>\$ 7,298,351.52</u>	<u>\$ 3,244,349.73</u>	<u>\$ 32,158,609.12</u>
\$	\$ 385.16 29.46	\$ 25,257.38 2,322.46	\$ 818,015.73 2,505,489.82
129,215.89 421,431.00 16,777.00 380,302.36	84,473.90	117,176.38	1,230,665.21 421,431.00 16,777.00 1,097,407.71 18,716.70
		308,632.05	519,298.84
		493,208.00	
<u>947,726.25</u>	<u>84,888.52</u>	<u>946,596.27</u>	<u>6,627,802.01</u>
		177,948.33	462,563.08
			3,384,941.76
		653,490.40	6,429,549.75
1,321,092.08	5,185,981.99	935,419.54	7,442,493.61
		530,895.19	530,895.19
<u>1,321,092.08</u>	<u>5,185,981.99</u>	<u>2,119,805.13</u>	<u>17,787,880.31</u>
	2,027,481.01		2,027,481.01
			1,532,748.00
	<u>2,027,481.01</u>		<u>3,560,229.01</u>
			<u>3,720,134.71</u>
<u>1,321,092.08</u>	<u>7,213,463.00</u>	<u>2,297,753.46</u>	<u>25,530,807.11</u>
<u>\$ 2,268,818.33</u>	<u>\$ 7,298,351.52</u>	<u>\$ 3,244,349.73</u>	<u>\$ 32,158,609.12</u>

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds \$ 25,530,807.11

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. 249,388,310.99

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

Bonds Payable	\$ 8,130,000.00	
Certificates of Participation Payable	74,375,000.00	
Compensated Absences Payable	4,169,433.53	
Special Retirement Benefits Payable	1,200,000.00	
Other Postemployment Benefits Payable	992,271.00	<u>(88,866,704.53)</u>

Total Net Assets - Governmental Activities \$ 188,052,413.57

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, 2011**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 117,604.06	\$ 94,829.00	\$	\$
Federal Through State and Local State	534,446.64	5,603,822.74	7,757,002.19	
State	34,456,418.81			
Local:				
Property Taxes	53,535,082.43			
Local Sales Taxes				
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	4,383,485.29			51,561.25
Total Revenues	<u>93,027,037.23</u>	<u>5,698,651.74</u>	<u>7,757,002.19</u>	<u>51,561.25</u>
Expenditures				
Current - Education:				
Instruction	57,716,239.03	3,743,819.01	7,418,078.28	
Pupil Personnel Services	6,115,897.68	810,088.28	152,083.05	
Instructional Media Services	987,247.67		12,802.17	
Instruction and Curriculum Development Services	462,893.60	303,110.94	67,741.70	
Instructional Staff Training Services	314,186.58	741,807.66	77,471.63	
Instruction Related Technology	672,358.97			
School Board				
General Administration	484,994.28	28,668.13	6,892.59	
School Administration	5,673,663.20	4,023.94		
Facilities Acquisition and Construction	1,380.00			
Fiscal Services	1,067,231.31	21,921.67		
Food Services	395.23			
Central Services	792,674.96			
Pupil Transportation Services	4,688,666.43	17,473.79	105.47	
Operation of Plant	8,693,915.77			
Maintenance of Plant	2,216,336.15			
Administrative Technology Services	45,873.20			
Community Services	3,633,975.39			
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	15,358.01	27,738.32	21,827.30	
Debt Service:				
Principal				4,445,000.00
Interest and Fiscal Charges	47,441.67			3,721,129.46
Total Expenditures	<u>94,000,619.50</u>	<u>5,698,651.74</u>	<u>7,757,002.19</u>	<u>8,166,129.46</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(973,582.27)</u>			<u>(8,114,568.21)</u>
Other Financing Sources (Uses)				
Transfers In	2,363,786.41			12,781,082.18
Proceeds from Sale of Capital Assets	8,236.76			
Insurance Loss Recoveries	40,581.65			
Transfers Out	(584,902.16)			
Total Other Financing Sources (Uses)	<u>1,827,702.66</u>			<u>12,781,082.18</u>
Net Change in Fund Balances	854,120.39			4,666,513.97
Fund Balances, Beginning	8,068,318.83			1,109,545.38
Fund Balances, Ending	<u>\$ 8,922,439.22</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 5,776,059.35</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
\$	\$	\$	\$ 212,433.06
		4,110,347.15	18,005,618.72
		1,491,555.18	35,947,973.99
12,343,071.46			65,878,153.89
	4,022,595.89		4,022,595.89
	518,239.96		518,239.96
		1,538,793.06	1,538,793.06
<u>16,661.41</u>	<u>17,215.03</u>	<u>43,934.52</u>	<u>4,512,857.50</u>
<u>12,359,732.87</u>	<u>4,558,050.88</u>	<u>7,184,629.91</u>	<u>130,636,666.07</u>
			68,878,136.32
			7,078,069.01
			1,000,049.84
			833,746.24
			1,133,465.87
			672,358.97
			369,890.37
			520,555.00
			5,677,687.14
2,622,167.16	3,262,506.91	778,191.42	6,664,245.49
			1,089,152.98
		5,494,027.02	5,494,422.25
			792,674.96
			4,706,245.69
			8,693,915.77
			2,216,336.15
			45,873.20
			3,633,975.39
941,945.70		63,211.12	1,005,156.82
397,216.71	220,055.63	52,306.60	734,502.57
		235,000.00	4,680,000.00
		<u>216,585.54</u>	<u>3,985,156.67</u>
<u>3,961,329.57</u>	<u>3,482,562.54</u>	<u>6,839,321.70</u>	<u>129,905,616.70</u>
<u>8,398,403.30</u>	<u>1,075,488.34</u>	<u>345,308.21</u>	<u>731,049.37</u>
2,515.16	370,397.20		15,517,780.95
		428.87	8,665.63
23,659.12			64,240.77
<u>(12,525,251.66)</u>	<u>(1,987,003.13)</u>	<u>(420,624.00)</u>	<u>(15,517,780.95)</u>
<u>(12,499,077.38)</u>	<u>(1,616,605.93)</u>	<u>(420,195.13)</u>	<u>72,906.40</u>
(4,100,674.08)	(541,117.59)	(74,886.92)	803,955.77
<u>5,421,766.16</u>	<u>7,754,580.59</u>	<u>2,372,640.38</u>	<u>24,726,851.34</u>
<u>\$ 1,321,092.08</u>	<u>\$ 7,213,463.00</u>	<u>\$ 2,297,753.46</u>	<u>\$ 25,530,807.11</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, 2011**

Net Change in Fund Balances - Governmental Funds \$ 803,955.77

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. (9,206,470.25)

In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. However, in the statement of 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. (26,311.73)

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 fiscal year.

Bonds Payable	\$ 2,080,000.00	
Certificates of Participation Payable	<u>2,600,000.00</u>	4,680,000.00

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 used in excess of the amount earned in the current fiscal year. 783,563.11

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 earned in excess of the amount paid in the current fiscal year. (186,000.00)

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. (357,139.00)

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. 128,654.28

Change in Net Assets - Governmental Activities \$ (3,379,747.82)

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, 2011**

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 99,675.29	\$ 1,193,469.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 1,193,469.00
	<u> </u>	<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships	<u>99,675.29</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 99,675.29</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, 2011**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Investment Earnings	\$ <u>254.67</u>
DEDUCTIONS	
Scholarship Payments	<u>500.00</u>
Change in Net Assets	(245.33)
Net Assets - Beginning	<u>99,920.62</u>
Net Assets - Ending	<u>\$ <u>99,675.29</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, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Flagler County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Flagler County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of 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 the application of 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. Because of the nature and significance of its relationship with the District, the Auditorium is 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. 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, 2011, were

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 District and its component units.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is 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 – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to economic stimulus, including the American Recovery and Reinvestment Act (ARRA) funds and Education Jobs Fund.
- Debt Service – Other Fund – to account for financial resources that are accumulated for, and the payment of, debt principal, interest, and related costs associated with the District's Certificates of Participation, Sales Tax Revenue Bonds, and Qualified Zone Academy Bonds.
- Capital Projects – Local Capital Improvement Fund – to account for 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.
- Capital Projects – Other Fund – to account for financial resources that are for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund types:

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

The Flagler County Education Direct-Support Organization, Inc., and the Flagler Auditorium Governing Board, Inc., are accounted for as governmental entities 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.

➤ **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 and a money market mutual fund.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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, 2011, 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 0.78965331 at June 30, 2011. 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 the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures 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 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 having an estimated useful life of more than one year and 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.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 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

**FLAGLER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 7, 2010. 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.

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.

➤ **Local Government Capital Outlay Surtax (Local Sales Tax)**

On September 12, 2002, the citizens of Flagler County approved a one-half cent sales tax authorized under Section 212.055(6), Florida Statutes, to be collected through December 2012. The proceeds are used to pay construction costs of certain school facilities, pay for the installation and upgrading of technology in the schools, and are pledged for the debt service payments on the Sales Tax Revenue Bonds, Series 2004, as discussed in Note 8.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **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 Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	\$ 15,072,327.00
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	64,763.60
Debt Service Accounts	6 Months	59,780.51
Money Market Mutual Funds:		
Dreyfus Institutional Reserves Treasury Prime Fund (1) (2) (4)	60 Day Average	37,231.03
Commercial Paper (3)	October 27, 2011	1,386,440.58
Total Investments, Primary Government		\$ 16,620,542.72

Notes:

- (1) Investment reported as a cash equivalent for financial reporting purposes.
- (2) Money market mutual funds are invested in U.S. Treasury Securities and repurchase agreements relating to such securities.
- (3) Held by a paying agent in connection with a Qualified Zone Academy Bonds financing arrangement. (See Note 7)
- (4) Includes \$960.84 held by a paying agent in connection with a Qualified Zone Academy Bonds financing arrangement. (See Note 7)

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, 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 registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.
- The District's investments in 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.
- 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 AAAM by Standard & Poor's.
- 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

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. 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 are in commercial paper issued by Intesa Funding, LLC. These investments are 92 percent of the District's total investments and 99 percent of the investments in the Debt Service - Other Fund, and are classified as restricted assets in the accompanying financial statements.

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, 2011**

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	1,052,611.43	710,671.97	1,052,611.43	710,671.97
Total Capital Assets Not Being Depreciated	10,066,422.64	710,671.97	1,052,611.43	9,724,483.18
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,401,186.55	174,132.63		6,575,319.18
Buildings and Fixed Equipment	294,528,385.68	1,172,963.65		295,701,349.33
Furniture, Fixtures, and Equipment	15,652,316.44	481,480.47	470,227.75	15,663,569.16
Motor Vehicles	11,866,418.01	250,525.10	94,764.70	12,022,178.41
Audio Visual Materials and Computer Software	1,820,681.03	2,497.00		1,823,178.03
Total Capital Assets Being Depreciated	330,268,987.71	2,081,598.85	564,992.45	331,785,594.11
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,410,317.45	311,685.83		3,722,003.28
Buildings and Fixed Equipment	59,817,971.84	7,442,533.76		67,260,505.60
Furniture, Fixtures, and Equipment	9,035,023.68	2,271,924.53	442,875.48	10,864,072.73
Motor Vehicles	7,713,344.34	877,109.94	95,805.24	8,494,649.04
Audio Visual Materials and Computer Software	1,737,660.07	42,875.58		1,780,535.65
Total Accumulated Depreciation	81,714,317.38	10,946,129.64	538,680.72	92,121,766.30
Total Capital Assets Being Depreciated, Net	248,554,670.33	(8,864,530.79)	26,311.73	239,663,827.81
Governmental Activities Capital Assets, Net	\$ 258,621,092.97	\$ (8,153,858.82)	\$ 1,078,923.16	\$ 249,388,310.99

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 8,402,966.48
Pupil Personnel Services	36,194.13
Instructional Media Services	22,460.45
Instruction and Curriculum Development Services	3,889.02
Instructional Staff Training Services	7,804.26
Instruction Related Technology	98.82
School Board	1,240.93
General Administration	712,939.04
School Administration	15,015.59
Fiscal Services	1,390.90
Food Services	210,805.80
Central Services	4,583.15
Pupil Transportation Services	802,065.79
Operation of Plant	135,596.06
Maintenance of Plant	177,677.96
Administrative Technology Services	269,822.19
Community Services	141,579.07
	\$ 10,946,129.64
Total Depreciation Expense - Governmental Activities	\$ 10,946,129.64

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	\$ 0	\$ 10,000,000	\$ 10,000,000	\$ 0

Proceeds from the tax anticipation note were used for the payment of operating expenses incurred in operating the District's schools for the 2010-11 fiscal year. The note was issued on October 8, 2010, under the provisions of Section 1011.13, Florida Statutes, with stated interest rate of 0.91 percent. The note was repaid on December 17, 2010.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

7. CERTIFICATES OF PARTICIPATION

Certificates of participation payable at June 30, 2011, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1998 (Partially Refunded)	\$ 1,415,000	4.75	2013	\$ 16,815,000
Series 2001A	1,290,000	5.452	2017	1,290,000
Series 2001B	665,000	6.609	2014	2,510,000
Series 2005A	54,590,000	4.0 - 5.0	2031	60,720,000
Series 2005B	11,415,000	3.75 - 4.50	2024	11,675,000
Series 2005 - QZAB	<u>5,000,000</u>	0.0	2022	5,000,000
Total Minimum Lease Payments	<u>\$74,375,000</u>			

The District entered into a master financing arrangement on April 1, 1998, which arrangement was characterized as a lease-purchase agreement, with the Flagler County 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 certificates 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
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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:

<u>Certificates</u>	<u>Lease Term</u>
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.

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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:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
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	6,002,347.30	3,260,000.00	2,742,347.30
2017-2021	28,414,916.25	17,085,000.00	11,329,916.25
2022-2026	30,374,281.25	23,460,000.00	6,914,281.25
2027-2031	21,422,250.00	18,960,000.00	2,462,250.00
Total Minimum Lease Payments	<u>\$ 110,251,299.34</u>	<u>\$ 74,375,000.00</u>	<u>\$ 35,876,299.34</u>

8. BONDS PAYABLE

Bonds payable at June 30, 2011, 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	\$ 645,000	3.00 - 4.25	2023
Series 2005B, Refunding	1,435,000	5.0	2020
District Revenue Bonds:			
Series 1998	2,205,000	4.7 - 5.0	2028
Sales Tax Revenue Bonds:			
Series 2004	<u>3,845,000</u>	3.000 - 3.125	2012
Total Bonds Payable	<u>\$ 8,130,000</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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

pledge of that portion of the money distributed to the District from the State's Pari-mutuel Tax 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 \$3,339,500 of sales tax revenues in connection with the District Revenue Bonds of 1998, described above. During the 2010-11 fiscal year, the District recognized sales tax revenues totaling \$223,250 and expended \$186,565 (84 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 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 authorized by Chapter 1001, Florida Statutes, and Chapter 212, Florida Statutes. These bonds are secured by a pledge of the proceeds received by the District from the levy and collection of a one-half cent capital outlay 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 pay certain costs and expenses incurred in connection with the issuance of the bonds.

The District has pledged a total of \$3,964,831.25 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2004 Sales Tax Revenue Bond issue described above. During the 2010-11 fiscal year, the District recognized sales tax revenues totaling \$4,022,595.89 and expended \$1,987,003.13 (49 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, 2011**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	272,181.25	210,000.00	62,181.25
2017-2021	1,128,500.00	975,000.00	153,500.00
2022-2023	164,987.50	155,000.00	9,987.50
Total State School Bonds	2,642,791.25	2,080,000.00	562,791.25
District Revenue Bonds:			
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	185,875.00	95,000.00	90,875.00
2017-2021	926,250.00	550,000.00	376,250.00
2022-2026	925,625.00	705,000.00	220,625.00
2027-2029	554,375.00	515,000.00	39,375.00
Total District Revenue Bonds	3,339,500.00	2,205,000.00	1,134,500.00
Sales Tax Revenue Bonds:			
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	3,964,831.25	3,845,000.00	119,831.25
Total	\$ 9,947,122.50	\$ 8,130,000.00	\$ 1,817,122.50

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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	\$ 10,210,000.00	\$	\$ 2,080,000.00	\$ 8,130,000.00	\$ 2,145,000.00
Certificates of Participation Payable	76,975,000.00		2,600,000.00	74,375,000.00	2,705,000.00
Compensated Absences Payable	4,952,996.64	101,919.61	885,482.72	4,169,433.53	466,735.93
Special Retirement Benefits Payable	1,014,000.00	540,000.00	354,000.00	1,200,000.00	
Estimated Liability for Arbitrage Payable	128,654.28	1,356.66	130,010.94		
Other Postemployment Benefits Payable	635,132.00	523,542.00	166,403.00	992,271.00	
Total Governmental Activities	\$ 93,915,782.92	\$ 1,166,818.27	\$ 6,215,896.66	\$ 88,866,704.53	\$ 5,316,735.93

For the governmental activities, compensated absences payable, 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	\$ 1,019,674.15	\$ 77,733.56
Special Revenue:		
Other		172,186.54
Federal Economic Stimulus		155,304.38
Debt Service:		
Other		3,248.82
Capital Projects:		
Local Capital Improvement		380,302.36
Other	34,650.42	
Nonmajor Governmental	43,083.14	308,632.05
Total	\$ 1,097,407.71	\$ 1,097,407.71

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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 2,363,786.41	\$ 584,902.16
Debt Service:		
Other	12,781,082.18	
Capital Projects:		
Local Capital Improvement	2,515.16	12,525,251.66
Other	370,397.20	1,987,003.13
Nonmajor Governmental		420,624.00
Total	\$ 15,517,780.95	\$ 15,517,780.95

The transfers out of capital projects funds and General Fund were to provide debt service principal and interest payments, to pay a portion of property casualty insurance premiums, and to assist in funding maintenance operations of the District.

11. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories as nonspendable.

➤ **Restricted**

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

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

➤ **Assigned**

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

➤ **Unassigned**

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

➤ **Minimum Fund Balance Policy**

The District has adopted Board Policy 701, which provides that the adopted annual operating fund budget shall include, if feasible, combined assigned and unassigned fund balance which is 5 to 8 percent of the projected General Fund revenues to cover unforeseen events (e.g. revenue shortfalls, student enrollment under projections, etc.). In the event these reserves are needed, it shall be brought before the Board prior to the adoption of the annual operating budget.

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue sources for the 2010-11 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 16,848,203.00
Categorical Educational Program - Class Size Reduction	12,883,440.00
Workforce Development Program	2,451,662.00
Adults With Disabilities	794,464.00
Voluntary Prekindergarten	534,859.59
Motor Vehicle License Tax (Capital Outlay and Debt Service)	501,548.29
School Recognition Program	461,148.00
Gross Receipts Tax (Public Education Capital Outlay)	420,624.00
Charter Schools Capital Outlay Funds	257,734.00
Excellent Teaching Program	106,200.72
Miscellaneous	688,090.39
Total	<u><u>\$ 35,947,973.99</u></u>

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, 2011**

13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.515	\$ 46,612,298
Basic Discretionary Local Effort	0.748	6,322,032
Critical Operating Needs	0.250	2,112,979
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	12,677,872
Total	8.013	\$ 67,725,181

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, 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, 2011**

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 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of 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, 2009, June 30, 2010, and June 30, 2011, totaled \$5,578,121, \$5,593,653, and \$6,197,439, respectively, which were equal to the required contributions for each fiscal year. There were 261 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$925,544.

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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

15. SPECIAL TERMINATION BENEFITS

The Board's collective bargaining agreements with Flagler County Educators' Association and Flagler Educational Support Personnel Association provide for the payment of an early retirement incentive to eligible employees for the 2010-11 and 2011-12 fiscal years. To meet the eligibility criteria, the employee must work for the District a minimum of ten years, be eligible for full retirement under FRS (30 years of service or age 62), and not be in DROP more than 36 months or otherwise retired from FRS.

Payment of the incentive to eligible employees is as follows:

- For employees under age 62, a one-time bonus of 30 percent of the employee's base salary.
- For employees age 62 or above, a one-time bonus of 30 percent of the employee's base salary, or \$5,000 per year towards the employee's current health care plan with the District until age 65.

To receive the incentive, eligible employees must provide notification to the District by April 1st of the fiscal year in which they accept the offer. The District recorded expenditures of \$337,256 during the 2010-11 fiscal year for these early retirement incentives.

The Board's collective bargaining agreements with Flagler County Educators' Association and Flagler Educational Support Personnel Association provide for the payment of special retirement benefit bonuses of \$6,000 to qualifying employees at the date of their retirement. In addition to the payments for accrued leave balances, the District recorded expenditures of \$354,000 during the 2010-11 fiscal year for these special retirement benefit bonuses. The reported amount of \$1,200,000 represents the District's estimated liability for future payments to qualified employees as of June 30, 2011.

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 2010-11 fiscal year, 43 retirees received other postemployment benefits. The District provided required

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

contributions of \$166,403 toward the annual OPEB cost, net of retiree contributions totaling \$302,391, 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 GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	\$ 379,231
Amortization of Unfunded Actuarial Accrued Liability	134,080
Interest on Normal Cost and Amortization	6,844
Annual Required Contribution	520,155
Interest on Net OPEB Obligation	25,405
Adjustment to Annual Required Contribution	(22,018)
Annual OPEB Cost (Expense)	523,542
Contribution Toward the OPEB Cost	(166,403)
Increase in Net OPEB Obligation	357,139
Net OPEB Obligation, Beginning of Year	635,132
Net OPEB Obligation, End of Year	\$ 992,271

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, 2011, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 461,897	27.7%	\$ 333,793
2009-10	468,863	35.7%	635,132
2010-11	523,542	31.8%	992,271

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Funded Status and Funding Progress. As of March 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$4,022,410 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,022,410 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$64,969,500, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.2 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.

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 OPEB actuarial valuation as of March 1, 2011, used the projected unit credit method to estimate the unfunded actuarial liability as of June 30, 2011, and the District's 2010-11 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 7.6 percent initially for the 2010-11 fiscal year, reducing gradually each year, to an ultimate rate of 4.9 percent over 70 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, 2011, was 27 years.

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

17. SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2011:

Major Funds			
Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 727,961.77	\$ 200,138.69	\$ 3,739.00	\$931,839.46

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 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 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 was renewed through June 30, 2013, 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, 2011, the District's proportionate share of profits to be distributed in the event of termination of the agreement was 11.8 percent.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 2010-11 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 operate, maintain, repair, and replace the common areas are to be shared equally by each participant. The District's share of operating costs was \$230,099.35 for the 2010-11 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

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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.

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

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

21. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note (Note) in the amount of \$9,000,000. The proceeds will be used for operating expenses for the fiscal year ended June 30, 2012. The closing of the Note took place on October 6, 2011, and the Note was to mature on February 15, 2012. The stated interest rate is 0.78 percent. On December 19, 2011, the Note was paid in full, resulting in \$10,920 of interest savings.

OTHER 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, 2011**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 110,000.00	\$ 110,000.00	\$ 117,604.06	\$ 7,604.06
Federal Through State and Local	125,000.00	125,000.00	534,446.64	409,446.64
State	36,994,786.00	37,328,707.92	34,456,418.81	(2,872,289.11)
Local:				
Property Taxes	52,983,793.00	52,983,793.00	53,535,082.43	551,289.43
Miscellaneous	4,231,163.00	4,291,543.28	4,383,485.29	91,942.01
Total Revenues	94,444,742.00	94,839,044.20	93,027,037.23	(1,812,006.97)
Expenditures				
Current - Education:				
Instruction	59,234,725.00	60,412,893.89	57,716,239.03	2,696,654.86
Pupil Personnel Services	6,688,101.00	6,275,196.63	6,115,897.68	159,298.95
Instructional Media Services	1,032,726.00	1,127,527.62	987,247.67	140,279.95
Instruction and Curriculum Development Services	454,099.00	482,432.33	462,893.60	19,538.73
Instructional Staff Training Services	210,076.00	314,993.37	314,186.58	806.79
Instruction Related Technology	830,165.00	828,240.50	672,358.97	155,881.53
School Board	416,273.00	424,337.80	369,890.37	54,447.43
General Administration	610,458.00	707,534.27	484,994.28	222,539.99
School Administration	5,749,028.00	5,673,663.20	5,673,663.20	
Facilities Acquisition and Construction		1,380.00	1,380.00	
Fiscal Services	1,139,160.00	1,093,587.55	1,067,231.31	26,356.24
Food Services		395.23	395.23	
Central Services	919,198.00	925,244.81	792,674.96	132,569.85
Pupil Transportation Services	5,176,624.00	5,310,679.20	4,688,666.43	622,012.77
Operation of Plant	9,628,492.00	10,583,943.17	8,693,915.77	1,890,027.40
Maintenance of Plant	3,015,012.00	2,998,282.53	2,216,336.15	781,946.38
Administrative Technology Services	23,890.00	75,085.22	45,873.20	29,212.02
Community Services	3,371,063.00	3,707,630.10	3,633,975.39	73,654.71
Fixed Capital Outlay:				
Other Capital Outlay		17,559.01	15,358.01	2,201.00
Debt Service:				
Interest and Fiscal Charges		57,000.00	47,441.67	9,558.33
Total Expenditures	98,499,090.00	101,017,606.43	94,000,619.50	7,016,986.93
Excess (Deficiency) of Revenues Over Expenditures	(4,054,348.00)	(6,178,562.23)	(973,582.27)	5,204,979.96
Other Financing Sources (Uses)				
Transfers In	5,247,032.00	5,247,032.00	2,363,786.41	(2,883,245.59)
Proceeds from Sale of Capital Assets	50,000.00	56,119.00	8,236.76	(47,882.24)
Insurance Loss Recoveries		30,042.99	40,581.65	10,538.66
Transfers Out		(584,902.16)	(584,902.16)	
Total Other Financing Sources (Uses)	5,297,032.00	4,748,291.83	1,827,702.66	(2,920,589.17)
Net Change in Fund Balances	1,242,684.00	(1,430,270.40)	854,120.39	2,284,390.79
Fund Balances, Beginning	8,836,642.00	8,836,642.00	8,068,318.83	(768,323.17)
Fund Balances, Ending	\$ 10,079,326.00	\$ 7,406,371.60	\$ 8,922,439.22	\$ 1,516,067.62

Original Budget	Special Revenue - Other Fund			Original Budget	Special Revenue - Federal Economic Stimulus Fund		
	Final Budget	Actual	Variance with Final Budget - Positive (Negative)		Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 6,370,752.00	\$ 94,829.00 5,603,822.74	\$ 94,829.00 5,603,822.74	\$	\$ 5,381,348.00	\$ 7,757,002.19	\$ 7,757,002.19	\$
6,370,752.00	5,698,651.74	5,698,651.74		5,381,348.00	7,757,002.19	7,757,002.19	
4,501,737.00	3,743,819.01	3,743,819.01		5,123,263.00	7,418,078.28	7,418,078.28	
870,000.00	810,088.28	810,088.28		95,000.00	152,083.05	152,083.05	
6,000.00					12,802.17	12,802.17	
287,000.00	303,110.94	303,110.94			67,741.70	67,741.70	
587,288.00	741,807.66	741,807.66		131,712.00	77,471.63	77,471.63	
	28,668.13	28,668.13			6,892.59	6,892.59	
14,000.00	4,023.94	4,023.94					
6,100.00	21,921.67	21,921.67					
35,627.00	17,473.79	17,473.79		31,373.00	105.47	105.47	
49,000.00							
14,000.00							
	27,738.32	27,738.32			21,827.30	21,827.30	
6,370,752.00	5,698,651.74	5,698,651.74		5,381,348.00	7,757,002.19	7,757,002.19	
\$ 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 (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
March 1, 2009	\$ 0	\$ 3,579,153	\$ 3,579,153	0.0%	\$ 63,355,000	5.6%
March 1, 2011	0	4,022,410	4,022,410	0.0%	64,969,500	6.2%

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

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, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 852,442.26
National School Lunch Program	10.555	300	2,748,674.23
Summer Food Service Program for Children	10.559	323	148,920.66
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	<u>360,310.00</u>
Total Child Nutrition Cluster			<u>4,110,347.15</u>
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	<u>4,452.22</u>
Total United States Department of Agriculture			<u>4,114,799.37</u>
United States Department of Education:			
Direct:			
Federal Pell Grant Program	84.063	N/A	<u>94,829.00</u>
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,967,632.33
Special Education - Preschool Grants	84.173	267	27,873.49
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	793,672.93
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	<u>36,232.51</u>
Total Special Education Cluster			2,825,411.26
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,492,272.49
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	<u>383,220.14</u>
Total Title I, Part A Cluster			2,875,492.63
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	16,663.75
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	<u>7,070.17</u>
Total Education for Homeless Children and Youth Cluster			23,733.92
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	3,328.00
ARRA - Education Technology State Grants, Recovery Act	84.386	121	<u>14,843.14</u>
Total Educational Technology State Grants Cluster			18,171.14
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	3,903,435.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	95,308.08
Putnam District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	<u>117,186.14</u>
Total State Fiscal Stabilization Fund Cluster			4,115,929.22
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193,	104,332.91
Career and Technical Education - Basic Grants to States	84.048	161	239,844.82
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	21,466.40
Charter Schools	84.282	298	171,852.96
English Language Acquisition Grants	84.365	102	64,073.05
Improving Teacher Quality State Grants	84.367	224	380,274.73
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL1	73,354.00
Education Jobs Fund	84.410	541	2,445,414.00
Daytona State College:			
Career and Technical Education - Basic Grants to States	84.048	None	<u>38,794.00</u>
Total Indirect			<u>13,398,145.04</u>
Total United States Department of Education			<u>13,492,974.04</u>
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	<u>75,413.81</u>
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	<u>117,604.06</u>
Total Expenditures of Federal Awards			<u>\$ 17,800,791.28</u>

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 Program. Represents the amount of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Flagler County District School Board as of and for the fiscal year ended June 30, 2011, 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.

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 9, 2012



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

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

Compliance

We have audited the 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, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011.

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
March 9, 2012

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 534,023
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, 2011**

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),¹ required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

While the assessments of instructional personnel and school administrators generally met the requirements of Section 1012.34(3)(a), Florida Statutes (2010), District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-123.

Recommendation: The District should document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

¹ Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Finding No. 2: 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 (2010),² provided 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 (2010), required 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 was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and 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 (2010). 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 2010-11 fiscal year salary schedule and applicable union contract 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 (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), 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.

The instructional personnel salary schedule and union contract evidenced consideration of differentiated pay for additional responsibilities beyond the standard 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.** 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 (2010).

² Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, 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 correlates to their compensation and that the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-123.

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. 3: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriation 9 and 109, each school district shall report enrollment for adult 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 class and the withdrawal date or end-of-class date, whichever is sooner. In addition, FDOE procedures for reporting instructional hours state 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 class schedule.

For the 2010-11 fiscal year, the District reported to FDOE 81,194 adult general education contact hours for 752 students. Our test of 1,103 hours reported for 25 students enrolled in 17 adult general education classes disclosed the District misreported hours, ranging from 222 hours underreported to 87 hours overreported, or a total of 2 net hours underreported for 16 students in 10 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. Similar findings were noted in previous reports, most recently in our report No. 2011-123.

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

Finding No. 4: Sales Surtax Proceeds

The District receives a discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and accounts for these proceeds in a Local Half Cent Sales Tax (LHCST) subfund of the Capital Projects - Other Fund. Proceeds from the discretionary sales surtax can be used for various purposes, such as construction, improvement of school facilities that have a useful life expectancy of five or more years, and retrofitting and providing for technology implementation, including hardware and software. Section 212.055(6), Florida Statutes, further provides that neither the proceeds of the surtax nor any interest accrued may be used for operational purposes.

The District has two departments responsible for information technology-related activities, including the management information systems (MIS) and information technology (IT) departments. The MIS Department consisted of 15 employees with salaries and benefits of approximately \$500,000 recorded in the General Fund for the 2010-11 fiscal year, and MIS Department personnel were responsible for computer applications used for full-time enrollment, attendance, and other student recordkeeping duties. The IT Department consisted of 23 employees, including a director, executive secretary, and other District office and school-based personnel, with salaries and benefits of approximately \$1.4 million recorded as remodeling and renovations noncapitalized expenditures in the LHCST subfund for the 2010-11 fiscal year.

Certain duties of IT Department personnel appeared to be for operational purposes such as IT administrative functions and IT maintenance-related activities and not for purposes specified in Section 212.055(6), Florida Statutes. Examples of these duties included preparing and monitoring IT Department budgets and related expenditures; preparing and inputting bi-weekly IT Department payroll information; maintaining IT equipment (computers, printers, and servers) and network; monitoring internet activities, wide area network, wireless network servers, and network infrastructure; and other duties. IT Department personnel did not maintain personnel activity reports or other records to delineate the job responsibilities and work activities that may be considered operational in nature from those activities that were for purposes specified in Section 212.055(6), Florida Statutes.

Subsequent to our inquiry, District personnel provided certifications that the work activities of IT Department personnel were solely for retrofitting and technology implementation; however, the District did not capitalize any of the IT Department personnel expenditures to fixed capital outlay, nor did District records evidence a basis for considering IT Department administrative functions and IT maintenance-related activities to be retrofitting and technology implementation as contemplated by Section 212.055(6), Florida Statutes. District personnel indicated that the District did not document personnel activities of the IT Department because less than 5 percent of the duties may have been for operational purposes. While a significant amount of IT Department personnel time may have been spent on activities for retrofitting and technology implementation, absent District records showing the extent of such time actually spent on these activities, the District has not documented the extent to which the \$1.4 million of salaries and benefits expenditures charged to the LHCST subfund were allowable charges. The \$1.4 million of expenditures, to the extent that such expenditures are not documented as to allowability, represent questioned costs of sales surtax proceeds.

Recommendation: The District should maintain personnel activity reports, or other appropriate records, to evidence time spent on allowable activities paid from sales surtax proceeds. In addition, the District should consult with FDOE regarding what portion of the \$1.4 million should be restored to the LHCST subfund of the Capital Projects - Other Fund.

Finding No. 5: Assigned Fund Balance – Capital Projects Fund

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the preparation of the annual financial report (AFR) for the fiscal year ended June 30, 2011. GASB Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds, clarifies definitions for governmental fund types, and establishes criteria for classifying fund balances into specifically defined classifications. One of the classifications, assigned fund balance, represents amounts that are constrained by the intent of the governing body (Board), or a Board-authorized body or official, to be used for specific purposes. In addition, capital project funds are used to account for and report

financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

On the District’s 2010-11 fiscal year AFR, as presented for audit, certain unrestricted resources totaling \$2,027,481 were reported as assigned fund balance in a capital project fund. These resources consisted of General Fund transfers and other unrestricted moneys placed in the capital projects fund in previous years. However, at June 30, 2011, contrary to the provisions of GASB Statement No. 54, the Board had not officially designated a body or official the authority to assign fund balances and express the intent of the specific purposes for such assignments. Further, neither the District’s five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which these resources were assigned. Without official action to identify those responsible for establishing assigned fund balances, and District records evidencing the specific intended uses of those balances, financial statement users may misunderstand the Board’s intent regarding assigned fund balances.

Subsequently, during its November 1, 2011, meeting, the Board amended Policy 701, designating the Chief Financial Officer the authority to assign fund balance amounts to be used for specific purposes.

Recommendation: The District should disclose in its records the intended use of the unrestricted resources of \$2,027,481 in the capital projects fund and, if the intended use is not for capital outlay purposes, the District should transfer \$2,027,481 to the General Fund.

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 the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-123.

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, 2011*

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
2011-123		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Flagler County Public Schools

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www.flaglerschools.com

BOARD OF EDUCATION

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Teacher of the Year
Sarah Poppe
Flagler Palm Coast High
School

Employee of the Year
Barbara Korn
Adult & Community Education

Janet Valentine
Superintendent

March 09, 2012

Mr. David W. Martin, C.P.A.
State of Florida Auditor General
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, 2011. 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
Janet Valentine
Superintendent

Attachment

Cc: Board Members

JV/bf

Raising Student Achievement Every Day, Every Way

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

ADDITIONAL MATTERS**Finding No. 1: Performance Assessments**

Finding: 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 (2010).

Recommendation: The District should document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

Response: In accordance with the Federal Race to the Top program and its mandates that are to be implemented by July 1, 2014, the District has been developing annual performance assessments for instructional personnel and school administrators. The District's performance assessment for instructional personnel was approved by Florida Department of Education (FDOE) on December 15, 2011. The District's performance assessment for school administrators is due to FDOE by May 1, 2012, and the District will have the pertinent information submitted to FDOE by the deadline. The performance assessments for both instructional personnel and school administrators are being implemented for the 2011-12 school year.

In accordance with Section 1012.34(2), Florida Statutes, the performance assessments will be designated to support effective instruction and student learning growth. In addition, at least 50% of the performance evaluation will be based upon data and indicators of student learning growth assessed annually by statewide assessments or, for subjects and grade levels not measured by statewide assessments, by school district assessments as set forth in Section 1008.22(8), Florida Statutes, for the District to be in compliance with the Federal Race to the Top mandates by July 1, 2014.

Finding No. 2: Compensation and Salary Schedules

Finding: The Board has 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 (2010), 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 (2010).

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: In accordance with the Federal Race to the Top program and its mandates, the District is currently in the process of revising its salary schedules to include a grandfathered salary schedule and a Performance Salary Schedule, which will be implemented by July 1, 2014

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

in accordance with the Federal Race to the Top mandates. In conjunction with this process, the District is developing policies and procedures for performance based pay.

Upon full implementation on July 1, 2014, the District's grandfathered salary schedule will provide for differentiated pay for both instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical staffing shortage areas, and level of job performance difficulties, in accordance with F.S. 1012.22(c)(4). The District's performance salary schedule will provide for salary adjustments for highly effective or effective performance and differentiated pay, as set forth in F.S. 1012.22(c)(5)(b)-(c).

Finding No. 3: Adult General Education Classes

Finding: The District could improve its controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

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

Response: To avoid future reporting issues, the District has provided teachers with additional training on reporting accurate withdrawal and attendance data which is used to report contact hours. Additional procedures have also been made to improve controls in place over the reporting of contact hours.

Finding No. 4: Sales Surtax Proceeds

Finding: District records did not always evidence that sales surtax proceeds were used consistent with restrictions governing these proceeds.

Recommendation: The District should maintain personnel activity reports, or other appropriate records, to evidence time spent on allowable activities paid from sales surtax proceeds. In addition, the District should consult with FDOE regarding what portion of the \$1.4 million should be restored to the Local Half Cent Sales Tax subfund of the Capital Projects – Other Fund.

Response: For the 2010-11 fiscal year, the sales surtax fund included \$1.4 million of non-capitalized costs for information technology employees' salaries and benefits. Our treatment of these expenditures was based on our interpretation of F.S. 212.055(6), which states "*... the proceeds can be spent on costs for retrofitting and technology implementation, including hardware and software*".

Subsequent to the approval of the one-half cent sales tax in 2002, the District's information technology department was created for the purpose of retrofitting and implementing technology at various sites within the school district. For the past nine years, the District has consistently

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

charged the salaries and benefits of information technology employees to the sales surtax fund. We have operated under the assumption that any operational costs that would be absorbed by the information technology department are immaterial as compared to their overall duties. Per Florida Statutes, employee time sheets and/or activity reports are not a requirement for expenditure of non-Federal monies; therefore, it has never been a practice within the District.

There are no Florida Statutes or authoritative literature that defines operational costs. As such, the District's interpretation of what duties are considered an operational cost now varies with that of the Auditor General's office this year. The Auditor General has questioned certain job responsibilities that they consider to be operational in nature. The District will seek guidance from FDOE in defining duties that are considered operational costs. After such new guidance is received, the District will implement procedures to allow for the tracking of such costs.

Finding No. 5: Assigned Fund Balance – Capital Projects Fund

Finding: The District assigned \$2,027,481 of unrestricted resources in a capital projects fund; however, at June 30, 2011, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended use of the funds.

Recommendation: The District should disclose in its records the intended use of the unrestricted resources of \$2,027,481 in the capital projects fund and, if the intended use is not for capital outlay purposes, the District should transfer \$2,027,481 to the General Fund.

Response: Subsequent to June 30, 2011, the District has approved a policy which gives the Chief Financial Officer the authority to assign amounts for specific purposes.

The District's presentation of assigned fund balance in the Capital Outlay – Other Fund is in accordance with Governmental Accounting Standards Board Statement No. 54 (GASB 54). Per GASB 54, paragraph 13, it states "*Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance.*" In addition, GASB 54, paragraph 15 states, "*By reporting particular amounts that are not restricted or committed in a capital projects fund, the government has assigned those amounts to the purposes of the respective funds.*"

The capital outlay assigned fund balance represents funds that are not restricted and committed; therefore, these funds become assigned for capital projects. At June 30, 2011, it was the District's intent to assign these funds for capital outlay purchases. Therefore, the District's presentation of these funds is in complete accordance with GASB 54.

Of the total balance assigned for capital outlay at fiscal year-end, \$777,481 of this amount represents the remaining proceeds from the sale of real property that occurred in the 2006-07 fiscal year. Per State Requirements for Educational Facilities 2007, Section 1.4(7)(d)5., proceeds received from the sale of real property shall only be expended on capital outlay projects. Effective February 12, 2008, such language reverted to Guidelines for State Requirements for Educational Facilities 2007. The District has consistently used these

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

guidelines as best practices for accounting for real property sales. Therefore, the District will consult with FDOE regarding the classification of this amount.

Governmental Accounting Standards Board Statement No. 54 does not explicitly state that assigned fund balance amounts should be attached to specific projects. This is an interpretation of the accounting standard by the Florida Auditor General's office. The District was notified of this interpretation in early 2012, when our annual financial report was in the final audit review stages. The District will put procedures in place to ensure compliance with the Auditor General's interpretation of this accounting standard.