

FLAGLER COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Andy Dance, Vice Chair	1
John Fischer	2
Colleen Conklin	3
Trevor Tucker	4
Sue Dickinson, Chair	5

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

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

**FLAGLER COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Controls over facilities administration could be enhanced.

Finding No. 3: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 4: District records did not always evidence that ad valorem tax levy and sales surtax proceeds were used for authorized purposes.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

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. 2012-165.

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

Audit Methodology

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



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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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 41 percent of the assets and 96 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, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the 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 (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 6, 2013

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, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$9,999,287, which represents a 5 percent decrease from the 2010-11 fiscal year.
- General revenues total \$109,527,421, or 91 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$10,787,204, or 9 percent of all revenues.
- Expenses total \$130,313,912. Only \$10,787,204 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$7,469,300, or 8 percent of total General Fund revenues. The fund balance decreased \$1,453,139 from the prior fiscal year.
- The District's total debt decreased by \$4,238,382, or approximately 5 percent. The key factor in this decrease was annual principal payments 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 a private-purpose trust fund to account for a scholarship fund 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, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 28,156,556	\$ 33,061,201
Capital Assets	239,675,104	249,388,311
Total Assets	267,831,660	282,449,512
Long-Term Liabilities	86,455,646	88,866,705
Other Liabilities	3,322,887	5,530,393
Total Liabilities	89,778,533	94,397,098
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	161,403,529	166,883,311
Restricted	14,877,608	17,965,829
Unrestricted	1,771,990	3,203,274
Total Net Assets	\$ 178,053,127	\$ 188,052,414

The largest portion of the District's net assets (91 percent) reflects its investment in capital assets (e.g., land; buildings; improvements other than buildings; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software), 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 (8 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, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
		Governmental Activities	
		6-30-12	6-30-11
Program Revenues:			
Charges for Services	\$	4,776,713	\$ 4,949,816
Operating Grants and Contributions		4,521,507	4,196,833
Capital Grants and Contributions		1,488,984	1,711,547
General Revenues:			
Property Taxes, Levied for Operational Purposes		46,429,061	53,535,082
Property Taxes, Levied for Capital Projects		10,671,608	12,343,072
Local Sales Tax		4,220,248	4,022,596
Grants and Contributions Not Restricted to Specific Programs		46,103,179	48,775,885
Unrestricted Investment Earnings		106,596	118,073
Miscellaneous		1,996,729	1,030,356
Total Revenues		120,314,625	130,683,260
Functions/Program Expenses:			
Instruction		73,843,457	77,124,865
Pupil Personnel Services		7,519,090	7,098,573
Instructional Media Services		1,023,146	1,020,148
Instruction and Curriculum Development Services		770,079	835,488
Instructional Staff Training Services		1,121,688	1,139,447
Instruction Related Technology		670,195	670,890
School Board		359,580	370,245
General Administration		1,154,552	1,232,473
School Administration		5,215,641	5,676,806
Facilities Acquisition and Construction		5,956,591	6,664,246
Fiscal Services		1,034,839	1,087,804
Food Services		6,323,037	5,699,091
Central Services		842,224	795,193
Pupil Transportation Services		5,573,931	5,498,811
Operation of Plant		8,183,542	8,819,324
Maintenance of Plant		2,513,893	2,388,543
Administrative Technology Services		753,737	315,687
Community Services		3,790,779	3,768,872
Unallocated Interest on Long-Term Debt		3,663,911	3,856,502
Total Functions/Program Expenses		130,313,912	134,063,008
Decrease in Net Assets	\$	(9,999,287)	\$ (3,379,748)

The largest revenue source is property taxes (48 percent). Revenues from State sources comprise 34 percent of total revenues. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Property tax revenues decreased by \$8,777,485, or 13 percent, as a result of a decrease in taxable assessed values.

Unrestricted grants and contributions revenues decreased by \$2,672,706, or 5 percent, primarily due to a decrease in funding for the Education Jobs Fund program.

Instruction expenses represent 57 percent of total governmental expenses in the 2011-12 fiscal year. Instruction expenses decreased by \$3,281,408, or 4 percent, due to a reduction in staffing and a decrease in required retirement contribution rates for the District.

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 \$5,288,887, while the total fund balance is \$7,469,300. Included in this total amount are inventories of \$207,033 reported as nonspendable, State required carryover program funds of \$124,856 reported as restricted, and assigned fund balance of \$1,848,523 for 2012-13 fiscal year school operations. During the current fiscal year, total fund balance decreased by \$1,453,139 or 16 percent, primarily due to a reduction in property tax collections.

The Special Revenue – Other Fund has total revenues and expenditures of \$6,332,647 each. The Special Revenue - Federal Economic Stimulus Fund has total revenues and expenditures of \$466,925 each, which represents a significant decrease from total revenues and expenditures of \$7,757,002 each recognized in the prior fiscal year. The decline in activity is a result of Federal stimulus grants expiring. 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 \$6,136,439, which is restricted for principal, interest, and related costs of debt service. The June 30, 2012, fund balance is consistent with the ending fund balance of the prior fiscal year.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,638,999, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$163,232 earmarked for projects at various schools. The fund balance increased by \$317,907, or 24 percent. The increase is primarily due to the lack of new construction and renovation projects during the current fiscal year.

The Capital Projects - Other Fund has a total fund balance of \$5,206,036, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$31,346 earmarked for various technology purchases. The fund balance decreased by \$2,007,427, or 28 percent. The decrease is due to a transfer out of funds that were determined to be unrestricted for general operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$19,937. At the same time, final budgeted expenditures are higher than the original budgeted amounts by \$5,357,660, or 6 percent. Budget revisions were due primarily to changes in estimated State funding levels, a 2 percent increase in salaries approved by the Board during the current fiscal year, and an increase in instructional personnel to meet State mandated class size requirements.

Actual revenues are \$278,643 less than final budgeted amounts, while actual expenditures are \$1,638,712 less than final budgeted amounts. The decrease in revenues was primarily due to changes in estimated State funding levels. The actual expenditures were less than final budgeted amounts primarily due to continued cost containment measures

implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2,073,927.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities at June 30, 2012, is \$239,675,104 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; construction in progress; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

There were no major capital construction projects during the current fiscal year, nor are there any planned at June 30, 2012.

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

Long-Term Debt

At June 30, 2012, the District has total long-term debt outstanding of \$78,266,618, comprised of \$6,596,618 of bonds payable and \$71,670,000 of certificates of participation payable. During the current fiscal year, retirement of debt amounted to \$4,850,000.

During the current fiscal year, the District's State School Bonds, Series 2003A, totaling \$615,000, were advance refunded by the State Board of Education's issuance of State School Bonds, Series 2011A, in the amount of \$530,000.

State School Bonds outstanding at June 30, 2012, totaling \$2,440,000, 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 bonded debt is secured solely by specified revenue sources.

Additional information on the District's long-term debt can be found in notes 7 through 10 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

It is anticipated that unassigned fund balance will be partially replenished at June 30, 2013, through unspent appropriations and operating fund tax revenues in excess of the budgeted 96 percent of the taxable assessed valuation. It is also anticipated that, at June 30, 2013, the combined assigned and unassigned fund balance will be in excess of the Board required 5 percent minimum of projected General Fund revenues.

The Legislature has provided to the Board a 3 percent increase in per student funding for the 2012-13 fiscal year.

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 32110.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 16,676,439.80	\$ 908,540.00
Investments	109,543.79	15,992.00
Accounts Receivable	52,919.10	26,044.00
Deposits Receivable	10,012.50	
Due from Other Agencies	2,214,191.47	65,083.00
Due from Primary Government		296,506.00
Due from Related Party		18,000.00
Prepaid Items		333,664.00
Inventories	345,645.02	
Investment in Joint Venture	2,000,000.00	
Restricted Investments	1,684,784.90	
Cash with Fiscal Agent	5,063,019.28	
Restricted Cash and Cash Equivalents		86,277.00
Restricted Accounts Receivable		9,400.00
Investments, Noncurrent		420,029.00
Capital Assets:		
Nondepreciable Capital Assets	9,646,774.36	
Depreciable Capital Assets, Net	230,028,329.32	173,031.00
TOTAL ASSETS	\$ 267,831,659.54	\$ 2,352,566.00
LIABILITIES		
Salaries and Benefits Payable	\$ 343,973.79	\$ 323,596.00
Payroll Deductions and Withholdings	2,037,165.31	
Accounts Payable	814,703.26	176,172.00
Due to Other Agencies		55,714.00
Due to Primary Government		221,019.00
Deposits Payable	18,716.70	
Deferred Revenue	108,327.17	8,124.00
Accrued Expenses, Noncurrent		83,936.00
Long-Term Liabilities:		
Portion Due Within One Year	6,237,087.16	4,564.00
Portion Due After One Year	80,218,559.04	8,114.00
Total Liabilities	89,778,532.43	881,239.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	161,403,528.41	160,353.00
Restricted for:		
State Required Carryover Programs	124,856.49	
Debt Service	6,822,983.63	
Capital Projects	7,309,826.12	
Food Service	619,942.15	23,003.00
Permanent Funds and Endowments - Nonexpendable		204,799.00
Other Purposes		608,434.00
Unrestricted	1,771,990.31	474,738.00
Total Net Assets	178,053,127.11	1,471,327.00
TOTAL LIABILITIES AND NET ASSETS	\$ 267,831,659.54	\$ 2,352,566.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 73,843,456.68	\$ 2,177,804.18	\$	\$
Pupil Personnel Services	7,519,089.70			
Instructional Media Services	1,023,145.67			
Instruction and Curriculum Development Services	770,078.59			
Instructional Staff Training Services	1,121,688.14			
Instruction Related Technology	670,195.12			
School Board	359,580.21			
General Administration	1,154,552.12			
School Administration	5,215,641.01			
Facilities Acquisition and Construction	5,956,591.24			1,220,764.04
Fiscal Services	1,034,839.42			
Food Services	6,323,036.77	1,423,325.17	4,521,507.26	
Central Services	842,224.17			
Pupil Transportation Services	5,573,930.98	102,542.69		
Operation of Plant	8,183,542.13			
Maintenance of Plant	2,513,893.37			
Administrative Technology Services	753,736.53			
Community Services	3,790,779.02	1,073,040.85		
Unallocated Interest on Long-Term Debt	3,663,910.97			268,220.34
Total Primary Government	\$ 130,313,911.84	\$ 4,776,712.89	\$ 4,521,507.26	\$ 1,488,984.38
Component Units				
Charter Schools/Education and Auditorium DSOs	\$ 8,542,682.00	\$ 782,477.00	\$ 1,143,916.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Units
Activities	
\$ (71,665,652.50)	\$
(7,519,089.70)	
(1,023,145.67)	
(770,078.59)	
(1,121,688.14)	
(670,195.12)	
(359,580.21)	
(1,154,552.12)	
(5,215,641.01)	
(4,735,827.20)	
(1,034,839.42)	
(378,204.34)	
(842,224.17)	
(5,471,388.29)	
(8,183,542.13)	
(2,513,893.37)	
(753,736.53)	
(2,717,738.17)	
(3,395,690.63)	
(119,526,707.31)	
	(6,616,289.00)
46,429,061.31	
10,671,608.14	
4,220,247.96	
46,103,179.28	6,948,128.00
106,595.79	6,898.00
1,996,728.37	8,701.00
109,527,420.85	6,963,727.00
(9,999,286.46)	347,438.00
188,052,413.57	1,123,889.00
\$ 178,053,127.11	\$ 1,471,327.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 8,778,770.95	\$ 363,075.31	\$	\$ 252.36
Investments	49,985.03			
Accounts Receivable	50,657.83			
Deposits Receivable	10,012.50			
Due from Other Funds	422,000.12			
Due from Other Agencies	778,498.47	368,468.85	7,702.97	
Inventories	207,033.35			
Restricted Investments				1,684,784.90
Cash with Fiscal Agent				4,451,401.48
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 10,296,958.25</u>	<u>\$ 731,544.16</u>	<u>\$ 7,702.97</u>	<u>\$ 6,136,438.74</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 286,730.73	\$ 39,250.14	\$	\$
Payroll Deductions and Withholdings	2,029,774.64	5,248.38		
Accounts Payable	441,723.09	206,598.54		
Due to Other Funds	26,397.16	396,435.93	7,702.97	
Deposits Payable	18,716.70			
Deferred Revenue	24,316.00	84,011.17		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,827,658.32</u>	<u>731,544.16</u>	<u>7,702.97</u>	<u> </u>
Fund Balances:				
Nonspendable:				
Inventory	207,033.35			
Restricted for:				
State Required Carryover Programs	124,856.49			
Debt Service				6,136,438.74
Capital Projects				
Food Service				
Total Restricted Fund Balance	<u>124,856.49</u>	<u> </u>	<u> </u>	<u>6,136,438.74</u>
Assigned to:				
School Operations	1,848,523.00			
Unassigned Fund Balance	5,288,887.09			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>7,469,299.93</u>	<u> </u>	<u> </u>	<u>6,136,438.74</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,296,958.25</u>	<u>\$ 731,544.16</u>	<u>\$ 7,702.97</u>	<u>\$ 6,136,438.74</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
\$ 1,719,889.84	\$ 4,295,796.11 3,728.25	\$ 1,518,655.23 55,830.51 2,261.27	\$ 16,676,439.80 109,543.79 52,919.10 10,012.50 448,397.28
26,397.16	944,853.00	114,668.18 138,611.67	2,214,191.47 345,645.02 1,684,784.90 4,451,401.48
<u>\$ 1,746,287.00</u>	<u>\$ 5,244,377.36</u>	<u>\$ 1,830,026.86</u>	<u>\$ 25,993,335.34</u>
\$	\$ 181.19 13.86	\$ 17,811.73 2,128.43	\$ 343,973.79 2,037,165.31
107,287.99	38,146.46	20,947.18 17,861.22	814,703.26 448,397.28 18,716.70 108,327.17
<u>107,287.99</u>	<u>38,341.51</u>	<u>58,748.56</u>	<u>3,771,283.51</u>
		<u>138,611.67</u>	<u>345,645.02</u>
1,638,999.01	5,206,035.85	686,544.89 464,791.26 481,330.48	124,856.49 6,822,983.63 7,309,826.12 481,330.48
<u>1,638,999.01</u>	<u>5,206,035.85</u>	<u>1,632,666.63</u>	<u>14,738,996.72</u>
			<u>1,848,523.00</u>
			<u>5,288,887.09</u>
<u>1,638,999.01</u>	<u>5,206,035.85</u>	<u>1,771,278.30</u>	<u>22,222,051.83</u>
<u>\$ 1,746,287.00</u>	<u>\$ 5,244,377.36</u>	<u>\$ 1,830,026.86</u>	<u>\$ 25,993,335.34</u>

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

Total Fund Balances - Governmental Funds	\$	22,222,051.83
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		239,675,103.68
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The 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
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Payments to the escrow agent related to the advance refunding of long-term debt are reported as other financing uses in the governmental funds, but the payments did not result in an in-substance defeasance of the refunded debt. As a result, the payments are shown as restricted assets in the government-wide statements.		611,617.80
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Bonds Payable, Net	\$ 6,596,617.80	
Certificates of Participation Payable	71,670,000.00	
Compensated Absences Payable	5,356,659.40	
Special Retirement Benefits Payable	1,476,000.00	
Other Postemployment Benefits Payable	1,356,369.00	
		(86,455,646.20)

Total Net Assets - Governmental Activities	\$	178,053,127.11
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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, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 134,185.47	\$ 284,484.34	\$	\$
Federal Through State and Local	354,469.10	6,046,905.49	466,925.28	
State	38,315,620.16			
Local:				
Property Taxes	46,429,061.31			
Local Sales Taxes				
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	4,593,115.01	1,256.82		42,494.53
Total Local Revenues	51,022,176.32	1,256.82		42,494.53
Total Revenues	89,826,451.05	6,332,646.65	466,925.28	42,494.53
Expenditures				
Current - Education:				
Instruction	60,191,240.08	3,880,359.28	200,083.38	
Pupil Personnel Services	6,117,147.64	1,236,900.41	251.45	
Instructional Media Services	985,114.37			
Instruction and Curriculum Development Services	369,725.87	271,704.69	108,791.32	
Instructional Staff Training Services	298,780.51	655,573.13	149,123.05	
Instruction Related Technology	649,793.53			
School Board	351,569.90			
General Administration	395,499.48	38,308.36	6,176.08	
School Administration	5,077,704.20			
Facilities Acquisition and Construction				
Fiscal Services	1,012,805.80			
Food Services	2,062.82			
Central Services	818,157.17		2,500.00	
Pupil Transportation Services	4,754,284.47	6,216.05		
Operation of Plant	7,961,833.65			
Maintenance of Plant	2,292,212.02			
Administrative Technology Services	434,159.23			
Community Services	3,595,782.49	3,947.76		
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	29,620.32	239,636.97		
Debt Service:				
Principal				4,600,000.00
Interest and Fiscal Charges	39,235.00			3,419,168.04
Total Expenditures	95,376,728.55	6,332,646.65	466,925.28	8,019,168.04
Excess (Deficiency) of Revenues Over Expenditures	(5,550,277.50)			(7,976,673.51)
Other Financing Sources (Uses)				
Transfers In	3,934,211.02			8,337,052.90
Sale of Refunding Bonds				
Premium on Refunding Bonds				
Proceeds from Sale of Capital Assets	16,081.34			
Insurance Loss Recoveries	157,468.17			
Payments to Refunding Bonds Escrow Agent				
Transfers Out	(10,622.32)			
Total Other Financing Sources (Uses)	4,097,138.21			8,337,052.90
Net Change in Fund Balances	(1,453,139.29)			360,379.39
Fund Balances, Beginning	8,922,439.22			5,776,059.35
Fund Balances, Ending	\$ 7,469,299.93	\$ 0.00	\$ 0.00	\$ 6,136,438.74

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		4,438,509.26	418,669.81
		2,072,571.82	11,306,809.13
			40,388,191.98
10,671,608.14			57,100,669.45
	4,220,247.96		4,220,247.96
	572,402.82		572,402.82
		1,423,325.17	1,423,325.17
14,964.66	15,392.04	81,949.79	4,749,172.85
10,686,572.80	4,808,042.82	1,505,274.96	68,065,818.25
10,686,572.80	4,808,042.82	8,016,356.04	120,179,489.17
			64,271,682.74
			7,354,299.50
			985,114.37
			750,221.88
			1,103,476.69
			649,793.53
			351,569.90
			439,983.92
			5,077,704.20
2,673,258.59	2,663,757.69	619,574.96	5,956,591.24
			1,012,805.80
		6,046,035.79	6,048,098.61
			820,657.17
			4,760,500.52
			7,961,833.65
			2,292,212.02
			434,159.23
			3,599,730.25
125,863.50	4,870.00	369,450.00	500,183.50
307,161.68	134,998.78	65,921.52	777,339.27
		250,000.00	4,850,000.00
		207,083.20	3,665,486.24
3,106,283.77	2,803,626.47	7,558,065.47	123,663,444.23
7,580,289.03	2,004,416.35	458,290.57	(3,483,955.06)
			12,271,263.92
		530,000.00	530,000.00
		81,617.80	81,617.80
		75.00	16,156.34
			157,468.17
		(610,042.53)	(610,042.53)
(7,262,382.10)	(4,011,843.50)	(986,416.00)	(12,271,263.92)
(7,262,382.10)	(4,011,843.50)	(984,765.73)	175,199.78
317,906.93	(2,007,427.15)	(526,475.16)	(3,308,755.28)
1,321,092.08	7,213,463.00	2,297,753.46	25,530,807.11
\$ 1,638,999.01	\$ 5,206,035.85	\$ 1,771,278.30	\$ 22,222,051.83

**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, 2012**

Net Change in Fund Balances - Governmental Funds \$ (3,308,755.28)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (9,674,719.02)

In the governmental funds, the costs of capital assets were recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (38,488.29)

Proceeds of refunding bonds are reported as other financing sources in the governmental funds, while payments to the escrow agent for the advance-refunding of outstanding bonds are shown as other financing uses. Government-wide statements are affected only to the extent these amounts differ.

Bonds Issued	\$ (530,000.00)	
Payments to Escrow Agent	<u>611,617.80</u>	81,617.80

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	\$ 2,145,000.00	
Certificates of Participation Payable	<u>2,705,000.00</u>	4,850,000.00

Premiums on new debt issues are reported when issued as other financing sources in the governmental funds, but are amortized over the life of the debt in the statement of activities. (81,617.80)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (1,187,225.87)

In the statement of activities, the cost of special retirement benefits is measured by the amounts earned during the fiscal year, while in the governmental funds expenditures are recognized based on the amounts actually paid for special retirement benefits. This is the net amount of special retirement benefits earned in excess of the amount paid in the current fiscal year. (276,000.00)

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. (364,098.00)

Change in Net Assets - Governmental Activities \$ (9,999,286.46)

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, 2012**

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 99,444.53	\$ 1,322,273.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 1,322,273.00
	<u> </u>	<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	99,944.53	
	<u> </u>	
TOTAL LIABILITIES AND NET ASSETS	\$ 99,944.53	
	<u> </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, 2012**

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Investment Earnings	\$ <u>269.24</u>
DEDUCTIONS	
Scholarship Payments	<u>(500.00)</u>
Change in Net Assets	(230.76)
Net Assets - Beginning	<u>99,675.29</u>
Net Assets - Ending	<u><u>\$ 99,444.53</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, 2012**

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 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.

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

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, 2012, were conducted by independent certified public accountants. The audit reports are filed in the District's administrative offices.

In January 2012, the Board approved a notification of intent to terminate the Heritage Academy, Inc., charter school contract because the charter school received a grade letter of "F" from the Florida Department of Education for two consecutive years. In March 2012, the Board held an administrative hearing with the charter school and approved termination of the charter school contract. As of June 30, 2012, the Heritage Academy, Inc. ceased operations.

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.

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

- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- 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 the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments.
- Capital Projects – Other Fund – to account for financial resources that are for educational capital outlay needs, including new construction, renovation, and remodeling projects.

Additionally, the District reports the following fiduciary fund types:

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, 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.

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

The DSO and Auditorium 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.

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

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

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

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

Investments made locally consist of 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.

Due to and Due from Primary Government. As of June 30, 2012, the Imagine Schools at Town Center Charter School recorded \$296,506 as Due from Primary Government for uncollected operating funds; however, the District did not report a corresponding Due to Component Unit because the District sent this to the charter school before fiscal year-end. The charter school also recorded \$221,019 as Due to Primary Government based on an estimate that the District overfunded the charter school's pupil transportation; however, the District did not report a corresponding Due from Component Unit because of the uncertainty as to whether the District may have overfunded transportation. In October 2012, the District received \$221,019 from the charter school to resolve the overfunding.

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

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.

Restricted Assets. Certain invested assets held by a trustee under a trust agreement, in the name of the District, in connections 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.

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

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

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

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

Long-Term Liabilities. Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as issuance costs,

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

during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

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

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

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

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.

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

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the 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.

Local Government Capital Outlay Surtax (Local Sales Tax). On September 12, 2002, the citizens of Flagler County (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.

Educational Impact Fees. The 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.

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.

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 11,721,680.71
Fund B	5.73 Year Average	53,713.28
Debt Service Accounts	6 Months	55,830.51
Money Market Mutual Fund:		
Dreyfus Institutional Reserves Treasury Prime Fund (1) (2) (4)	48 Day Average	36,296.24
Commercial Paper (3)	October 29, 2012	1,684,713.30
Total Investments, Primary Government		<u>\$ 13,552,234.04</u>

Notes:

- (1) These investments are reported as cash equivalents for financial statement reporting purposes.
- (2) Money market mutual funds are invested in U.S. Treasury securities and repurchase agreements relating to such securities.
- (3) This investment is held by a paying agent in connection with a QZAB financing arrangement (see note 7).
- (4) This investment includes \$71.60 held by a paying agent in connection with a QZAB 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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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

➤ **Credit Risk**

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

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

The District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

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 QZABs 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 and 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

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

place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.

➤ **Concentration of Credit Risk**

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 Abbey National North America, LLC. These investments are 12 percent of the District's total investments and 100 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.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

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

	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	710,671.97		77,708.82	632,963.15
Total Capital Assets Not Being Depreciated	9,724,483.18		77,708.82	9,646,774.36
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,575,319.18	161,819.35		6,737,138.53
Buildings and Fixed Equipment	295,701,349.33	416,072.97		296,117,422.30
Furniture, Fixtures, and Equipment	15,663,569.16	757,418.87	638,948.14	15,782,039.89
Motor Vehicles	12,022,178.41	13,518.20	279,014.00	11,756,682.61
Audio Visual Materials and Computer Software	1,823,178.03	6,402.20		1,829,580.23
Total Capital Assets Being Depreciated	331,785,594.11	1,355,231.59	917,962.14	332,222,863.56
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,722,003.28	309,107.15		4,031,110.43
Buildings and Fixed Equipment	67,260,505.60	7,452,935.58		74,713,441.18
Furniture, Fixtures, and Equipment	10,864,072.73	2,359,074.41	600,624.85	12,622,522.29
Motor Vehicles	8,494,649.04	806,841.30	278,849.00	9,022,641.34
Audio Visual Materials and Computer Software	1,780,535.65	24,283.35		1,804,819.00
Total Accumulated Depreciation	92,121,766.30	10,952,241.79	879,473.85	102,194,534.24
Total Capital Assets Being Depreciated, Net	239,663,827.81	(9,597,010.20)	38,488.29	230,028,329.32
Governmental Activities Capital Assets, Net	\$ 249,388,310.99	\$ (9,597,010.20)	\$116,197.11	\$ 239,675,103.68

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 8,416,506.33
Pupil Personnel Services	33,455.60
Instructional Media Services	18,730.03
Instruction and Curriculum Development Services	5,198.87
Instructional Staff Training Services	5,586.48
Instruction Related Technology	6,699.44
School Board	1,109.03
General Administration	708,274.08
School Administration	21,692.82
Fiscal Services	1,363.83
Food Services	226,007.86
Central Services	4,957.20
Pupil Transportation Services	740,337.27
Operation of Plant	141,043.59
Maintenance of Plant	174,210.56
Administrative Technology Services	309,341.70
Community Services	137,727.10
	<u>\$ 10,952,241.79</u>

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	\$ 9,000,000	\$ 9,000,000	\$ 0

Proceeds from the tax anticipation note were used for payment of operating expenses incurred in operating the District's schools for the 2011-12 fiscal year. The note was issued on October 6, 2011, under provisions of Section 1011.13, Florida Statutes, with a stated interest rate of 0.78 percent. The note was repaid on December 19, 2011.

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

7. CERTIFICATES OF PARTICIPATION

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

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1998 (Partially Refunded)	\$ 725,000	4.75	2013	\$ 16,815,000
Series 2001A	1,290,000	5.452	2017	1,290,000
Series 2001B	385,000	6.609	2014	2,510,000
Series 2005A	52,925,000	5.0	2031	60,720,000
Series 2005B	11,345,000	3.8 - 4.5	2024	11,675,000
Series 2005 - QZAB	5,000,000	0.0	2022	5,000,000
Total Minimum Lease Payments	\$ 71,670,000			

The District entered into a 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 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-QZABs 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.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be

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

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.

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

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

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
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	5,997,997.50	3,415,000.00	2,582,997.50
2018-2022	33,014,575.00	22,510,000.00	10,504,575.00
2023-2027	24,068,875.00	18,050,000.00	6,018,875.00
2028-2031	17,130,000.00	15,530,000.00	1,600,000.00
Total Minimum Lease Payments	<u>\$ 104,233,243.78</u>	<u>\$ 71,670,000.00</u>	<u>\$ 32,563,243.78</u>

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

8. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2003A	\$ 615,000.00	3.125 - 4.250	2023
Series 2005B, Refunding	1,295,000.00	5.0	2020
Series 2011A, Refunding	530,000.00	3.0 - 5.0	2023
District Revenue Bonds:			
Series 1998	2,125,000.00	4.8 - 5.0	2028
Sales Tax Revenue Bonds:			
Series 2004	<u>1,950,000.00</u>	3.125	2012
Total Minimum Principal Payments	<u>6,515,000.00</u>		
Plus: Unamortized Premiums	<u>81,617.80</u>		
Total Bonds Payable	<u><u>\$ 6,596,617.80</u></u>		

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

➤ State School Bonds

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

➤ District Revenue Bonds

Capital Improvement Revenue Bonds, Series 1998, issued in the amount of \$3,010,000, are authorized by Chapter 1011, Florida Statutes, and Section 550.135, Florida Statutes, as supplemented by Chapter 30131, Laws of Florida (1955), as amended by Chapter 71-367, 71-639, and 73-466, Laws of Florida. The principal and interest on the bonds are paid solely from, and secured by, a prior lien upon and pledge of that portion of the money distributed to the District from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District.

The District has pledged a total of \$3,151,540 of pari-mutuel tax revenues in connection with the District Revenue Bonds of 1998, described above. During the 2011-12 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$187,960 (84 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on August 1, 2028.

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

➤ Sales Tax Revenue Bonds

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

The District pledged a total of \$1,980,468.75 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2004 Sales Tax Revenue Bond issue described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling \$4,220,247.96 and expended \$1,984,362.50 (47 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.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 848,087.51	\$ 760,000.00	\$ 88,087.51
2014	271,100.00	190,000.00	81,100.00
2015	261,600.00	190,000.00	71,600.00
2016	267,100.00	205,000.00	62,100.00
2017	271,850.00	220,000.00	51,850.00
2018-2022	900,250.00	800,000.00	100,250.00
2023	77,250.00	75,000.00	2,250.00
Total State School Bonds	2,897,237.51	2,440,000.00	457,237.51
District Revenue Bonds:			
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	186,000.00	100,000.00	86,000.00
2018-2022	923,125.00	575,000.00	348,125.00
2023-2027	929,375.00	745,000.00	184,375.00
2028-2029	367,750.00	350,000.00	17,750.00
Total District Revenue Bonds	3,151,540.00	2,125,000.00	1,026,540.00
Sales Tax Revenue Bonds:			
2013	1,980,468.75	1,950,000.00	30,468.75
Total Minimum Bond Payments	8,029,246.26	6,515,000.00	1,514,246.26
Plus: Unamortized Premiums	81,617.80	81,617.80	
Total Bonds	\$ 8,110,864.06	\$ 6,596,617.80	\$ 1,514,246.26

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

9. DEFEASED DEBT

The Florida Department of Education issued State Board of Education (SBE) Capital Outlay Bonds, Series 2011A, on January 5, 2012 for \$53,785,000. The proceeds for these bonds were used to advance-refund \$28,990,000 of the SBE Capital Outlay Bonds, Series 2002B bonds and \$29,320,000 of the SBE Capital Outlay Bonds, Series 2003A bonds. The District did not participate in the Series 2002B bonds.

The District's portion of Series 2011A bonds totaled \$530,000 and was used to advance-refund \$615,000 of the District's portion of Series 2003A bonds. The District's pro rata share of the net proceeds of the Series 2011A bonds totaling \$610,042.53 (after deduction of \$1,575.27 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) was placed in a trust account to refund the Series 2003A bonds, that mature on or after January 1, 2014, and are scheduled to be called on January 1, 2013.

The trust account is not considered to be risk-free in accordance with GASB Statement No. 7. As a result, the refunding of \$615,000 representing the District's portion of Series 2003A bonds is considered to be an economic defeasance and not a legal defeasance. Therefore, the liability for these bonds, along with the refunding bond proceeds set aside to service the old debt, are reported in the government-wide financial statements.

The Series 2011A bonds were issued to reduce the total debt service over the next 11 years by approximately \$5,674,047 and to obtain an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$5,289,901. The District's portion resulted in a reduction in total debt service of \$93,908.74 over the next 11 years and \$86,408.29 in economic gain.

10. 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, Net	\$ 8,130,000.00	\$ 611,617.80	\$ 2,145,000.00	\$ 6,596,617.80	\$ 2,795,000.00
Certificates of Participation Payable	74,375,000.00		2,705,000.00	71,670,000.00	2,825,000.00
Compensated Absences Payable	4,169,433.53	1,828,162.68	640,936.81	5,356,659.40	617,087.16
Special Retirement Benefits Payable	1,200,000.00	534,000.00	258,000.00	1,476,000.00	
Other Postemployment Benefits Payable	992,271.00	559,159.00	195,061.00	1,356,369.00	
Total Governmental Activities	<u>\$ 88,866,704.53</u>	<u>\$ 3,532,939.48</u>	<u>\$ 5,943,997.81</u>	<u>\$ 86,455,646.20</u>	<u>\$ 6,237,087.16</u>

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

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

11. 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	\$ 422,000.12	\$ 26,397.16
Special Revenue:		
Other		396,435.93
Federal Economic Stimulus		7,702.97
Capital Projects:		
Local Capital Improvement	26,397.16	
Nonmajor Governmental		17,861.22
Total	<u>\$ 448,397.28</u>	<u>\$ 448,397.28</u>

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 3,934,211.02	\$ 10,622.32
Debt Service:		
Other	8,337,052.90	
Capital Projects:		
Local Capital Improvement		7,262,382.10
Other		4,011,843.50
Nonmajor Governmental		986,416.00
Total	<u>\$ 12,271,263.92</u>	<u>\$ 12,271,263.92</u>

The transfers out of the capital projects funds and the 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.

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

12. FUND BALANCE REPORTING

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

➤ **Nonspendable**

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

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District 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 cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Chief Financial Officer, as authorized by Board Policy 701, 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, a 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 the reserves are needed, it shall be brought before the Board prior to the adoption of the annual operating budget.

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

13. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 20,517,735.00
Categorical Educational Program - Class Size Reduction	13,348,551.00
Workforce Development Program	2,285,917.00
Gross Receipts Tax (Public Education Capital Outlay)	986,416.00
School Recognition	642,192.00
Adults with Disabilities	630,461.00
Voluntary Prekindergarten	528,098.20
Motor Vehicle License Tax (Capital Outlay and Debt Service)	489,767.61
Charter School Capital Outlay Funds	283,822.83
Racing Commission Funds	223,250.00
Miscellaneous	451,981.34
Total	\$ 40,388,191.98

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

14. PROPERTY TAXES

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

GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.533	\$ 40,600,772
Basic Discretionary Local Effort	0.748	5,488,768
Critical Operating Needs	0.250	1,834,481
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	11,006,888
Total	8.031	\$ 58,930,909

15. FLORIDA RETIREMENT SYSTEM

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

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

programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

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

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

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

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

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JUNE 30, 2012**

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$5,593,653, \$6,197,439, and \$4,186,590, respectively, which were equal to the required contributions for each fiscal year.

There were 247 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$707,618, which was equal to the required contribution for the 2011-12 fiscal year.

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

16. 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 have worked for the District for a minimum of ten years, be eligible for full retirement under the 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 the age of 62, a one-time bonus of 30 percent of the employee's base salary.
- For employees 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 \$282,240 during the 2011-12 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 payments for accrued leave balances, the District recorded expenditures of \$258,000 during the 2011-12 fiscal year for these special retirement benefit bonuses. The reported amount of \$1,476,000 represents the District's estimated liability for future payments to qualified employees as of June 30, 2012.

17. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to

**FLAGLER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. 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 OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 43 retirees received other postemployment benefits. The District provided required contributions of \$195,061 toward the annual OPEB cost, net of retiree contributions totaling \$336,354, which represents 0.52 percent of covered payroll.

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

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	40,373
Annual Required Contribution	553,684
Interest on Net OPEB Obligation	39,691
Adjustment to Annual Required Contribution	(34,216)
Annual OPEB Cost (Expense)	559,159
Contribution Toward the OPEB Cost	(195,061)
Increase in Net OPEB Obligation	364,098
Net OPEB Obligation, Beginning of Year	992,271
Net OPEB Obligation, End of Year	\$1,356,369

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2009-10	\$ 468,863	35.7%	\$ 635,132
2010-11	523,542	31.8%	992,271
2011-12	559,159	34.9%	1,356,369

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 OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of March 1, 2011, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.9 percent for the 2011-12 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, 2012, was 26 years.

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

18. SIGNIFICANT COMMITMENTS

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

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

Major Funds				
Special Revenue- Other	Capital Projects - Local Capital Improvement	Capital Projects - Other	Other Governmental Funds	Total Governmental Funds
<u>\$74,685.33</u>	<u>\$163,231.77</u>	<u>\$ 31,346.32</u>	<u>\$ 18,536.31</u>	<u>\$ 287,799.73</u>

19. 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 is effective until June 30, 2013, and may be renewed by written 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, 2012, the District's proportionate share of profits to be distributed in the event of termination of the agreement was 11.8 percent.

The agreement requires participants to make pro rata contributions for ATC annual operating costs. Additionally, should enrollment of the ATC exceed expectations, sponsors must make additional pro rata contributions as

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

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 2011-12 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.

20. INTERLOCAL AGREEMENT

On September 8, 2005, the Board entered into an interlocal agreement with the 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 \$224,770.95 for the 2011-12 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.

21. RISK MANAGEMENT PROGRAMS

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

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Settled claims resulting from these risks have exceeded commercial coverage by \$45,547 in the 2011-12 fiscal year. Employee group health, hospitalization, dental, and life insurance coverage is being provided through purchased commercial coverage.

22. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note (Note) in the amount of \$6,000,000. The proceeds will be used for operating expenses for the fiscal year ended June 30, 2013. The closing of the Note took place on September 20, 2012, and the Note was to mature on January 15, 2013. The stated interest rate is 0.6 percent. On January 15, 2013, the Note was paid in full.

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, 2012**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 110,000.00	\$ 110,000.00	\$ 134,185.47	\$ 24,185.47
Federal Through State and Local	125,000.00	336,349.00	354,469.10	18,120.10
State	39,996,659.00	39,547,350.00	38,315,620.16	(1,231,729.84)
Local:				
Property Taxes	46,332,210.00	46,318,846.00	46,429,061.31	110,215.31
Miscellaneous	3,561,163.00	3,792,549.51	4,593,115.01	800,565.50
Total Local Revenues	49,893,373.00	50,111,395.51	51,022,176.32	910,780.81
Total Revenues	90,125,032.00	90,105,094.51	89,826,451.05	(278,643.46)
Expenditures				
Current - Education:				
Instruction	57,409,209.00	60,724,537.01	60,191,240.08	533,296.93
Pupil Personnel Services	6,124,333.00	6,382,283.89	6,117,147.64	265,136.25
Instructional Media Services	1,002,121.00	1,032,581.60	985,114.37	47,467.23
Instruction and Curriculum Development Services	374,101.00	412,501.00	369,725.87	42,775.13
Instructional Staff Training Services	308,981.00	322,863.66	298,780.51	24,083.15
Instruction Related Technology	624,116.00	654,989.40	649,793.53	5,195.87
School Board	341,170.00	359,955.00	351,569.90	8,385.10
General Administration	349,414.00	414,914.00	395,499.48	19,414.52
School Administration	4,982,855.00	5,126,121.54	5,077,704.20	48,417.34
Fiscal Services	976,764.00	1,029,374.00	1,012,805.80	16,568.20
Food Services		2,062.82	2,062.82	
Central Services	776,238.00	822,662.04	818,157.17	4,504.87
Pupil Transportation Services	4,488,217.00	4,898,715.03	4,754,284.47	144,430.56
Operation of Plant	8,131,519.00	8,402,145.62	7,961,833.65	440,311.97
Maintenance of Plant	2,434,985.00	2,324,438.83	2,292,212.02	32,226.81
Administrative Technology Services	24,200.00	436,524.70	434,159.23	2,365.47
Community Services	3,309,557.00	3,597,150.03	3,595,782.49	1,367.54
Fixed Capital Outlay:				
Other Capital Outlay		29,620.32	29,620.32	
Debt Service:				
Interest and Fiscal Charges		42,000.00	39,235.00	2,765.00
Total Expenditures	91,657,780.00	97,015,440.49	95,376,728.55	1,638,711.94
Excess (Deficiency) of Revenues Over Expenditures	(1,532,748.00)	(6,910,345.98)	(5,550,277.50)	1,360,068.48
Other Financing Sources (Uses)				
Transfers In	753,208.00	4,089,624.00	3,934,211.02	(155,412.98)
Proceeds from Sale of Capital Assets		12,000.00	16,081.34	4,081.34
Insurance Loss Recoveries		124,103.00	157,468.17	33,365.17
Transfers Out	(1,120,008.00)	(20,008.00)	(10,622.32)	9,385.68
Total Other Financing Sources (Uses)	(366,800.00)	4,205,719.00	4,097,138.21	(108,580.79)
Net Change in Fund Balances	(1,899,548.00)	(2,704,626.98)	(1,453,139.29)	1,251,487.69
Fund Balances, Beginning	8,100,000.00	8,100,000.00	8,922,439.22	822,439.22
Fund Balances, Ending	\$ 6,200,452.00	\$ 5,395,373.02	\$ 7,469,299.93	\$ 2,073,926.91

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 5,186,792.00	\$ 284,484.34 6,046,905.49	\$ 284,484.34 6,046,905.49	\$	\$ 252,916.00	\$ 466,925.28	\$ 466,925.28	\$
	1,256.82	1,256.82					
	1,256.82	1,256.82					
5,186,792.00	6,332,646.65	6,332,646.65		252,916.00	466,925.28	466,925.28	
3,206,229.00	3,880,359.28	3,880,359.28		47,706.00	200,083.38	200,083.38	
1,166,507.00	1,236,900.41	1,236,900.41			251.45	251.45	
205,545.00	271,704.69	271,704.69		107,220.00	108,791.32	108,791.32	
598,406.00	655,573.13	655,573.13		97,990.00	149,123.05	149,123.05	
	38,308.36	38,308.36			6,176.08	6,176.08	
					2,500.00	2,500.00	
10,105.00	6,216.05	6,216.05					
	3,947.76	3,947.76					
	239,636.97	239,636.97					
5,186,792.00	6,332,646.65	6,332,646.65		252,916.00	466,925.28	466,925.28	
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
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%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 393,137.85
National School Lunch Program	10.555	300	1,237,029.90
Summer Food Service Program for Children	10.559	323	79,720.61
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	543,586.83
National School Lunch Program	10.555 (2)(A)	300	2,070,365.89
Summer Food Service Program for Children	10.559	323	56,378.29
Total United States Department of Agriculture			4,380,219.37
United States Department of Education:			
Direct:			
Federal Pell Grant Program	84.063	N/A	284,484.34
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212,222,226,228	2,628,069.37
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212,226	175,419.12
Total Title I, Part A Cluster			2,803,488.49
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	2,471,253.39
Special Education - Preschool Grants	84.173	267	27,797.00
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	18,608.70
Volusia County District School Board:			
Special Education - Grants to States	84.027		4,098.00
Total Special Education Cluster			2,521,757.09
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	61,454.11
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	251.45
Total Education for Homeless Children and Youth Cluster			61,705.56
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	196,910.09
Career and Technical Education - Basic Grants to States	84.048	151	232,030.74
English Language Acquisition Grants	84.365	102	65,909.98
Improving Teacher Quality State Grants	84.367	224	266,598.97
ARRA - Education Technology State Grants, Recovery Act	84.386	121	4,965.22
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL1, RD2	227,532.65
Education Jobs Fund	84.410	541	36,138.00
Daytona State College:			
Career and Technical Education - Basic Grants to States	84.048	None	44,736.10
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	95.75
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397 (2)(B)	592	82,115.39
University of Central Florida:			
Mathematics and Science Partnerships	84.366	235	24,233.06
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	4,500.00
Total Indirect			6,572,717.09
Total United States Department of Education			6,857,201.43

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	\$ 27,912.68
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	134,185.47
Total Expenditures of Federal Awards			\$ 11,399,518.95

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

(2) Noncash Assistance:

- (A) National School Lunch Program. Includes \$432,373.40 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (B) State Fiscal Stabilization Fund (SFSF) - Governmental Services, Recovery Act. Expenditures include Federally-paid costs for instructional materials of \$77,136.45.



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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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Flagler County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, 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.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 6, 2013



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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
March 6, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.392 - ARRA); and ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$341,985
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, 2012**

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon 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 established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year union contract and salary schedule for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, 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 school.

Further, for critical shortage areas, the Board provided salary supplements for the 2011-12 fiscal year for speech and language pathologists and teachers for vision impaired students. However, District records did not evidence that any criteria had been established for determining critical shortage areas of instructional personnel. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining instructional personnel.

Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-123 and 2012-165.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Facilities Management

The plant services department is responsible for managing renovation and remodeling projects, and performing maintenance and repair services of schools and ancillary facilities. The District previously discontinued its construction department because of the lack of funding and construction-related activity. During the 2011-12 fiscal year, the District employed 41 employees in the plant services department, and the department's operating cost was \$1.8 million. Also, during this fiscal year, the District had expenditures totaling \$4.3 million for capital projects fund renovation and remodeling projects and, as shown on the District's Five Year Work Plan as approved by the Board on September 20, 2011, the District planned to spend an additional \$11.5 million on renovation and remodeling projects over the next four fiscal years. At June 30, 2012, the cost of the District's educational and ancillary facilities was \$296 million and, as shown in the Florida Department of Education's (FDOE's) Florida Inventory of School Houses data, District facilities had an average age of 17 years.

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

- **Alternate Maintenance Techniques.** Renovation, remodeling, and maintenance-related jobs, such as lighting and alarm repair, are routinely performed by plant services department personnel based on safety and suitability priorities, although some jobs are outsourced to vendors. District personnel indicated that they had not established written policies or procedures for evaluating significant renovation, remodeling, or maintenance-related job techniques and, while they consider alternate techniques, they have not documented evaluations of the various approaches to determine for each significant renovation or remodeling project, or maintenance-related job, which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial technique.
- **Accountability.** The plant services department had established goals such as enhanced use of software to track work order open and close dates, providing more services with existing personnel, and expanding preventive maintenance strategies; however, these goals did not sufficiently identify efficiency or cost-effectiveness outcomes.

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

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

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. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 80,295 adult general education instructional contact hours for 577 students enrolled in 190 classes. We tested 2,102 contact hours reported for 25 students enrolled in 20 classes and noted 15 hours overreported for 3 students enrolled in 3 classes, ranging from 24 hours underreported to 27 hours overreported. The errors occurred because District personnel entered incorrect student withdrawal and attendance dates in the reporting system.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the data be submitted correctly. Similar findings were noted in our report Nos. 2011-123 and 2012-165.

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

Finding No. 4: Ad Valorem Taxation and Sales Surtax Proceeds

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; and purchases of school buses and equipment. The District separately accounts for each fiscal year's ad valorem tax levy within the Capital Projects – Local Capital Improvement (LCI) Fund.

In addition, 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.

For the 2011-12 fiscal year, LCI Fund expenditures totaled \$3.1 million and transfers to other funds totaled \$7.3 million. We tested LCI Fund expenditures totaling \$405,603 and LCI Fund transfers totaling \$7.3 million for propriety. One of our test expenditures was a monthly service charge of \$1,296 to operate global positioning satellite (GPS) devices in school buses and the District paid \$16,210 for these services during the 2011-12 fiscal year. District personnel indicated that they initially funded these services with ad valorem tax levy proceeds because the services were provided for equipment on school buses. While school bus and equipment purchases are allowable uses of ad valorem tax levy proceeds, District records did not evidence the basis upon which the monthly operating costs of the GPS services could be funded by these proceeds, resulting in \$16,210 of questioned costs. Subsequent to our inquiry, the District reimbursed the LCI Fund from the General Fund in August 2012 to resolve the \$16,210 of questioned costs.

For the 2011-12 fiscal year, LHCST expenditures totaled \$2.7 million and transfers to other funds totaled \$2 million. We tested LHCST expenditures totaling \$715,599 and LHCST transfers totaling \$2 million for propriety. Our test disclosed an expenditure of \$7,700 for vendor maintenance and support of an online educational software system, which did not appear to be an allowable use of LHCST proceeds, resulting in \$7,700 of questioned costs. Subsequent to our inquiry, the District reimbursed the Capital Projects - Other Fund from the General Fund in August 2012, as reported on the 2011-12 fiscal year financial statements, to resolve the \$7,700 of questioned costs. A similar finding was noted in our audit report No. 2012-165.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy and sales surtax proceeds are used only for authorized purposes.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: ARRA - State Fiscal Stabilization Fund (SFSF) - Race- to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget Circular A-87 provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

For the 2011-12 fiscal year, the District reported expenditures totaling \$232,128 for the Race-to-the-Top (RTTT) program, of which salaries and benefits totaled \$108,391 for one employee whose salaries and benefits were funded 100 percent from the RTTT program. However, due to oversights, the employee did not maintain appropriate records, such as semiannual certifications or equivalent documentation, to evidence the actual time devoted to RTTT

program activities. Subsequent to our inquiry, the employee provided documentation to confirm that the salaries and benefits charged to the RTTT program were correct.

Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that employees who perform services for Federal programs maintain the required documentation to support salary and benefit charges.

District Contact Person: Stewart Maxcy, Program Director

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-165. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-165, Finding No. 2	Audit Report No. 2011-123, Finding No. 3
3	Audit Report No. 2012-165, Finding No. 3	Audit Report No. 2011-123, Finding No. 6
4	Audit Report No. 2012-165, Finding No. 4	NA

NA – Not Applicable

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, 2012*

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2012-165		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



P. O. Box 755 ■ 1769 E. Moody Blvd. ■ Bldg. 2 ■ Bunnell, FL 32110
Phone (386) 437-7526 ■ Fax (386) 437-7577
www.flaglerschools.com

BOARD OF EDUCATION

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Matanzas H.S.

Teacher of the Year
Colleen Newman
Belle Terre Elementary School

Employee of the Year
Sue McVeigh
Exceptional Education

Janet Valentine
Superintendent

Jacob Oliva
Assistant Superintendent

March 06, 2013

Mr. David W. Martin, C.P.A.
State of Florida Auditor General
929 North Spring Garden Avenue
Suite 160
DeLand, FL 32720

Dear Mr. Martin:

Please find attached our response to the Preliminary and Tentative Audit Findings and Recommendations for the fiscal year ending June 30, 2012. Our responses follow the order of the findings cited. Should additional information be required, please contact Mr. Tom Tant, Chief Financial Officer.

Sincerely,

Janet Valentine
Superintendent

Attachment

Cc: Board Members

JV/bf

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Response: While the District has a process in place for identifying instructional personnel entitled to differentiated pay, it is not formally documented. Therefore, the District will develop written procedures for the process currently utilized.

Finding No. 2: Facilities Management

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

Response: The District will develop policies and procedures related to periodic evaluations of alternative significant construction methods or maintenance-related jobs. In addition, the District will review its current goals and establish new goals, as needed, for the plant services department to ensure operating efficiencies and cost effectiveness therein.

Finding No. 3: Adult General Education Classes

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

Response: Personnel changes have been made with regard to those individuals responsible for the reporting of contact hours. The District continues to review and improve its controls in place over the reporting of contact hours, and will continue to monitor the contact hours reported for accuracy and compliance.

Finding No. 4: Ad Valorem Taxation and Sales Surtax Proceeds

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy and sales surtax proceeds are used only for authorized purposes.

Response: The District will continue to monitor all capital outlay expenditures to ensure compliance with applicable Florida Statutes.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FEDERAL AWARDS FINDING AND QUESTIONED COST

Finding No. 1: Allowable Costs/Cost Principles – Documentation of Time and Effort

Recommendation: The District should enhance its procedures to ensure that employees who perform services for Federal programs maintain the required documentation to support salary and benefit charges.

Response: The District will review and modify its current procedures, as needed, to ensure that employees involved with Federal programs maintain proper documentation of their time and effort logs or semi-annual certifications.