

FLAGLER COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Andy Dance, Vice Chair to 11-19-12, Chair from 11-20-12	1
John Fischer	2
Colleen Conklin, Vice Chair from 11-20-12	3
Trevor Tucker	4
Sue Dickinson, Chair to 11-19-12	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 Nicole E. Cope, CPA, and the audit was supervised by Keith A. Wolfe, CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Net Position – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	22
Notes to Financial Statements	23
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	52
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	54
Notes to Required Supplementary Information.....	55
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	56
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	57
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	62
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	69
EXHIBIT A MANAGEMENT'S RESPONSE	70

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 monitoring school bus drivers could be enhanced.

Finding No. 3: The District needed to improve information technology (IT) security controls related to network and application access.

Finding No. 4: District IT security controls related to user authentication, data loss prevention, and logging and monitoring of application activity needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, Federal Pell Grant, 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 noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: District procedures did not ensure that Title I funds were used only to supplement and not supplant District operating funds, resulting in \$278,466.56 of questioned costs.

Federal Awards Finding No. 2: Required documentation to support personnel charges to the Child Nutrition Cluster was not 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. 2013-142.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 46 percent of the assets and 94 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, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. 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 solely 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 26, 2014

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, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- In total, net position decreased \$6,811,815, which represents a 4 percent decrease from the 2011-12 fiscal year.
- General revenues total \$110,553,329, or 92 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$10,109,133, or 8 percent of all revenues.
- Expenses total \$127,474,277. Only \$10,109,133 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 \$6,306,646, or 7 percent of total General Fund revenues. The fund balance decreased \$1,162,654 from the prior fiscal year.
- The District's total debt decreased by \$5,701,618, or approximately 7 percent. The key factor in this decrease was the annual principal payments applied against the outstanding balances.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

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

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 the Imagine Schools at Town Center, Palm Harbor Academy, Inc., and Global Outreach Charter Academy of

Palm Coast 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. On January 1, 2013, Global Outreach Charter Academy of Palm Coast terminated operations.

The Flagler County 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, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and 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 scholarship funds established by private donors.

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Position, End of Year	
	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 26,222,509	\$ 28,156,556
Capital Assets	230,717,984	239,675,104
Total Assets	256,940,493	267,831,660
Long-Term Liabilities	81,863,709	86,455,646
Other Liabilities	3,835,472	3,322,887
Total Liabilities	85,699,181	89,778,533
Net Position:		
Net Investment in Capital Assets	158,152,984	161,403,529
Restricted	14,290,117	14,877,608
Unrestricted (Deficit)	(1,201,789)	1,771,990
Total Net Position	\$ 171,241,312	\$ 178,053,127

The largest portion of the District's net position (92 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions, such as State required carryover programs, debt service, capital projects, and food services.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

Operating Results for the Fiscal Year Ended			
	Governmental		
	Activities		
	6-30-13	6-30-12	
Program Revenues:			
Charges for Services	\$ 4,779,402	\$ 4,776,713	
Operating Grants and Contributions	4,339,281	4,521,507	
Capital Grants and Contributions	990,450	1,488,984	
General Revenues:			
Property Taxes, Levied for Operational Purposes	43,319,192	46,429,061	
Property Taxes, Levied for Capital Projects	10,093,289	10,671,608	
Local Sales Taxes	4,423,563	4,220,248	
Grants and Contributions Not Restricted to Specific Programs	49,876,217	46,103,179	
Unrestricted Investment Earnings	97,753	106,596	
Miscellaneous	2,743,315	1,996,729	
Total Revenues	120,662,462	120,314,625	
Functions/Program Expenses:			
Instruction	70,459,506	73,843,457	
Pupil Personnel Services	7,850,599	7,519,090	
Instructional Media Services	1,030,715	1,023,146	
Instruction and Curriculum Development Services	805,176	770,079	
Instructional Staff Training Services	1,182,534	1,121,688	
Instruction Related Technology	765,576	670,195	
School Board	450,112	359,580	
General Administration	1,313,031	1,154,552	
School Administration	5,623,625	5,215,641	
Facilities Acquisition and Construction	5,868,282	5,956,591	
Fiscal Services	912,949	1,034,839	
Food Services	5,895,672	6,323,037	
Central Services	842,020	842,224	
Pupil Transportation Services	5,234,380	5,573,931	
Operation of Plant	9,111,169	8,183,542	
Maintenance of Plant	2,654,979	2,513,893	
Administrative Technology Services	543,108	753,737	
Community Services	3,549,188	3,790,779	
Unallocated Interest on Long-Term Debt	3,381,656	3,663,911	
Total Functions/Program Expenses	127,474,277	130,313,912	
Change in Net Position	(6,811,815)	(9,999,287)	
Net Position - Beginning	178,053,127	188,052,414	
Net Postion - Ending	\$ 171,241,312	\$ 178,053,127	

The largest revenue source is property taxes (44 percent). Revenues from State sources comprise 36 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 levied for operational purposes decreased by \$3,109,869, or 7 percent, as a result of a decrease in taxable assessed values and a reduction in assessed millage.

Grants and contributions not restricted to specific programs increased by \$3,773,038, or 8 percent, primarily due to an increase in the FEFP per student allocation.

Instruction represents 55 percent of total governmental expenses for the 2012-13 fiscal year. Instruction expenses decreased by \$3,383,951, or 5 percent, from the previous fiscal year mainly from a reduction in staffing levels, resulting in a decrease in salaries and related benefits.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$1,835,016 during the fiscal year to \$20,387,036 at June 30, 2013. Approximately 21 percent of this amount is unassigned fund balance (\$4,224,977), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$331,581), 2) restricted for particular purposes (\$14,239,256), or 3) assigned for particular purposes (\$1,591,222).

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 \$4,224,977, while the total fund balance is \$6,306,646. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately 6 percent of the total General Fund revenues, while total fund balance represents approximately 7 percent of total General Fund revenues. During the current fiscal year, total fund balance decreased by \$1,162,654, or 16 percent, primarily due to a reduction in property tax collections.

The Special Revenue – Other Fund has total revenues and expenditures of \$6,252,459 each, and the Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$199,986 each. The resources of these funds were mainly used for instruction and instruction related expenditures. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate fund balance. Activity in the Special Revenue – Federal Economic Stimulus Fund decreased substantially due to a reduction of Federal Stimulus program funding.

The Debt Service – Other Fund has a total fund balance of \$6,517,961, which is restricted for principal, interest, and related cost of debt service. The June 30, 2013, fund balance is reasonably consistent with the ending fund balance of the prior fiscal year.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,229,275, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$110,890 earmarked for projects at various schools. Fund balance decreased by \$409,724, or 25 percent in the current fiscal year. The

decrease is primarily due to reduced property tax revenues caused by lower property values during the current fiscal year.

The Capital Projects – Other Fund has a total fund balance of \$4,739,922, which is restricted for the acquisition, construction, and maintenance of capital assets, and includes encumbrances of \$1,450 earmarked for various technology purchases. The fund balance decreased by \$466,114, or 9 percent, as a result of increased technology equipment purchases in the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Florida law and is on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. During the 2012-13 fiscal year, the District amended its General Fund budget as needed. Schools are allocated budgets based on student enrollment.

For the General Fund, differences between final budgeted revenues and final budgeted expenditures as compared to the original budget were insignificant. Similarly, the final revenues actually collected and the final expenditures actually incurred were not significantly different from the final budget. None of these differences are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, is \$230,717,984 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress, improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

There were no major capital construction projects during the current fiscal year, nor are there any planned at June 30, 2013.

Additional information on the District's capital assets can be found in notes I.F.5 and II.D to the financial statements.

Long-Term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$72,565,000, comprised of \$3,720,000 of bonds payable and \$68,845,000 of certificates of participation payable. During the current fiscal year, retirement of debt amounted to \$5,701,618.

State School Bonds outstanding at June 30, 2013, totaling \$1,680,000 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 District's revenue bonds totaling \$2,040,000 are secured solely by specified revenue sources.

Additional information on the District's long-term debt can be found in note II.K to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

It is anticipated that unassigned fund balance will be partially replenished at June 30, 2014, through unspent appropriations and operating fund tax revenues in excess of the budgeted 96 percent of the taxable assessed valuation. 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 percent to 8 percent of the projected General Fund revenues to cover unforeseen events (e.g., revenue shortfalls, student enrollment under projections, etc.). It is anticipated that, at June 30, 2014, the combined assigned and unassigned fund balance will be in excess of 5 percent of projected General Fund revenues.

Employer contributions to the Florida Retirement System will increase for regular employees from 5.18 to 6.95 percent of payroll for the 2013-14 fiscal year.

The Legislature has provided a 6 percent increase in per student funding for the 2013-14 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 POSITION
June 30, 2013**

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 12,534,958.12	\$ 554,915.00
Investments	75,556.77	
Accounts Receivable	56,279.97	315,641.00
Deposits Receivable	10,012.50	
Due from Other Agencies	4,444,408.59	73,784.00
Due From Component Unit	252,003.00	
Prepaid Items		343,609.00
Inventories	331,581.13	
Restricted Investments	1,992,978.65	576,220.00
Cash with Fiscal Agent	4,524,729.45	
Restricted Cash and Cash Equivalents		118,494.00
Restricted Accounts Receivable		26,058.00
Investment in Joint Venture	2,000,000.00	
Capital Assets:		
Nondepreciable Capital Assets	9,646,774.36	
Depreciable Capital Assets, Net	221,071,210.07	349,535.00
TOTAL ASSETS	\$ 256,940,492.61	\$ 2,358,256.00
LIABILITIES		
Salaries and Benefits Payable	299,814.19	254,485.00
Payroll Deductions and Withholdings	2,156,181.83	
Accounts Payable	1,291,293.77	131,622.00
Due to Primary Government		252,003.00
Due to Related Party		99,516.00
Unearned Revenue	88,182.14	3,942.00
Long-Term Liabilities:		
Portion Due Within One Year	4,105,017.00	80,500.00
Portion Due After One Year	77,758,692.00	208,546.00
TOTAL LIABILITIES	85,699,180.93	1,030,614.00
NET POSITION		
Net Investment in Capital Assets	158,152,984.43	130,748.00
Restricted for:		
State Required Carryover Programs	209,725.35	
Debt Service	7,231,236.71	
Capital Projects	6,193,366.53	
Food Service	655,787.22	
Permanent Funds and Endowments - Nonexpendable		200,000.00
Other Purposes		704,503.00
Unrestricted	(1,201,788.56)	292,391.00
TOTAL NET POSITION	\$ 171,241,311.68	\$ 1,327,642.00

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, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 70,459,505.56	\$ 1,370,457.73	\$	\$
Pupil Personnel Services	7,850,598.50			
Instructional Media Services	1,030,715.30			
Instruction and Curriculum Development Services	805,175.91			
Instructional Staff Training Services	1,182,534.39			
Instruction Related Technology	765,575.86			
School Board	450,111.90			
General Administration	1,313,031.28			
School Administration	5,623,625.18			
Facilities Acquisition and Construction	5,868,281.69			717,297.52
Fiscal Services	912,949.12			
Food Services	5,895,672.07	1,379,722.02	4,339,280.69	
Central Services	842,020.29			
Pupil Transportation Services	5,234,379.86	92,526.13		
Operation of Plant	9,111,169.37			
Maintenance of Plant	2,654,979.12			
Administrative Technology Services	543,107.67			
Community Services	3,549,187.79	1,936,696.31		
Unallocated Interest on Long-Term Debt	3,381,655.97			273,152.22
Total Primary Government	\$ 127,474,276.83	\$ 4,779,402.19	\$ 4,339,280.69	\$ 990,449.74
Component Units				
Charter Schools/Direct-Support Organizations	\$ 8,373,154.00	\$ 751,870.00	\$ 1,007,716.00	\$ 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 Position				
Net Position - Beginning				
Net Position - Ending				

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component Units
Governmental	
Activities	
\$ (69,089,047.83)	\$
(7,850,598.50)	
(1,030,715.30)	
(805,175.91)	
(1,182,534.39)	
(765,575.86)	
(450,111.90)	
(1,313,031.28)	
(5,623,625.18)	
(5,150,984.17)	
(912,949.12)	
(176,669.36)	
(842,020.29)	
(5,141,853.73)	
(9,111,169.37)	
(2,654,979.12)	
(543,107.67)	
(1,612,491.48)	
(3,108,503.75)	
(117,365,144.21)	
	(6,613,568.00)
43,319,192.01	
10,093,288.89	
4,423,563.06	
49,876,216.78	6,438,794.00
97,752.88	7,976.00
2,743,315.16	23,113.00
110,553,328.78	6,469,883.00
(6,811,815.43)	(143,685.00)
178,053,127.11	1,471,327.00
\$ 171,241,311.68	\$ 1,327,642.00

**FLAGLER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS**

	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	\$ 6,142,476.23	\$ 182,161.70	\$ 389.88	\$ 252.98
Investments	26,595.69			
Accounts Receivable	54,381.91			
Deposits Receivable	10,012.50			
Due from Other Funds	623,422.95			
Due from Other Agencies	1,988,283.10	742,875.42	19,676.09	
Due From Component Unit	252,003.00			
Inventories	280,721.85			
Restricted Investments				1,992,978.65
Cash with Fiscal Agent				4,524,729.45
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 9,377,897.23</u></u>	<u><u>\$ 925,037.12</u></u>	<u><u>\$ 20,065.97</u></u>	<u><u>\$ 6,517,961.08</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 234,874.68	\$ 44,928.51	\$	\$
Payroll Deductions and Withholdings	2,148,749.94	5,385.89		
Accounts Payable	657,736.17	212,468.63	300.00	
Due to Other Funds	1,070.65	602,891.95	19,765.97	
Deferred Revenue	28,820.00	59,362.14		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>3,071,251.44</u>	<u>925,037.12</u>	<u>20,065.97</u>	
Fund Balances:				
Nonspendable:				
Inventories	280,721.85			
Restricted for:				
State Required Carryover Programs	209,725.35			
Debt Service				6,517,961.08
Capital Projects				
Food Service				
Total Restricted Fund Balance	<u>209,725.35</u>			<u>6,517,961.08</u>
Assigned for:				
Subsequent Year's Budget: Appropriation of Fund Balance	1,591,222.00			
Unassigned Fund Balance	4,224,976.59			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>6,306,645.79</u>			<u>6,517,961.08</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 9,377,897.23</u></u>	<u><u>\$ 925,037.12</u></u>	<u><u>\$ 20,065.97</u></u>	<u><u>\$ 6,517,961.08</u></u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,194,331.46	\$ 3,609,234.99 1,983.69	\$ 1,406,110.88 46,977.39 1,898.06	\$ 12,534,958.12 75,556.77 56,279.97 10,012.50 624,493.60
290,743.41	1,070.65 1,213,354.80	189,475.77 50,859.28	4,444,408.59 252,003.00 331,581.13 1,992,978.65 4,524,729.45
<u>\$ 1,485,074.87</u>	<u>\$ 4,825,644.13</u>	<u>\$ 1,695,321.38</u>	<u>\$ 24,847,001.78</u>
\$	\$ 407.00 59.00	\$ 19,604.00 1,987.00	\$ 299,814.19 2,156,181.83
255,800.14	85,256.22	79,732.61 765.03	1,291,293.77 624,493.60 88,182.14
<u>255,800.14</u>	<u>85,722.22</u>	<u>102,088.64</u>	<u>4,459,965.53</u>
		50,859.28	331,581.13
		713,275.63 224,169.89 604,927.94	209,725.35 7,231,236.71 6,193,366.53 604,927.94
1,229,274.73	4,739,921.91	1,542,373.46	14,239,256.53
<u>1,229,274.73</u>	<u>4,739,921.91</u>		<u>1,591,222.00</u> <u>4,224,976.59</u>
1,229,274.73	4,739,921.91	1,593,232.74	20,387,036.25
<u>\$ 1,485,074.87</u>	<u>\$ 4,825,644.13</u>	<u>\$ 1,695,321.38</u>	<u>\$ 24,847,001.78</u>

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

Total Fund Balances - Governmental Funds \$ 20,387,036.25

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 230,717,984.43

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

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	\$	3,720,000.00	
Certificates of Participation Payable		68,845,000.00	
Compensated Absences Payable		5,900,397.00	
Special Retirement Benefits Payable		1,680,000.00	
Other Postemployment Benefits Payable		1,718,312.00	
		(81,863,709.00)	

Net Position - Governmental Activities \$ 171,241,311.68

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 117,996.48	\$ 372,374.89	\$	\$
Federal Through State and Local State	514,476.91 42,352,853.75	5,878,826.52	199,986.14	
Local:				
Property Taxes	43,319,192.01			
Local Sales Taxes				
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	4,909,662.45	1,257.60		50,503.45
Total Local Revenues	<u>48,228,854.46</u>	<u>1,257.60</u>		<u>50,503.45</u>
Total Revenues	<u>91,214,181.60</u>	<u>6,252,459.01</u>	<u>199,986.14</u>	<u>50,503.45</u>
Expenditures				
Current - Education:				
Instruction	58,525,416.36	3,489,799.64	1,587.71	
Pupil Personnel Services	6,361,732.36	1,383,124.49		
Instructional Media Services	1,008,842.42			
Instruction and Curriculum Development Services	342,941.80	311,620.75	137,841.94	
Instructional Staff Training Services	307,087.84	821,981.82	41,145.14	
Instruction Related Technology	662,049.17			
School Board	445,095.04			
General Administration	552,919.95	56,373.32	4,362.19	
School Administration	5,529,987.74		4,000.00	
Facilities Acquisition and Construction				
Fiscal Services	900,538.17			
Food Services				
Central Services	818,301.15		11,049.16	
Pupil Transportation Services	4,491,635.71	4,608.89		
Operation of Plant	8,995,850.86			
Maintenance of Plant	2,451,951.30			
Administrative Technology Services	379,756.03			
Community Services	3,304,249.16	89,697.55		
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	20,839.84	95,252.55		
Debt Service:				
Principal				4,775,000.00
Interest and Fiscal Charges	35,386.06			3,228,399.68
Total Expenditures	<u>95,134,580.96</u>	<u>6,252,459.01</u>	<u>199,986.14</u>	<u>8,003,399.68</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,920,399.36)</u>			<u>(7,952,896.23)</u>
Other Financing Sources (Uses)				
Transfers In	2,688,817.12			8,334,418.57
Proceeds from Sale of Capital Assets	49,114.70			
Insurance Loss Recoveries	19,813.40			
Transfers Out				
Total Other Financing Sources (Uses)	<u>2,757,745.22</u>			<u>8,334,418.57</u>
Net Change in Fund Balances	(1,162,654.14)			381,522.34
Fund Balances, Beginning	7,469,299.93			6,136,438.74
Fund Balances, Ending	<u>\$ 6,306,645.79</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 6,517,961.08</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
\$	\$	\$	\$
		490,371.37	490,371.37
		4,258,796.69	10,852,086.26
		1,511,807.99	43,864,661.74
10,093,288.89			53,412,480.90
	4,423,563.06		4,423,563.06
	1,151,680.03		1,151,680.03
		1,379,722.02	1,379,722.02
12,897.94	11,075.28	72,077.13	5,057,473.85
10,106,186.83	5,586,318.37	1,451,799.15	65,424,919.86
10,106,186.83	5,586,318.37	7,222,403.83	120,632,039.23
			62,016,803.71
			7,744,856.85
			1,008,842.42
			792,404.49
			1,170,214.80
			662,049.17
			445,095.04
			613,655.46
			5,533,987.74
2,597,222.34	2,582,709.74	688,349.61	5,868,281.69
			900,538.17
		5,735,803.24	5,735,803.24
			829,350.31
			4,496,244.60
			8,995,850.86
			2,451,951.30
			379,756.03
			3,393,946.71
42,537.88			42,537.88
258,785.88	570,745.26	18,842.00	964,465.53
		265,000.00	5,040,000.00
		199,488.03	3,463,273.77
2,898,546.10	3,153,455.00	6,907,482.88	122,549,909.77
7,207,640.73	2,432,863.37	314,920.95	(1,917,870.54)
			11,023,235.69
		241.49	49,356.19
13,685.37			33,498.77
(7,631,050.38)	(2,898,977.31)	(493,208.00)	(11,023,235.69)
(7,617,365.01)	(2,898,977.31)	(492,966.51)	82,854.96
(409,724.28)	(466,113.94)	(178,045.56)	(1,835,015.58)
1,638,999.01	5,206,035.85	1,771,278.30	22,222,051.83
\$ 1,229,274.73	\$ 4,739,921.91	\$ 1,593,232.74	\$ 20,387,036.25

**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, 2013**

Net Change in Fund Balances - Governmental Funds \$ (1,835,015.58)

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. (8,936,304.26)

In the governmental funds, the costs of capital assets were recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (20,814.99)

Bonds paid by the paying agent using refunding bond issue proceeds were deposited in the prior fiscal year for use when the bonds were called during the current fiscal year. (611,617.80)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year.

Bonds Payable	\$ 2,876,617.80	
Certificates of Participation Payable	<u>2,825,000.00</u>	5,701,617.80

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. (543,737.60)

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. (204,000.00)

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. (361,943.00)

Change in Net Position - Governmental Activities \$ (6,811,815.43)

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

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

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 99,646.66	\$ 1,508,768.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 1,508,768.00
	<u> </u>	<u> </u>
NET POSITION		
Net Position Held in Trust for Scholarships and Other Purposes	99,646.66	
	<u> </u>	
TOTAL LIABILITIES AND NET POSITION	\$ 99,646.66	
	<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 POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Investment Earnings	\$ 202.13
	<u> </u>
Change in Net Position	202.13
Net Position - Beginning	<u>99,444.53</u>
Net Position - Ending	<u><u>\$ 99,646.66</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, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from certain legally separated component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Flagler County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is associated with the District's functions and is allocated to those functions.

B. 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 District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The 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 legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. A blended component unit, is in substance, part of the primary District's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as part of the District. The Flagler County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note II.K.1. 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.

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

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. A separate column is used to emphasize that they are legally separate from the District.

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. Because of the nature and significance of its relationship with the District funding its administrative personnel, which imposes a financial burden on the District, it would be misleading to exclude the DSO as a component unit of the District.

The Flagler Auditorium Governing Board, Inc. (Auditorium), is a not-for-profit corporation organized and operated as a DSO 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 funding its administrative personnel, which imposes a financial burden on the District, it would be misleading to exclude the Auditorium as a component unit of the District.

The Imagine Schools at Town Center, Palm Harbor Academy, Inc., and Global Outreach Charter Academy of Palm Coast (charter schools) are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, except that 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 because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to provide specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

Audits of the DSOs and the three charter schools for the fiscal year ended June 30, 2013, were conducted by independent certified public accountants. The audit reports are filed in the District's administrative offices.

On January 3, 2012, the District granted a five-year charter school agreement to the Global Outreach Charter Academy of Palm Coast (Global Outreach), with operations commencing at the beginning of the 2012-13 school year. On January 1, 2013, due to financial hardships, Global Outreach terminated its charter school operations.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements

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

are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund types:

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

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

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

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The DSOs 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.

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

1. Cash and Cash Equivalents

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

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

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.

2. Investments

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 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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.

3. Restricted Assets

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

4. 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.

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

5. Capital Assets

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

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

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.

6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position.

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

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

7. Net Position Flow Assumption

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

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

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. As authorized in Board Policy 701, the Chief Financial Officer has the authority to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In addition, 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 percent to 8 percent of the projected General Fund revenues to cover unforeseen events (e.g., revenue shortfalls, student enrollment under projections, etc.). In the event these reserves are needed, it shall be brought before the Board prior to the adoption of the annual operating budget.

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. State Revenue Sources

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

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

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

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

3. District Property Taxes

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

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

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

The Board adopted the 2012 tax levy on September 4, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

4. Local Government Capital Outlay Surtax (Local Sales Tax)

On September 12, 2002, the citizens of Flagler County approved a one-half cent sales tax authorized under Section 212.055(6), Florida Statutes, to be collected through December 2012. On August 14, 2012, the citizens of Flagler County approved an extension of the one-half cent sales tax, commencing on January 1, 2013, to be collected through December 2022. The proceeds are used to pay construction costs of certain school facilities, pay for the installation and upgrading of technology in the schools, and for debt service payments of capital acquisition and improvement projects of educational facilities.

5. Educational Impact Fees

Flagler County (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, land acquisition, construction, expansion, and equipping of educational sites and educational capital facilities necessitated by new development.

6. 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

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

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.

7. Compensated Absences

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

Cash balances from all funds are combined and invested to the extent available. Earnings are allocated monthly to each fund based on average daily balances.

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 7,240,181.78
Fund B	3.98 Year Average	28,579.38
Debt Service Accounts	6 Months	46,977.39
Money Market Mutual Fund:		
Dreyfus Institutional Reserves Treasury Prime Fund (1)(2)(4)	45 Day Average	36,925.51
Commercial Paper (3)	October 28, 2013	1,992,277.78
Total Investments, Primary Government		<u>\$ 9,344,941.84</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 III.J).

(4) This investment includes \$700.87 held by a paying agent in connection with a QZAB financing arrangement (see note III.J).

➤ **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.

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. 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 SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts.

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 investments in commercial paper are authorized under a forward delivery agreement with the QZAB paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amount in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's. The District's investment in commercial paper was rated A-1 by Standard & Poor's.

➤ **Custodial Credit Risk**

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

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

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 Fortis Funding, LLC. These investments are 21 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.

C. 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.

D. 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, 2013**

	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	632,963.15			632,963.15
Total Capital Assets Not Being Depreciated	9,646,774.36			9,646,774.36
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,737,138.53	42,537.88		6,779,676.41
Buildings and Fixed Equipment	296,117,422.30			296,117,422.30
Furniture, Fixtures, and Equipment	15,782,039.89	909,289.18	788,543.23	15,902,785.84
Motor Vehicles	11,756,682.61	51,046.36		11,807,728.97
Audio Visual Materials and Computer Software	1,829,580.23	4,129.99		1,833,710.22
Total Capital Assets Being Depreciated	332,222,863.56	1,007,003.41	788,543.23	332,441,323.74
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,031,110.43	324,093.31		4,355,203.74
Buildings and Fixed Equipment	74,713,441.18	7,452,935.58		82,166,376.76
Furniture, Fixtures, and Equipment	12,622,522.29	1,396,640.26	767,728.24	13,251,434.31
Motor Vehicles	9,022,641.34	755,092.33		9,777,733.67
Audio Visual Materials and Computer Software	1,804,819.00	14,546.19		1,819,365.19
Total Accumulated Depreciation	102,194,534.24	9,943,307.67	767,728.24	111,370,113.67
Total Capital Assets Being Depreciated, Net	230,028,329.32	(8,936,304.26)	20,814.99	221,071,210.07
Governmental Activities Capital Assets, Net	\$ 239,675,103.68	\$ (8,936,304.26)	\$ 20,814.99	\$ 230,717,984.43

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 7,756,349.27
Pupil Personnel Services	18,014.64
Instructional Media Services	9,991.75
Instruction and Curriculum Development Services	2,257.65
Instructional Staff Training Services	3,156.36
Instruction Related Technology	95,012.25
School Board	787.34
General Administration	693,833.74
School Administration	12,085.38
Fiscal Services	769.11
Food Services	128,827.69
Central Services	2,562.73
Pupil Transportation Services	697,848.68
Operation of Plant	66,844.57
Maintenance of Plant	172,840.25
Administrative Technology Services	158,132.65
Community Services	123,993.61
Total Depreciation Expense - Governmental Activities	<u>\$ 9,943,307.67</u>

E. Florida Retirement System

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

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

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

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, Senior Management Service, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to		
Members from All of the Above Classes	0.00	5.44
FRS, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$6,197,439, \$4,186,590, and \$4,489,568, respectively, which were equal to the required contributions for each fiscal year.

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

There were 278 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$664,928, which was equal to the required contribution for the 2012-13 fiscal year.

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

F. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy 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.

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 2012-13 fiscal year, 44 retirees received other postemployment benefits. The District provided required contributions of \$150,513 toward the annual OPEB cost, net of retiree contributions totaling \$346,932, which represents 0.56 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:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 361,855
Amortization of Unfunded Actuarial	
Accrued Liability	147,409
Interest on Normal Cost and Amortization	5,874
Annual Required Contribution	515,138
Interest on Net OPEB Obligation	47,473
Adjustment to Annual Required Contribution	(50,155)
Annual OPEB Cost (Expense)	512,456
Contribution Toward the OPEB Cost	(150,513)
Change in Net OPEB Obligation	361,943
Net OPEB Obligation, Beginning of Year	1,356,369
Net OPEB Obligation, End of Year	<u>\$1,718,312</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 523,542	31.8%	\$ 992,271
2011-12	559,159	34.9%	1,356,369
2012-13	512,456	29.4%	1,718,312

Funded Status and Funding Progress. As of March 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$4,126,024, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,126,024, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$62,078,800, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.6 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the 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.

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

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, 2013, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2013, and the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 9.2 percent for the year beginning March 1, 2013, reducing gradually each year, to an ultimate rate of 5 percent on March 1, 2083. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over a 30 year period.

G. 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 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 \$162,000 during the 2012-13 fiscal year for these special retirement benefit bonuses. The reported amount of \$1,680,000 represents the District's estimated liability for future payments to qualified employees as of June 30, 2013.

H. Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2013:

Special Revenue - Other	Capital Projects - Local Capital Improvement	Capital Projects - Other	Total Governmental Funds
<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>\$ 113,649.25</u>	<u>\$110,890.00</u>	<u>\$ 1,450.00</u>	<u>\$ 225,989.25</u>

I. 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

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

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

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

Employee group health, hospitalization, dental, and life insurance coverage is being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

J. 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	\$ 6,000,000	\$ 6,000,000	\$ 0

Proceeds from the tax anticipation note were used for the payment of operating expenses incurred in operating the District's schools for the 2012-13 fiscal year. The note was issued on September 20, 2012, under the provisions of Section 1011.13, Florida Statutes, with a stated interest rate of 0.6 percent. The note was repaid on January 15, 2013.

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

K. Long-Term Liabilities

1. Certificates of Participation

Certificates of participation at June 30, 2013, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 2001A	\$ 1,290,000	5.452	2017	\$ 1,290,000
Series 2001B	90,000	6.609	2014	2,510,000
Series 2005A	51,190,000	5.0	2031	60,720,000
Series 2005B	11,275,000	3.8 - 4.5	2024	11,675,000
Series 2005-QZAB	5,000,000	0.0	2022	5,000,000
Total Certificates of Participation	<u>\$ 68,845,000</u>			<u>\$ 81,195,000</u>

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 August 17, 2001, the District entered into a financing arrangement, which was characterized as a lease-purchase agreement, with the Leasing Corporation, whereby the District secured financing of the educational facility known as the Corporate Plaza Building in the total amount of \$3,800,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2001A, totaling \$1,290,000, and Certificates of Participation, Series 2001B, totaling \$2,510,000, to be repaid from 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-QZAB Certificates of Participation issued under a special program whereby the certificates, commencing on October 27, 2005, will mature in full on October 27, 2021, for the original amount of \$5,000,000. 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

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

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

A summary of the lease terms is as follows:

<u>Certificates</u>	<u>Lease Term</u>
Series 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 leases under these arrangements include:

- The Corporate Plaza Building used for administrative offices and adult education classrooms, including the 7.44-acre site, located at One Corporate Drive, Palm Coast, Florida.
- Rymfire Elementary School.
- Matanzas High School.
- Government Services Building.
- Various School Facility Renovations.

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
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	5,611,700.00	3,185,000.00	2,426,700.00
2019-2023	32,996,250.00	23,350,000.00	9,646,250.00
2024-2028	22,766,875.00	17,630,000.00	5,136,875.00
2029-2031	12,838,625.00	11,925,000.00	913,625.00
Total Minimum Lease Payments	<u>\$ 98,227,112.85</u>	<u>\$ 68,845,000.00</u>	<u>\$ 29,382,112.85</u>

2. Bonds Payable

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005B, Refunding	\$ 1,150,000	5.0	2020
Series 2011A, Refunding	530,000	3.0 - 5.0	2023
District Revenue Bonds:			
Series 1998	<u>2,040,000</u>	5.0	2028
Total Bonds Payable	<u>\$ 3,720,000</u>		

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

➤ **State School Bonds**

These bonds are issued by the SBE 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 SBE and the SBA.

➤ **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

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

Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District.

The District has pledged a total of \$2,962,500 of pari-mutuel tax revenues in connection with the District Revenue Bonds of 1998, described above. During the 2012-13 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$189,040 (85 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.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 271,100	\$ 190,000	\$ 81,100
2015	261,600	190,000	71,600
2016	267,100	205,000	62,100
2017	271,850	220,000	51,850
2018	275,850	235,000	40,850
2019-2023	701,650	640,000	61,650
Total State School Bonds	2,049,150	1,680,000	369,150
District Revenue Bonds:			
2014	184,875	85,000	99,875
2015	185,500	90,000	95,500
2016	185,875	95,000	90,875
2017	186,000	100,000	86,000
2018	185,875	105,000	80,875
2019-2023	923,625	605,000	318,625
2024-2028	926,250	780,000	146,250
2029	184,500	180,000	4,500
Total District Revenue Bonds	2,962,500	2,040,000	922,500
Total	\$ 5,011,650	\$ 3,720,000	\$ 1,291,650

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

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 6,596,617.80	\$	\$ 2,876,617.80	\$ 3,720,000.00	\$ 275,000.00
Certificates of Participation Payable	71,670,000.00		2,825,000.00	68,845,000.00	2,970,000.00
Compensated Absences Payable	5,356,659.40	1,080,655.54	536,917.94	5,900,397.00	698,017.00
Special Retirement Benefits Payable	1,476,000.00	366,000.00	162,000.00	1,680,000.00	162,000.00
Other Postemployment Benefits Payable	1,356,369.00	512,456.00	150,513.00	1,718,312.00	
Total Governmental Activities	<u>\$ 86,455,646.20</u>	<u>\$ 1,959,111.54</u>	<u>\$ 6,551,048.74</u>	<u>\$ 81,863,709.00</u>	<u>\$ 4,105,017.00</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.

L. Fund Balance Reporting

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

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. The district classifies its amounts reported as inventories as nonspendable.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than the 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.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

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

M. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 623,422.95	\$ 1,070.65
Special Revenue:		
Other		602,891.95
Federal Economic Stimulus		19,765.97
Capital Projects:		
Local Capital Improvement	1,070.65	
Nonmajor Governmental		765.03
Total	<u>\$ 624,493.60</u>	<u>\$ 624,493.60</u>

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

N. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

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

Source	Amount
Florida Education Finance Program	\$ 24,764,737.00
Categorical Educational Program - Class Size Reduction	13,340,944.00
Workforce Development Program	2,197,623.00
School Recognition	853,316.00
Adults With Disabilities	535,892.00
Gross Receipts Tax (Public Education Capital Outlay)	493,208.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	484,078.25
Voluntary Prekindergarten	444,587.14
Charter Schools Capital Outlay Funds	223,309.00
Racing Commission Funds	223,250.00
Miscellaneous	303,717.35
Total	<u>\$ 43,864,661.74</u>

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

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

2. Property Taxes

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.445	\$ 37,662,002
Basic Discretionary Local Effort	0.748	5,173,771
Critical Operating Needs	0.250	1,729,201
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	10,375,208
Total	<u>7.943</u>	<u>\$ 54,940,182</u>

O. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 2,688,817.12	\$
Debt Service:		
Other	8,334,418.57	
Capital Projects:		
Local Capital Improvement		7,631,050.38
Other		2,898,977.31
Nonmajor Governmental		493,208.00
Total	<u>\$ 11,023,235.69</u>	<u>\$ 11,023,235.69</u>

The transfers out of the capital projects funds 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.

III. 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.

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

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 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 Position. 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, 2013, 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 the ATC annual operating costs. Additionally, should enrollment of the ATC exceed expectations, sponsors must make additional pro rata contributions as required by the agreement. Annual required contributions by each sponsor are adjusted annually to cover the estimated annual operating costs of the ATC. The District did not make a contribution for operating costs for the 2012-13 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.

IV. 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

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

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 \$220,991.33 for the 2012-13 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.

V. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note in the amount of \$8,000,000. The proceeds will be used for operating expenses for the 2013-14 fiscal year. The closing of the note took place on August 8, 2013, and the District repaid the note on January 15, 2014. The stated interest rate was 0.6 percent.

The District entered into a Master Lease Purchase Agreement (Lease Agreement) with Apple, Inc., dated August 15, 2013, for the purchase of 3,900 Apple MacBook computers. The Lease Agreement, in the amount of \$3,213,210, requires annual principal and interest payments, and matures on August 15, 2016. The stated interest rate is 2.1507 percent per annum.

On August 20, 2013, the Flagler County District School Board approved an agreement with the Board of Trustees of Daytona State College (College) and the Volusia County District School Board, indicating the intent to dissolve and terminate the ATC Joint Venture (see note III) effective on or before August 30, 2013. The agreement stipulates that 25 acres of land owned by Volusia County School Board on which the ATC building is located, along with the ATC building and equipment, would be transferred to the College, and the Volusia County School Board will retain the remaining undeveloped 75 acres. For a term of five years after the closing, the College has a right of first option to purchase the 75 acres. Upon the sale of the undeveloped 75 acres by the Volusia County School Board, whether to the College or another party, the proceeds will be split 16.67 percent to the Flagler County School Board, and 83.33 percent to the Volusia County School Board. The transfer of the land, facility, and equipment and dissolution of the joint venture will be completed before June 30, 2014.

THIS PAGE INTENTIONALLY LEFT BLANK.

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, 2013**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 119,253.00	\$ 119,253.00	\$ 117,996.48	\$ (1,256.52)
Federal Through State and Local	355,048.00	363,448.00	514,476.91	151,028.91
State	44,502,768.00	43,170,152.30	42,352,853.75	(817,298.55)
Local:				
Property Taxes	42,874,213.00	42,874,213.00	43,319,192.01	444,979.01
Miscellaneous	3,705,336.00	4,161,348.73	4,909,662.45	748,313.72
Total Local Revenues	46,579,549.00	47,035,561.73	48,228,854.46	1,193,292.73
Total Revenues	91,556,618.00	90,688,415.03	91,214,181.60	525,766.57
Expenditures				
Current - Education:				
Instruction	59,610,228.00	58,813,673.79	58,525,416.36	288,257.43
Pupil Personnel Services	6,199,206.00	6,464,292.29	6,361,732.36	102,559.93
Instructional Media Services	1,023,509.00	1,028,024.20	1,008,842.42	19,181.78
Instruction and Curriculum Development Services	357,508.00	414,792.75	342,941.80	71,850.95
Instructional Staff Training Services	301,051.00	323,740.31	307,087.84	16,652.47
Instruction Related Technology	662,816.00	666,120.10	662,049.17	4,070.93
School Board	357,641.00	482,388.39	445,095.04	37,293.35
General Administration	464,206.00	553,779.00	552,919.95	859.05
School Administration	5,390,680.00	5,577,624.12	5,529,987.74	47,636.38
Fiscal Services	750,651.00	919,017.42	900,538.17	18,479.25
Central Services	996,535.00	887,644.20	818,301.15	69,343.05
Pupil Transportation Services	4,505,217.00	4,674,655.47	4,491,635.71	183,019.76
Operation of Plant	8,150,549.00	9,241,514.94	8,995,850.86	245,664.08
Maintenance of Plant	2,573,205.00	2,484,008.04	2,451,951.30	32,056.74
Administrative Technology Services	311,415.00	381,102.58	379,756.03	1,346.55
Community Services	3,203,932.00	3,322,317.51	3,304,249.16	18,068.35
Fixed Capital Outlay:				
Other Capital Outlay		21,414.70	20,839.84	574.86
Debt Service:				
Interest and Fiscal Charges	40,000.00	37,500.00	35,386.06	2,113.94
Total Expenditures	94,898,349.00	96,293,609.81	95,134,580.96	1,159,028.85
Excess (Deficiency) of Revenues Over Expenditures	(3,341,731.00)	(5,605,194.78)	(3,920,399.36)	1,684,795.42
Other Financing Sources				
Transfers In	1,493,208.00	1,493,208.00	2,688,817.12	1,195,609.12
Proceeds from Sale of Capital Assets			49,114.70	49,114.70
Insurance Loss Recoveries			19,813.40	19,813.40
Total Other Financing Sources	1,493,208.00	1,493,208.00	2,757,745.22	1,264,537.22
Net Change in Fund Balances	(1,848,523.00)	(4,111,986.78)	(1,162,654.14)	2,949,332.64
Fund Balances, Beginning	7,100,000.00	7,100,000.00	7,469,299.93	369,299.93
Fund Balances, Ending	\$ 5,251,477.00	\$ 2,988,013.22	\$ 6,306,645.79	\$ 3,318,632.57

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)
\$ 5,415,554.00	\$ 372,374.89 5,878,826.52	\$ 372,374.89 5,878,826.52	\$	\$ 166,646.00	\$ 199,986.14	\$ 199,986.14	\$
	1,257.60	1,257.60					
	1,257.60	1,257.60					
5,415,554.00	6,252,459.01	6,252,459.01		166,646.00	199,986.14	199,986.14	
3,277,249.00	3,489,799.64	3,489,799.64		55,362.00	1,587.71	1,587.71	
1,032,044.00	1,383,124.49	1,383,124.49					
398,542.00	311,620.75	311,620.75		111,284.00	137,841.94	137,841.94	
707,719.00	821,981.82	821,981.82			41,145.14	41,145.14	
	56,373.32	56,373.32			4,362.19	4,362.19	
					4,000.00	4,000.00	
	4,608.89	4,608.89			11,049.16	11,049.16	
	89,697.55	89,697.55					
	95,252.55	95,252.55					
5,415,554.00	6,252,459.01	6,252,459.01		166,646.00	199,986.14	199,986.14	
\$ 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%
March 1, 2013	0	4,126,024	4,126,024	0.0%	62,078,800	6.6%

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, 2013**

I. BUDGETARY BASIS OF ACCOUNTING

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	\$ 985,114.50
National School Lunch Program	10.555 (2)	300	3,135,575.52
Summer Food Service Program for Children	10.559	323	138,106.67
Total United States Department of Agriculture			4,258,796.69
United States Department of Labor:			
Indirect:			
Workforce Development Board Center for Business Excellence:			
WIA Youth Activities	17.259	None	89,697.55
United States National Science Foundation:			
Indirect:			
University of Florida:			
Education and Human Resources	47.076	None	12,085.16
United States Department of Education:			
Direct:			
Federal Pell Grant Program	84.063	N/A	372,374.89
Teacher Incentive Fund	84.374	N/A	71,341.27
Total Direct			443,716.16
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027(3)(A)	262, 263	2,449,980.66
Special Education - Preschool Grants	84.173	266, 267	29,233.00
University of North Florida:			
Special Education - Grants to States	84.027(3)(A)	None	4,800.00
University of South Florida:			
Special Education - Grants to States	84.027(3)(A)	None	1,500.00
Total Special Education Cluster			2,485,513.66
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	135,549.00
Title I Grants to Local Educational Agencies	84.010	212, 226, 228	2,407,400.71
Career and Technical Education - Basic Grants to States	84.048(3)(B)	151	239,903.85
Education for Homeless Children and Youth	84.196	127	52,417.83
English Language Acquisition Grants	84.365	102	40,760.51
Improving Teacher Quality State Grants	84.367	224	264,020.06
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RG311	199,986.14
Daytona State College:			
Career and Technical Education - Basic Grants to States	84.048(3)(B)	None	33,331.73
University of Central Florida:			
Mathematics and Science Partnerships	84.366	None	46,805.19
Total Indirect			5,905,688.68
Total United States Department of Education			6,349,404.84
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	117,996.48
Total Expenditures of Federal Awards			\$ 10,827,980.72

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

(2) Noncash Assistance - National School Lunch Program. Includes \$241,379.77 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Total Expenditures by CFDA Number:

(A) CFDA 84.027 total expenditures equal \$2,456,280.66.

(B) CFDA 84.048 total expenditures equal \$273,235.58.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 26, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Flagler County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

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

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 26, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each of the Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

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. *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.

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 over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2 that we consider to be significant deficiencies.

Management's Response

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 26, 2014

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.063	Federal Pell Grant Program
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$324,839
Auditee qualified as low-risk auditee?	Yes

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

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.

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for identifying which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2012-165 and 2013-142.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Bus Drivers

State Board of Education Rule 6A-3.0141(4) and (9), Florida Administrative Code, require that the District at least annually ensure that personnel, prior to transporting students on school buses, hold valid commercial driver licenses with passenger and school bus endorsements and be physically capable of operating the vehicles as determined by a physician and documented on a Florida Department of Education (FDOE) physical examination form.

The District employed 106 bus drivers during the 2012-13 fiscal year and monitoring procedures over school bus drivers were generally adequate. However, our comparison of District records and Florida Department of Highway Safety and Motor Vehicles (DHSMV) records disclosed one bus driver had a suspended commercial vehicle driving license while operating a school bus from January 1, 2013, to May 13, 2013. While the District notified the driver that the FDOE physical examination form was required to be filed, timely follow up to determine the driver's filing of the form was not performed, and the license was suspended for not timely submitting the physical examination form to the DHSMV. Upon renewal of a personal vehicle registration in May 2013, the bus driver became aware of the

suspended license, paid the fine for failure to timely submit the examination form, submitted the examination form to the DHSMV, and the DHSMV restored the license.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that the District ensure that valid FDOE physical examination forms are maintained and timely submitted to ensure the drivers meet the requirements to operate school buses.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.

Finding No. 3: Information Technology – Access Privileges

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

The District is a member of the North East Florida Educational Consortium (NEFEC), receives IT services from NEFEC through the Educational Technology Services data center, and has its own IT employees. Our test of selected access privileges to the District's network and the finance and human resources (HR) applications disclosed some access privileges that were unnecessary or that permitted employees to perform incompatible functions. Specifically:

- Twenty-four user accounts had network administrator access privileges. Administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network resources. Limiting the number of network accounts with administrator privileges increases the District's ability to restrict and manage the use of administrator privileges, reducing the risk of compromise and unauthorized network hardware, software, or configuration changes.
- The District's Management Information Systems Director and Assistant Director had systemwide access privileges that allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data and security tables. In response to our inquiry, District management indicated that the access privileges were necessary to provide security administration functions and to modify and prepare data for State reporting. Nevertheless, complete update access privileges to the applications were not necessary for the Director's and Assistant Director's responsibilities related to the technical support of the applications and were contrary to an appropriate separation of IT and end-user functions.

The District had certain compensating controls in place (e.g., supervisory monitoring of expenditures and employee activities, timely independent bank reconciliations, supervisory review and approval of transactions such as journal entries and electronic funds transfers, and restricted access to unused checks). Also, District personnel indicated that the Assistant Director, Finance Personnel Specialist, and HR Position Control Specialist periodically reviewed access assigned to application security groups and group members. However, the unnecessary and inappropriate access privileges described above indicated the need for an improved review of IT access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of District network and application access privileges to ensure that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities.

Finding No. 4: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Logging and Monitoring of Application Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District IT security controls related to user authentication, data loss prevention, and logging and monitoring of application activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication, data loss prevention, and logging and monitoring of data changes, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$278,466.56

Matching, Level of Effort, and Earmarking – Supplement Not Supplant. Title 20, Section 6321(b), United States Code, provides that Title I program funds must be used only to supplement, and not supplant, the funds that would be available in the absence of these program funds. Based on an approach used by the FDOE to determine compliance with the supplement not supplant requirement at another school district, a supplement not supplant calculation could include comparison of General Fund per student aggregate expenditures of Title I program schools and non-Title I program schools and, if aggregate expenditures per student for Title I program schools were less than 90 percent of the aggregate expenditures per student at non-Title I program schools, school districts are considered in noncompliance. However, a school district may be exempt from this requirement if it can demonstrate that it experienced reduced State or local funds available to pay for services, and the services would have been eliminated without taking into consideration the availability of Federal funding. Notwithstanding, sufficient State and local funds were available to finance District services for the 2012-13 fiscal year.

District procedures to ensure compliance with the supplement not supplant requirement could be enhanced. Our comparison of 2011-12 fiscal year and 2012-13 fiscal year General Fund expenditures disclosed that aggregate expenditures per student at the Title I program school (Buddy Taylor Middle School) were less than 90 percent of the aggregate expenditures per student at the non-Title I program school (Indian Trails Middle School), and that aggregate

expenditures per student increased at the non-Title I program school and decreased at the Title I program school, as follows:

	Non-Title I	Title I
	Indian Trails Middle School (MS)	Buddy Taylor MS
Per Student Calculation		
<u>2011-12 Fiscal Year (FY):</u>		
General Fund Expenditures ⁽¹⁾	\$ 4,555,585.20	\$ 4,819,636.31
Less: School Resource Officer (SRO) ⁽²⁾	(58,053.20)	
Less: After School Program ⁽³⁾	(63,136.26)	
Adjusted Expenditures	\$ 4,434,395.74	\$ 4,819,636.31
Unweighted FTE from 2011-12 FY Comparability Report	891	981
General Fund Expenditures per Student	\$ 4,976.88	\$ 4,912.98
90% of Non-Title I School's Expenditures per Student	\$ 4,479.19	
Per Student Expenditures at Title I School within 90% of Non-Title I School		
<u>2012-13 FY:</u>		
General Fund Expenditures ⁽¹⁾	\$ 4,439,531.27	\$ 4,516,009.62
Less: School Resource Officer (SRO) ⁽²⁾	(57,129.70)	
Less: After School Program ⁽³⁾	(64,452.50)	
Adjusted Expenditures	\$ 4,317,949.07	\$ 4,516,009.62
Unweighted FTE from 2012-13 FY Comparability Report ⁽⁴⁾	830	1,024
General Fund Expenditures per Student	\$ 5,202.35	\$ 4,410.17
90% of Non-Title I School's Expenditures per Student	\$ 4,682.11	
Per Student Difference (4,682.11-4,410.17)		\$ 271.94
Potential Supplanting (271.94 X 1,024 FTE)		\$ 278,466.56

- (1) Includes relevant General Fund expenditures (i.e., function codes: 51xx, 52xx, 61xx, 62xx, 64xx, and 73xx; and object codes: 1xx, 2xx, 3xx, 5xx, 6xx, and 7xx).
- (2) At Buddy Taylor MS, SRO services were paid by another agency; whereas, at Indian Trails MS, the District paid for these services from the General Fund. To compare services and related expenditures at the two schools, we deducted the Indian Trails MS General Fund SRO expenditures as the General Fund did not pay for SRO services at Buddy Taylor MS.
- (3) At Indian Trails MS, the General Fund paid for an after-school music program, which served students Districtwide. To compare services and related expenditures at the two schools, we deducted the Indian Trails MS General Fund after-school music program expenditures as similar expenditures were not incurred at Buddy Taylor MS.
- (4) The 2012-13 fiscal year comparability report documents that the student-teacher ratio at Indian Trails MS (non-Title I program school) was comparable to Buddy Taylor MS (Title I program school).

District records indicated that teachers at the non-Title I program school had higher salaries than the teachers at the Title I program school and the District met the Title I program comparability requirement for the two schools as the student-teacher ratio at the Title I program school was comparable to the non-Title I program school. Because of these two facts, District personnel believed that the District complied with the supplement not supplant requirement. However, use of more General Fund moneys per student for the non-Title I program school during the 2012-13 fiscal year than the 2011-12 fiscal year, and less General Fund moneys per student for the Title I program school during the 2012-13 fiscal year than the 2011-12 fiscal year, results in an appearance that supplanting occurred. As such, \$278,466.56 of questioned costs is subject to disallowance by the grantor (FDOE). Without procedures to monitor applicable supplement not supplant requirements, the risk increases that State and local funds will not be properly allocated and expended among the District's schools.

Recommendation: The District should enhance procedures to ensure that Title I program funds are used only to supplement, and not supplant, other District funds. In addition, the District should document to the grantor (FDOE) the allowability of the \$278,466.56 of questioned costs or restore this amount to the Title I program.

District Contact Person and Title: Tammy Yorke, Coordinator of Federal Programs

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Agriculture and Consumer Services

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

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 (OMB) Circular A-87 provides, for charges to Federal awards for salaries and wages, that where employees are expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. In addition, OMB Circular A-87 provides that budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to Federal awards.

For the 2012-13 fiscal year, the Child Nutrition Cluster (CNC) program salary and benefit expenditures totaled \$2.4 million, of which salaries and benefits totaled \$144,364.05 for 18 part-time custodians whose salary and benefit expenditures were funded 100 percent from the CNC program based on personnel action forms approved by the human resource department. However, due to oversights, the custodians did not maintain PARs or equivalent documentation to evidence the actual time the employees devoted to the CNC program. We extended our procedures to interview the custodial services supervisor, and were informed that 5 of the 18 custodians devoted their time to CNC program services, representing salary and benefit expenditures totaling \$48,926.52, and the remaining 13 custodians did not provide services related to the CNC program. As a result, salary and benefit expenditures for the 13 custodians totaling \$95,437.53 initially represented questioned costs.

District personnel indicated that each of the District's nine schools use at least two full-time custodians, funded by General Fund resources, to maintain cafeteria areas for CNC program purposes. We interviewed seven of these custodians at three schools and determined that these custodians devoted from four to five hours of an eight-hour shift to the CNC program, resulting in approximately \$118,000 of salaries and benefits that could have been charged

to the CNC program. While our procedures to confirm services to the CNC program eliminated the initial questioned costs of \$95,437.53, our procedures cannot substitute for the District's responsibility to establish adequate internal controls. 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 procedures to ensure that required documentation is maintained to support salary and benefit charges to the CNC program.

District Contact Person and Title: Angela Torres, Director of Food and Nutrition Services

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2013-142, except as noted in current fiscal year Finding No. 1, which was also disclosed in our report Nos. 2013-142 and 2012-165, as Finding Nos. 1 and 2, respectively.

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, 2013*

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2013-142 (1)	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395) - Allowable Costs/Cost Principles	Required documentation to support personnel charged to the program was not always maintained, contrary to Federal regulations.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



flaglerschools
Striving to be the Nation's Premier Learning Organization

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

Andy Dance
Chairman
District 1

Colleen Conklin
Vice Chairman
District 3

Sue Dickinson
Board Member
District 5

Trevor Tucker
Board Member
District 4

John Fischer
Board Member
District 2

Student School Board Member
Lauren Umpenhour
Flagler Palm Coast H.S.

Student School Board Member
Cassandra Cuyler
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

February 26, 2014

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, 2013. Our responses follow the order of the findings cited. Should additional information be required, please contact Mr. Tom Tant, Chief Financial Officer.

Sincerely,

Jacob Oliva
Assistant Superintendent

Attachment

Cc: Board Members

JO/pw

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in 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. The District will develop written procedures for the process currently utilized.

Finding No. 2: Bus Drivers

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.

Response: Although the District believes this is an isolated incident, we will review the established procedures currently in place and determine whether further enhancements are necessary.

Finding No. 3: Information Technology – Access Privileges

Recommendation: The District should improve its review of District network and application access privileges to ensure that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities.

Response: The District will review its current controls and procedures for network and application access privileges, and implement changes deemed necessary to enhance controls within this area.

Finding No. 4: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Logging and Monitoring of Application Activity

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

Response: The District will review security controls related to user authentication, data loss prevention, and logging and monitoring of application activity, and implement changes deemed necessary to enhance controls within these areas.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FEDERAL AWARDS FINDING AND QUESTIONED COST

Finding No. 1: Matching, Level of Effort, and Earmarking – Supplement not Supplant

Recommendation: The District should enhance procedures to ensure that Title I program funds are used only to supplement, and not supplant, other District funds. In addition, the District should document to the grantor (FDOE) the allowability of the \$278,466.56 of questioned costs or restore this amount to the Title I program.

Response: The District is not in agreement with the application of the supplement not supplant calculation as it was applied to the District's middle schools. The District will document its allowability of such Title I costs to the Florida Department of Education, and consult with them for further guidance.

Finding No. 2: Allowable Costs/Cost Principles – Documentation of Time and Effort

Recommendation: The District should enhance procedures to ensure that required documentation is maintained to support salary and benefit charges to the CNC program.

Response: The District will enhance its procedures and ensure that required documentation is maintained to support personnel charges to the Child Nutrition Cluster program.