

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended  
June 30, 2009



## BOARD MEMBERS AND SUPERINTENDENT

Flagler County District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
Charles A. Gambaro Jr. to 11-17-08	1
Andrew S. Dance from 11-18-08	1
Colleen A. Conklin, Chair to 11-17-08	2
Peter S. Palmer, Vice Chair from 11-18-08	3
Susan C. Dickinson	4
Evelyn L. Shellenberger, Vice Chair to 11-17-08, Chair from 11-18-08	5

Bill Delbrugge, 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 Patricia A. Wormeck, CPA, and the audit was supervised by Keith A. Wolfe, CPA. For the information technology portion of this audit, the audit team leader was Kathy B. Sellers, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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FLAGLER COUNTY DISTRICT SCHOOL BOARD  
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## EXECUTIVE SUMMARY

### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### MATERIAL WEAKNESS

Finding No. 1: Improvements are needed in procedures to ensure that financial statement account balances, transactions, and note disclosures are properly reported.

#### SIGNIFICANT DEFICIENCY

Finding No. 2: The administration of information technology (IT) access privileges needs improvement.

#### ADDITIONAL MATTERS

Finding No. 3: The District incurred capital outlay tax levy expenditures, totaling \$9,165, for software technical support services and a public performance site license, contrary to Section 1011.71(2), Florida Statutes.

Finding No. 4: Improvements are needed to enhance the administration and monitoring of the purchasing card program.

Finding No. 5: Enhancements could be made in controls over high school diplomas.

Finding No. 6: Improvements are needed to enhance IT security controls related to user authentication.

Finding No. 7: The District lacked written policies and procedures for certain IT functions.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; and Twenty-First Century programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

### Audit Objectives and Scope

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

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

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2009-184.

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, 2009. 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

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Flagler County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 28 percent of the assets and 77 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Flagler County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 48) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA  
February 11, 2010

## 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, 2009. The information contained in the Management's Discussion and Analysis is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 45.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- In total, net assets increased \$2,349,529, which represents a 1 percent increase from the 2007-08 fiscal year.
- General revenues total \$119,078,792, or 86 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$19,590,029, or 14 percent.
- Expenses total \$136,319,292; only \$19,590,029 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$2,349,529.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$5,577,246 at June 30, 2009, or 6 percent of total General Fund expenditures.

The District's total debt decreased by \$4,380,000, or approximately 5 percent. The key factor in this decrease was the annual payments applied against the outstanding principal balances.

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition, this report presents certain required supplementary information, which includes management's discussion and analysis, a budgetary comparison schedule, and a schedule of funding progress.

#### Government-wide Financial Statements

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

The government-wide statements present the District's activities in two 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 six separate legal entities in this report, including the Flagler County Education Direct-Support Organization, Inc.; The Flagler Auditorium Governing Board, Inc.; and Cornerstone Elementary, Inc., Summit Academy, Inc., Heritage High School, Inc., and Imagine Schools at Town Center charter schools. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.
- The Flagler School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

### **Fund Financial Statements**

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – ARRA Economic Stimulus Fund, Capital Projects – Public Education Capital Outlay 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 Fund and the Special Revenue - ARRA Economic Stimulus Fund to demonstrate compliance with the budget.

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

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

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

**Notes to Financial Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

	<b>Net Assets, End of Year</b>	
	Governmental	
	Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 39,318,671	\$ 65,574,262
Capital Assets	267,474,933	247,642,044
<b>Total Assets</b>	<b>306,793,604</b>	<b>313,216,306</b>
Long-Term Liabilities	98,998,200	103,058,391
Other Liabilities	4,369,691	9,081,731
<b>Total Liabilities</b>	<b>103,367,891</b>	<b>112,140,122</b>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	175,935,658	152,914,233
Restricted	26,944,476	50,045,172
Unrestricted (Deficit)	545,579	(1,883,221)
<b>Total Net Assets</b>	<b>\$ 203,425,713</b>	<b>\$ 201,076,184</b>

The largest portion of the District’s net assets (86 percent) reflects its investment in capital assets (e.g., land, buildings, furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (1 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

	<b>Operating Results for the Year</b>	
	Governmental Activities	
	6-30-09	6-30-08
<b>Program Revenues:</b>		
Charges for Services	\$ 5,372,231	\$ 6,109,868
Operating Grants and Contributions	8,006,014	7,756,933
Capital Grants and Contributions	6,211,784	35,966,494
<b>General Revenues:</b>		
Property Taxes, Levied for Operational Purposes	64,344,916	66,660,817
Property Taxes, Levied for Capital Projects	20,266,767	23,726,181
Local Sales Taxes	3,849,335	3,956,997
Grants and Contributions Not Restricted to Specific Programs	28,935,987	29,028,848
Unrestricted Investment Earnings	237,828	1,601,875
Miscellaneous	1,443,959	2,389,176
<b>Total Revenues</b>	<b>138,668,821</b>	<b>177,197,189</b>
<b>Functions/Program Expenses:</b>		
Instruction	72,574,260	74,323,466
Pupil Personnel Services	6,368,436	6,636,089
Instructional Media Services	1,020,455	1,299,943
Instruction and Curriculum Development Services	1,320,553	1,364,859
Instructional Staff Training Services	813,926	776,926
Instruction Related Technology	645,201	554,681
Board of Education	360,479	461,039
General Administration	1,818,923	1,260,155
School Administration	5,602,796	5,791,942
Facilities Acquisition and Construction	13,719,369	11,265,387
Fiscal Services	1,168,834	1,067,818
Food Services	5,510,207	5,255,306
Central Services	769,349	865,261
Pupil Transportation Services	5,290,800	6,785,044
Operation of Plant	8,778,718	9,878,279
Maintenance of Plant	2,404,860	2,911,762
Administrative Technology Services	82,530	57,892
Community Services	4,021,270	3,618,229
Interest on Long-Term Debt	4,048,326	4,368,913
<b>Total Functions/Program Expenses</b>	<b>136,319,292</b>	<b>138,542,991</b>
<b>Increase in Net Assets</b>	<b>\$ 2,349,529</b>	<b>\$ 38,654,198</b>

Capital grants and contributions revenue decreased by \$29,754,710, or 83 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The decrease in funding is a result of the District’s planned construction projects being completed, or near completion, during the 2007-08 fiscal year.

Property tax revenues decreased by \$5,775,315, or 6 percent, as a result of a decrease in taxable assessed values and a 4 percent decrease in the total millage rate.

Total expenses decreased \$2,223,699 from the 2007-08 fiscal year in response to the decreased revenues. Significant cost savings were realized in the following areas:

- Instruction expenses decreased primarily from a reduction in staffing levels, resulting in a decrease in salaries and related benefits.
- Pupil transportation services expense decreased due to the following: (1) the establishment of bus terminal parking at Indian Trails Middle School for 18 buses, which eliminates a 5-mile drive to the District terminal; (2) the implementation of GPS monitoring of the bus fleet, which tracks mileage and routes with the goal of increased efficiency; and (3) implemented mileage limits for students that qualified for bus transportation. Previously there was no mileage limit, there is now a 2-mile limit for middle and high schools and a 1-mile limit for elementary schools. Additionally, the number of bus drivers decreased from 121 in the 2007-08 fiscal year to 103 in the 2008-09 fiscal year.
- The District began closing the schools during the summer, rather than leaving the schools open for certain administrative personnel, resulting in increased savings of operation of plant costs. Additionally, the custodian staff was reduced by 16 during the 2008-09 fiscal year.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

#### **Major Governmental Funds**

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$5,577,246, while the total fund balance is \$5,804,760. The unreserved fund balance increased by \$3,089,419, while the total fund balance increased by \$2,640,460 during the fiscal year. A key factor in this growth is the significant reduction of expenditures, such as those noted in the government-wide analysis section above, which resulted from a reduced budget to absorb the impact of the overall reduction in funding received. Property tax revenue decreased \$2,315,901, resulting from an overall decrease in taxable assessed values. State revenues decreased \$1,023,944, primarily resulting from a reduction of Florida Education Finance Program funding totaling \$715,882. Miscellaneous revenues decreased \$1,054,529, primarily as a result of a \$370,389 reduction of interest earnings on investments, and a \$497,680 reduction in child care fees due to a decrease in demand for these services because of increased unemployment.

The unreserved fund balance is available for spending at the District's discretion, and represents approximately 96 percent of total fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved and total fund balance to total expenditures. Both the unreserved and total fund balances individually represent 6 percent of General Fund expenditures.

The Florida Department of Education requires school districts to report the Special Revenue – ARRA Economic Stimulus Fund as a major fund, and it is used to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA). During the 2008-09 fiscal year, this fund reported \$21,584 each in revenues and expenditures.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$2,795,206, all of which is restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$1,219,284

has been encumbered for specific projects. The fund balance decreased in the current year due to the majority of the District's planned construction projects being completed as of June 30, 2009.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$15,784,478, all of which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances total \$10,669,569, the majority of which is earmarked for projects at Buddy Taylor Middle School. The fund balance decreased in the current year due to reduced revenues resulting from the decrease in taxable property values.

The Capital Projects – Other Fund has a total fund balance of \$6,172,479, all of which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance remained relatively consistent with that of the prior year.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$3,812,928, or 4 percent. The final appropriations remained relatively consistent with the original budgeted amounts. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$6,484,247, or 6 percent, less than final budget amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$6,010,549.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

#### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$267,474,933 (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.

Major capital asset events during the current fiscal year included the following:

- The District completed construction on one new facility and construction at two other school sites.
- Construction in progress at June 30, 2009, includes construction at one school site.

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

#### **Long-Term Debt**

At June 30, 2009, the District has total long-term debt outstanding of \$91,705,000. This amount is comprised of \$12,230,000 of bonds payable and \$79,475,000 of certificates of participation payable. During the year, retirement of debt amounted to \$4,380,000.

Additional information on the District's long-term debt can be found in Notes 6 through 9 to the financial statements.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the management's discussion and analysis, financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Flagler County District School Board, P.O. Box 755, Bunnell, FL 32210.

**BASIC FINANCIAL STATEMENTS**

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS  
June 30, 2009**

	Primary Government Governmental Activities	Component Units
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 11,582,723.11	\$ 900,484.00
Investments	20,269,324.91	50,000.00
Accounts Receivable	191,033.67	74,173.00
Deposits Receivable	10,012.50	
Prepaid Items		232,458.00
Due from Other Agencies	4,059,782.22	28,293.00
Inventories	432,721.47	
Restricted Investments	773,073.00	
Investment in Joint Venture	2,000,000.00	
Capital Assets:		
Nondepreciable Capital Assets	24,175,659.17	
Depreciable Capital Assets, Net	243,299,273.96	293,992.00
<b>TOTAL ASSETS</b>	<b>\$ 306,793,604.01</b>	<b>\$ 1,579,400.00</b>
<b>LIABILITIES</b>		
Salaries and Benefits Payable	\$ 68,497.16	\$ 155,056.00
Payroll Deductions and Withholdings	1,464,678.62	
Accounts Payable	1,348,587.83	142,585.00
Construction Contracts Payable	785,693.55	
Construction Contracts Payable - Retainage	576,517.52	
Due to Other Agencies		187,976.00
Deposits Payable	21,844.32	
Deferred Revenue	103,872.43	98,810.00
Long-Term Liabilities:		
Portion Due Within One Year	5,099,052.11	
Portion Due After One Year	93,899,147.90	64,425.00
<b>Total Liabilities</b>	<b>103,367,891.44</b>	<b>648,852.00</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	175,935,657.70	257,655.00
Restricted for:		
State Categorical Programs	227,514.74	
Debt Service	1,551,378.72	
Capital Projects	25,165,582.21	48,529.00
Permanent Funds and Endowments		16,544.00
Other Purposes		255,034.00
Unrestricted	545,579.20	352,786.00
<b>Total Net Assets</b>	<b>203,425,712.57</b>	<b>930,548.00</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 306,793,604.01</b>	<b>\$ 1,579,400.00</b>

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, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 72,574,259.63	\$ 899,501.44	\$	\$
Pupil Personnel Services	6,368,436.31			
Instructional Media Services	1,020,455.07			
Instruction and Curriculum Development Services	1,320,552.69			
Instructional Staff Training Services	813,925.94			
Instruction Related Technology	645,200.87			
Board of Education	360,478.65			
General Administration	1,818,922.87			
School Administration	5,602,795.95			
Facilities Acquisition and Construction	13,719,369.26			5,769,471.51
Fiscal Services	1,168,834.21			
Food Services	5,510,207.24	1,950,476.18	3,172,632.03	
Central Services	769,349.01			
Pupil Transportation Services	5,290,799.93	59,018.60	4,342,966.00	
Operation of Plant	8,778,718.09			
Maintenance of Plant	2,404,860.20		490,416.00	
Administrative Technology Services	82,530.42			
Community Services	4,021,269.80	2,463,234.42		
Interest on Long-Term Debt	4,048,325.94			442,312.13
<b>Total Primary Government</b>	<b>\$ 136,319,292.08</b>	<b>\$ 5,372,230.64</b>	<b>\$ 8,006,014.03</b>	<b>\$ 6,211,783.64</b>
 <b>Component Units</b>				
Foundations/Charter Schools	\$ 5,150,431.00	\$ 402,930.00	\$ 1,379,595.00	\$ 278,588.00
 <b>General Revenues:</b>				
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				
 <b>Total General Revenues</b>				
 <b>Change in Net Assets</b>				
Net Assets - Beginning				
Prior Period Adjustment				
Net Assets - Beginning, Restated				
 <b>Net Assets - Ending</b>				

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Units</u>
<u>Activities</u>	
\$ (71,674,758.19)	\$
(6,368,436.31)	
(1,020,455.07)	
(1,320,552.69)	
(813,925.94)	
(645,200.87)	
(360,478.65)	
(1,818,922.87)	
(5,602,795.95)	
(7,949,897.75)	
(1,168,834.21)	
(387,099.03)	
(769,349.01)	
(888,815.33)	
(8,778,718.09)	
(1,914,444.20)	
(82,530.42)	
(1,558,035.38)	
<u>(3,606,013.81)</u>	
(116,729,263.77)	
	<u>(3,089,318.00)</u>
64,344,916.32	
20,266,766.78	
3,849,335.29	
28,935,987.28	3,393,267.00
237,827.82	2,979.00
<u>1,443,958.83</u>	<u>63,697.00</u>
119,078,792.32	3,459,943.00
2,349,528.55	370,625.00
201,076,184.02	629,093.00
	<u>(69,170.00)</u>
<u>201,076,184.02</u>	<u>559,923.00</u>
<u>\$ 203,425,712.57</u>	<u>\$ 930,548.00</u>

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2009**

	<u>General Fund</u>	<u>Special Revenue - ARRA Economic Stimulus Fund</u>	<u>Capital Projects - Public Education Capital Outlay Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,882,826.02	\$	\$ 1,134,057.00
Investments	1,080.85		576,253.24
Accounts Receivable	181,490.34		
Deposits Receivable	10,012.50		
Due from Other Funds	752,900.15		
Due from Other Agencies	495,178.14	21,583.86	2,358,139.00
Inventories	260,887.55		
Restricted Investments			
<b>TOTAL ASSETS</b>	<u>\$ 7,584,375.55</u>	<u>\$ 21,583.86</u>	<u>\$ 4,068,449.24</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and Benefits Payable	\$ 50,798.33	\$ 600.00	\$
Payroll Deductions and Withholdings	1,414,254.04	45.90	4,760.62
Accounts Payable	188,846.09		738,444.23
Construction Contracts Payable			85,332.04
Construction Contracts Payable - Retainage			444,706.66
Due to Other Funds		20,937.96	
Deposits Payable	21,844.32		
Deferred Revenue	103,872.43		
<b>Total Liabilities</b>	<u>1,779,615.21</u>	<u>21,583.86</u>	<u>1,273,243.55</u>
Fund Balances:			
Reserved for State Categorical Programs	227,514.74		
Reserved for Encumbrances			1,219,283.63
Reserved for Debt Service			
Unreserved:			
Undesignated, Reported in:			
General Fund	5,577,245.60		
Special Revenue Funds			
Capital Projects Funds			1,575,922.06
<b>Total Fund Balances</b>	<u>5,804,760.34</u>		<u>2,795,205.69</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 7,584,375.55</u>	<u>\$ 21,583.86</u>	<u>\$ 4,068,449.24</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
\$ 3,838,638.91	\$ 443,124.39	\$ 284,076.79	\$ 11,582,723.11
12,994,673.00	5,609,836.40	1,087,481.42	20,269,324.91
		9,543.33	191,033.67
			10,012.50
			752,900.15
92,374.27	703,138.00	389,368.95	4,059,782.22
		171,833.92	432,721.47
		773,073.00	773,073.00
<u>\$ 16,925,686.18</u>	<u>\$ 6,756,098.79</u>	<u>\$ 2,715,377.41</u>	<u>\$ 38,071,571.03</u>
\$ 181.07	\$ 9,143.89	\$ 17,098.83	\$ 68,497.16
310,854.97	37,995.00	36,293.10	1,464,678.62
700,361.51		72,447.54	1,348,587.83
129,810.86	2,000.00		785,693.55
	534,481.05	197,481.14	576,517.52
			752,900.15
			21,844.32
			103,872.43
<u>1,141,208.41</u>	<u>583,619.94</u>	<u>323,320.61</u>	<u>5,122,591.58</u>
10,669,569.01	1,397.00	48,326.08	227,514.74
		1,551,378.72	11,938,575.72
			1,551,378.72
			5,577,245.60
		261,533.61	261,533.61
5,114,908.76	6,171,081.85	530,818.39	13,392,731.06
<u>15,784,477.77</u>	<u>6,172,478.85</u>	<u>2,392,056.80</u>	<u>32,948,979.45</u>
<u>\$ 16,925,686.18</u>	<u>\$ 6,756,098.79</u>	<u>\$ 2,715,377.41</u>	<u>\$ 38,071,571.03</u>

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

**Total Fund Balances - Governmental Funds** \$ 32,948,979.45

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 267,474,933.13

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

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

Bonds Payable	\$ 12,230,000.00	
Certificates of Participation Payable	79,475,000.00	
Compensated Absences Payable	5,803,973.66	
Special Retirement Benefits Payable	1,050,000.00	
Estimated Liability for Arbitrage Payable	105,433.35	
Postemployment Healthcare Benefits Payable	333,793.00	(98,998,200.01)
	333,793.00	(98,998,200.01)

**Total Net Assets - Governmental Activities** \$ 203,425,712.57

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

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**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2009**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 113,934.30	\$	\$
Federal Through State and Local	280,466.52	21,583.86	
State	27,664,606.59		5,241,785.00
Local:			
Property Taxes	64,344,916.32		
Local Sales Taxes			
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	4,365,745.06		11,627.98
<b>Total Revenues</b>	96,769,668.79	21,583.86	5,253,412.98
<b>Expenditures</b>			
Current - Education:			
Instruction	60,881,986.40		
Pupil Personnel Services	5,674,136.37		
Instructional Media Services	1,005,515.69		
Instruction and Curriculum Development Services	953,689.63		
Instructional Staff Training Services	244,225.07	21,583.86	
Instruction Related Technology	640,718.70		
Board of Education	358,883.09		
General Administration	537,124.72		
School Administration	5,611,607.90		
Facilities Acquisition and Construction			2,335,877.29
Fiscal Services	1,156,446.75		
Food Services	225.67		
Central Services	757,816.23		
Pupil Transportation Services	4,698,841.77		
Operation of Plant	8,750,155.59		
Maintenance of Plant	2,366,910.80		
Administrative Technology Services	43,260.06		
Community Services	3,574,177.95		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			20,109,232.64
Other Capital Outlay	27,535.18		1,354,317.69
Debt Service:			
Principal			
Interest and Fiscal Charges			
<b>Total Expenditures</b>	97,283,257.57	21,583.86	23,799,427.62
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(513,588.78)		(18,546,014.64)
<b>Other Financing Sources (Uses)</b>			
Transfers In	3,030,431.39		472,707.83
Proceeds from Sale of Capital Assets	66,168.69		
Insurance Loss Recoveries	57,448.46		
Transfers Out			(1,445,061.83)
<b>Total Other Financing Sources (Uses)</b>	3,154,048.54		(972,354.00)
<b>Net Change in Fund Balances</b>	2,640,459.76		(19,518,368.64)
Fund Balances, Beginning	3,164,300.58		22,313,574.33
<b>Fund Balances, Ending</b>	\$ 5,804,760.34	\$ 0.00	\$ 2,795,205.69

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
\$	\$	\$	\$
		8,583,719.52	113,934.30
		812,893.11	8,885,769.90
20,266,766.78			33,719,284.70
	3,849,335.29		84,611,683.10
	743,818.26		3,849,335.29
		1,950,476.18	743,818.26
57,625.76	20,479.45	237,648.98	1,950,476.18
<u>20,324,392.54</u>	<u>4,613,633.00</u>	<u>11,584,737.79</u>	<u>4,693,127.23</u>
		3,518,351.31	64,400,337.71
		569,014.44	6,243,150.81
		4,578.09	1,010,093.78
		334,264.74	1,287,954.37
		545,780.09	811,589.02
		755.07	640,718.70
		31,425.43	359,638.16
7,826,705.64	1,917,828.20	152,074.55	568,550.15
		5,538,917.70	5,611,607.90
		17,949.59	12,232,485.68
		320,272.13	1,156,446.75
4,723,023.24	1,334,806.14		5,539,143.37
3,513,193.25	110,263.85	190,514.91	757,816.23
		4,380,000.00	4,716,791.36
925.00		4,104,567.90	8,750,155.59
<u>16,063,847.13</u>	<u>3,362,898.19</u>	<u>19,708,465.95</u>	<u>2,366,910.80</u>
4,260,545.41	1,250,734.81	(8,123,728.16)	43,260.06
			3,894,450.08
	98,640.00	7,819,433.29	26,167,062.02
(8,139,578.82)	(1,836,571.86)	2,006.77	5,195,824.88
		2,876.00	4,380,000.00
<u>(8,139,578.82)</u>	<u>(1,737,931.86)</u>	<u>7,824,316.06</u>	<u>4,105,492.90</u>
(3,879,033.41)	(487,197.05)	(299,412.10)	160,239,480.32
19,663,511.18	6,659,675.90	2,691,468.90	(21,543,551.44)
<u>\$ 15,784,477.77</u>	<u>\$ 6,172,478.85</u>	<u>\$ 2,392,056.80</u>	<u>\$ 32,948,979.45</u>

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2009**

**Net Change in Fund Balances - Governmental Funds** \$ (21,543,551.44)

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 capital outlays in excess of depreciation expense in the current period. 21,409,996.89

In the governmental funds, the cost of capital assets is recognized as an expenditure in the year purchased. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives. Thus the change in fund balance differs from the change in net assets by the undepreciated cost of the disposed assets. (1,577,108.25)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 4,380,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amounts paid in the current period. (145,182.61)

In the statement of activities, the cost of special retirement benefits is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for special retirement benefits. This is the net amount of special retirement benefits paid in excess of the amounts earned in the current period. 102,000.00

Postemployment healthcare 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 postemployment healthcare benefits liability for the current fiscal year. (333,793.00)

The change in estimated liability for arbitrage rebate is reported in the statement of activities, but does not require the use of current financial resources and is not reported in the governmental funds. 57,166.96

**Change in Net Assets - Governmental Activities** \$ 2,349,528.55

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
June 30, 2009**

	Private-Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	\$ 1,077,850.00
Investments	100,255.04	
<b>TOTAL ASSETS</b>	<b>\$ 100,255.04</b>	<b>\$ 1,077,850.00</b>
<b>LIABILITIES</b>		
Internal Accounts Payable	\$	\$ 1,077,850.00
<b>Total Liabilities</b>		<b>\$ 1,077,850.00</b>
<b>NET ASSETS</b>		
Assets Held in Trust for Scholarships	100,255.04	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 100,255.04</b>	

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
For the Fiscal Year Ended June 30, 2009**

	Private-Purpose Trust Fund
<b>ADDITIONS</b>	
Investment Earnings	\$ 258.00
<b>DEDUCTIONS</b>	
Scholarship Payments	1,000.00
<b>Change in Net Assets</b>	(742.00)
Net Assets - Beginning	100,997.04
<b>Net Assets - Ending</b>	\$ 100,255.04

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Flagler School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Flagler County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's other component units.

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

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

The charter schools are operated by the Academies of Excellence, Inc., a separate not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, except that Imagine School at Town Center, LLC, doing business as Imagine Schools at Town Center, is organized as a limited liability company pursuant to Chapter 608, Florida Statutes, and Section 1002.33, Florida Statutes. These charter schools operate under charters approved by its sponsor, the Flagler County District School Board. The charter schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.

Audits of the DSO, the Auditorium, and four charter schools: Cornerstone Elementary, Inc.; Summit Academy, Inc.; Heritage High School, Inc.; and Imagine Schools at Town Center for the fiscal year ended June 30, 2009, were conducted by independent certified public accountants. The audit reports are filed in the District's administrative offices. Effective July 1, 2009, the Cornerstone Elementary, Inc., Summit Academy, Inc., and Heritage High School, Inc., charter schools ceased to exist and were combined into one legal entity known as Heritage Academy, Inc.

➤ **Basis of Presentation**

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriation of gross receipt taxes for the District. These funds are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, maintenance and repairs, and site improvements.
- 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 and renovation and remodeling projects.
- Capital Projects – Other Fund – to account for various financial resources required to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

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

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

➤ **Basis of Accounting**

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

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

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

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

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

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in LGIP and the 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 LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, 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 a liquid balance within LGIP.

Investments made locally consist of money market mutual funds and commercial paper and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

➤ **Restricted Assets**

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

➤ **Inventories**

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

➤ **Capital Assets**

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

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

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

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

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

➤ **Long-Term Liabilities**

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

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

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

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from 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 nine 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 categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

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

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 16, 2008. 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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

real property taxes by the sale of interest bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

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

On September 12, 2002, the citizens of Flagler County approved a one-cent sales tax authorized under Section 212.055(2), Florida Statutes, to be collected through December 2012. The District receives one-half of the one-cent sales tax collected from Flagler County, which is pledged for the debt service payments of the Sales Tax Revenue Bonds, Series 2004, as discussed in Note 7.

➤ **Federal Revenue Sources**

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- 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.

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DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**3. INVESTMENTS**

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1)	46 Day Average	\$ 10,473,797.71
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	105,347.31
Debt Service Accounts	6 Months	66,940.76
Money Market Mutual Funds (2):		
Goldman Sachs Financial Square Treasury Obligations Fund	Less Than One Year	20,161,021.47
Dreyfus Institutional Reserves Treasury Prime Fund		36,270.41
Commercial Paper (3)	October 27, 2009	773,073.00
Total Investments, Primary Government		\$ 31,616,450.66

Notes:

(1) Investment reported as a cash equivalent.

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

(3) This investment is held by a paying agent in connection with a Qualified Zone Academy Bonds financing arrangement. (See Note 6)

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. 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.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA LGIP, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices.

- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in the Dreyfus Institutional Reserves Treasury Prime Fund is rated AAA/V1+ by Fitch Ratings; and the Goldman Sachs Financial Square Treasury Obligations Fund is rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's investment in commercial paper is authorized under a forward delivery agreement with the Qualified Zone Academy Bonds paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amount in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's. The District's investment in commercial paper was rated A-1 by Standard & Poor's.

#### Custodial Credit Risk

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

#### Concentration of Credit Risk

- The District does not have a formal investment policy that limits the amount the District may invest in any one issuer. More than 5 percent of the District's investments, reported in the other governmental funds, are in commercial paper issued by General Electric Capital Services, Inc. These investments are 36 percent of the District's total investments reported in these aggregated nonmajor governmental funds.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**4. RECEIVABLES**

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

**5. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 9,013,811.21	\$	\$	\$ 9,013,811.21
Construction in Progress	40,811,422.57	15,160,599.14	40,810,173.75	15,161,847.96
<b>Total Capital Assets Not Being Depreciated</b>	<b>49,825,233.78</b>	<b>15,160,599.14</b>	<b>40,810,173.75</b>	<b>24,175,659.17</b>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,222,922.80	151,825.72		6,374,748.52
Buildings and Fixed Equipment	229,600,852.00	51,664,810.91	2,000,000.00	279,265,662.91
Furniture, Fixtures, and Equipment	13,215,962.27	4,187,743.20	957,898.38	16,445,807.09
Motor Vehicles	12,736,993.03	979,379.94	1,180,274.26	12,536,098.71
Audio Visual Materials and Computer Software	1,760,979.29	28,701.74		1,789,681.03
<b>Total Capital Assets Being Depreciated</b>	<b>263,537,709.39</b>	<b>57,012,461.51</b>	<b>4,138,172.64</b>	<b>316,411,998.26</b>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,805,130.64	302,065.62		3,107,196.26
Buildings and Fixed Equipment	45,823,120.56	7,031,641.61	450,000.00	52,404,762.17
Furniture, Fixtures, and Equipment	7,722,116.47	1,574,937.46	932,491.37	8,364,562.56
Motor Vehicles	7,730,330.52	995,779.74	1,178,573.02	7,547,537.24
Audio Visual Materials and Computer Software	1,640,200.49	48,465.58		1,688,666.07
<b>Total Accumulated Depreciation</b>	<b>65,720,898.68</b>	<b>9,952,890.01</b>	<b>2,561,064.39</b>	<b>73,112,724.30</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>197,816,810.71</b>	<b>47,059,571.50</b>	<b>1,577,108.25</b>	<b>243,299,273.96</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 247,642,044.49</b>	<b>\$ 62,220,170.64</b>	<b>\$ 42,387,282.00</b>	<b>\$ 267,474,933.13</b>

**FLAGLER COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

Depreciation expense was charged to functions as follows:

Function	Amount
<b>GOVERNMENTAL ACTIVITIES</b>	
Instruction	\$ 7,744,614.70
Instruction and Curriculum Development Services	2,291.71
General Administration	1,279,065.26
Food Services	3,501.52
Pupil Transportation Services	893,325.33
Operation of Plant	29,529.25
Community Services	562.24
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 9,952,890.01</b>

**6. CERTIFICATES OF PARTICIPATION**

Certificates of participation at June 30, 2009, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1998 (Partially Refunded)	\$ 2,710,000	4.50 - 4.75	2013	\$ 16,815,000
Series 2001A	1,290,000	5.452	2017	1,290,000
Series 2001B	1,170,000	6.609	2014	2,510,000
Series 2005A	57,755,000	3.5 - 5.0	2031	60,720,000
Series 2005B	11,550,000	3.5 - 4.5	2024	11,675,000
Series 2005 - QZAB	5,000,000	0.0	2022	5,000,000
<b>Total Minimum Lease Payments</b>	<b>\$ 79,475,000</b>			

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

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

**FLAGLER COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

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

A summary of the lease terms is as follows:

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

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

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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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 15<sup>th</sup> day of the month preceding the payment dates. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 6,030,550.08	\$ 2,500,000.00	\$ 3,530,550.08
2011	6,026,562.36	2,600,000.00	3,426,562.36
2012	6,018,055.56	2,705,000.00	3,313,055.56
2013	6,006,130.93	2,825,000.00	3,181,130.93
2014	6,008,986.35	2,970,000.00	3,038,986.35
2015-2019	29,218,864.00	16,300,000.00	12,918,864.00
2020-2024	32,978,012.50	24,235,000.00	8,743,012.50
2025-2029	21,469,250.00	17,200,000.00	4,269,250.00
2030-2031	8,552,000.00	8,140,000.00	412,000.00
<b>Total Minimum Lease Payments</b>	<b>\$ 122,308,411.78</b>	<b>\$ 79,475,000.00</b>	<b>\$ 42,833,411.78</b>

**7. BONDS PAYABLE**

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>State School Bonds:</b>			
Series 2000A	\$ 115,000	5.125	2010
Series 2003A	700,000	3.00 - 4.25	2023
Series 2005B, Refunding	1,570,000	5.0	2020
<b>District Revenue Bonds:</b>			
Series 1998	2,350,000	4.5 - 5.0	2028
<b>Sales Tax Revenue Bonds:</b>			
Series 2004	7,495,000	2.375 - 3.125	2012
<b>Total Bonds Payable</b>	<b>\$ 12,230,000</b>		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District’s portion of the State-assessed motor vehicle license tax. The State’s full faith and credit is also pledged as security for these bonds. Principal and interest

**FLAGLER COUNTY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Revenue Bonds**

Capital Improvement Revenue Bonds, Series 1998, issued in the amount of \$3,010,000, are authorized by Chapter 1011, Florida Statutes, and Section 550.135, Florida Statutes, as supplemented by Chapter 30131, Laws of Florida (1955), as amended by Chapter 71-637, 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 moneys distributed to the Board from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The \$223,250 annual distribution is remitted by the Florida Department of Financial Services to the District.

➤ **Sales Tax Revenue Bonds**

The Sales Tax Revenue Bonds, Series 2004, issued in the amounts of \$15,635,000, are authorized by the School District of Flagler County, Florida. The principal and interest on the bonds are payable solely from, and secured by, a lien upon and pledge of the proceeds received by the District from the levy and collection of a one-half cent capital outlay discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and other applicable provisions of law. The bonds were issued for the principal purpose of acquiring, construction, and equipping a new elementary school and paying certain costs and expenses incurred in connection with the issuance of the bonds.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2010	\$ 255,938.75	\$ 145,000.00	\$ 110,938.75
2011	264,045.00	160,000.00	104,045.00
2012	266,645.00	170,000.00	96,645.00
2013	268,745.00	180,000.00	88,745.00
2014	275,401.25	195,000.00	80,401.25
2015-2019	1,347,712.50	1,090,000.00	257,712.50
2020-2023	484,287.50	445,000.00	39,287.50
<b>Total State School Bonds</b>	<b>3,162,775.00</b>	<b>2,385,000.00</b>	<b>777,775.00</b>
<b>District Revenue Bonds:</b>			
2010	184,865.00	70,000.00	114,865.00
2011	186,565.00	75,000.00	111,565.00
2012	187,960.00	80,000.00	107,960.00
2013	189,040.00	85,000.00	104,040.00
2014	184,875.00	85,000.00	99,875.00
2015-2019	928,750.00	500,000.00	428,750.00
2020-2024	922,625.00	635,000.00	287,625.00
2025-2029	926,250.00	820,000.00	106,250.00
<b>Total District Revenue Bonds</b>	<b>3,710,930.00</b>	<b>2,350,000.00</b>	<b>1,360,930.00</b>
<b>Sales Tax Revenue Bonds:</b>			
2010	1,992,653.13	1,805,000.00	187,653.13
2011	1,987,003.13	1,845,000.00	142,003.13
2012	1,984,362.50	1,895,000.00	89,362.50
2013	1,980,468.75	1,950,000.00	30,468.75
<b>Total Sales Tax Revenue Bonds</b>	<b>7,944,487.51</b>	<b>7,495,000.00</b>	<b>449,487.51</b>
<b>Total</b>	<b>\$14,818,192.51</b>	<b>\$12,230,000.00</b>	<b>\$ 2,588,192.51</b>

**8. DEFEASED DEBT**

In prior years, a portion of the State School Bonds, Series 2000A, was defeased in substance by placing a portion of the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old State School Bonds. Accordingly, the trust account assets and the liability for the in-substance defeased State School Bonds are not included in the District’s financial statements. On June 30, 2009, State School Bonds, Series 2000A, totaling \$1,580,000 outstanding are considered defeased in substance.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**9. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable	\$ 14,205,000.00	\$	\$ 1,975,000.00	\$ 12,230,000.00	\$ 2,020,000.00
Certificates of Participation Payable	81,880,000.00		2,405,000.00	79,475,000.00	2,500,000.00
Compensated Absences Payable	5,658,791.05	732,052.60	586,869.99	5,803,973.66	579,052.11
Special Retirement Benefits Payable	1,152,000.00	60,000.00	162,000.00	1,050,000.00	
Estimated Liability for Arbitrage Payable	162,600.31		57,166.96	105,433.35	
Postemployment Healthcare Benefits Payable		461,897.00	128,104.00	333,793.00	
<b>Total Governmental Activities</b>	<u>\$ 103,058,391.36</u>	<u>\$ 1,253,949.60</u>	<u>\$ 5,314,140.95</u>	<u>\$ 98,998,200.01</u>	<u>\$ 5,099,052.11</u>

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

**10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 752,900.15	\$
Special Revenue:		
ARRA Economic Stimulus		20,937.96
Capital Projects:		
Other		534,481.05
Nonmajor Governmental		197,481.14
<b>Total</b>	<u>\$ 752,900.15</u>	<u>\$ 752,900.15</u>

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 3,030,431.39	\$
Capital Projects:		
Public Education Capital Outlay	472,707.83	1,445,061.83
Local Capital Improvement		8,139,578.82
Other	98,640.00	1,836,571.86
Nonmajor Governmental	7,819,433.29	
<b>Total</b>	<b>\$ 11,421,212.51</b>	<b>\$ 11,421,212.51</b>

The transfers out of 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.

**11. RESERVE FOR ENCUMBRANCES**

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

Because revenues of grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, this grant fund generally does not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for this fund. Additionally, there were no purchase orders outstanding for grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund at June 30, 2009.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**12. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue for the 2008-09 fiscal year:

<u>Source</u>	<u>Amount</u>
Categorical Educational Programs:	
Class Size Reduction	\$ 12,551,046.00
Transportation	4,342,966.00
Instructional Materials	1,241,594.00
School Recognition	1,043,160.00
Voluntary Prekindergarten	432,374.54
Excellent Teaching	268,279.56
Florida Teachers Lead	182,368.00
Other	52,390.00
Gross Receipts Tax (Public Education Capital Outlay)	4,638,667.00
Florida Education Finance Program	3,459,841.45
Workforce Development Program	2,561,025.00
Adults with Disabilities Program	874,542.00
Classrooms First Program	493,208.00
Discretionary Lottery Funds	362,089.70
Motor Vehicle License Tax (Capital Outlay and Debt Service)	299,921.00
Charter School Capital Outlay Funds	269,210.41
Miscellaneous	646,602.04
	<hr/>
Total	<u>\$ 33,719,284.70</u>

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

**13. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	4.947	\$ 58,857,086.00
Basic Discretionary Local Effort	0.498	5,923,592.62
Supplemental Discretionary Local Effort	0.115	1,369,145.52
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	20,821,132.86
Total	<u>7.310</u>	<u>\$ 86,970,957.00</u>

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**14. FLORIDA RETIREMENT SYSTEM**

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 284 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$906,053.85.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$4,820,415, \$5,918,294, and \$5,578,121, respectively, which were equal to the required contributions for each fiscal year.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

**15. SPECIAL TERMINATION BENEFITS**

School Board policy provides for the payment of special retirement incentive bonuses of \$6,000 to qualifying employees at the date of their retirement. In addition to payments for accrued leave balances, the District recorded expenditures of \$162,000 during the 2008-09 fiscal year for these special retirement incentive bonuses. The reported amount of \$1,050,000 represents the District’s estimated liability for future payments to qualified employees as of June 30, 2009.

**16. POSTEMPLOYMENT HEALTHCARE BENEFITS**

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$3,579,153 at the

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

March 1, 2009, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment healthcare benefits liability at the date of transition.

***Plan Description.*** The Postemployment Healthcare Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

***Funding Policy.*** Contribution requirements of the District and plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation and the plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 49 retirees received postemployment healthcare benefits. The District provided required contributions of \$128,104 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling \$319,556, which represents 0.5 percent of covered payroll.

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

Description	Amount
Normal Cost (service cost for one year)	\$ 336,642
Amortization of Unfunded Actuarial Accrued Liability	119,305
Interest on Normal Cost and Amortization	5,950
Annual Required Contribution	461,897
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	461,897
Annual OPEB Cost (Expense)	461,897
Contribution Toward the OPEB Cost	(128,104)
Increase in Net OPEB Obligation	333,793
Net OPEB Obligation, Beginning of Year	333,793
Net OPEB Obligation, End of Year	\$ 333,793

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 (year of implementation), were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	\$		\$ 0
2008-09	461,897	27.7%	333,793

***Funded Status and Funding Progress.*** As of March 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$3,579,153, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,579,153 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$63,355,000 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.6 percent.

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

The District’s initial OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2009, and the District’s 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.5 percent initially for the 2008-09 fiscal year, reducing gradually each year, to an ultimate rate of 4.9 percent after 7 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

**17. CONSTRUCTION CONTRACT COMMITMENTS**

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

Project	Contract Amount	Completed to Date	Balance Committed
Rymfire Elementary School K-8 Center, Grade 6-8 Building Addition:			
Architect	\$ 774,696.65	\$ 623,931.44	\$ 150,765.21
Contractor	14,085,393.58	13,600,189.55	485,204.03
<b>Total</b>	<b>\$ 14,860,090.23</b>	<b>\$ 14,224,120.99</b>	<b>\$ 635,969.24</b>

**18. JOINT VENTURES**

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

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

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

The District's capital contribution was \$2,000,000 as provided in the agreement and is reported as an investment in joint venture in the statement of net assets. The agreement provides a vested interest for each sponsor for the purposes of recouping investments and allocating assets and assuming liabilities upon termination of the agreement. In the event of termination of the agreement, the capital assets purchased by ATC will be appraised and sold. The profits will revert to the sponsors based on their proportionate equity in ATC as defined by the agreement. As of June 30, 2009, the District's proportionate share of profits to be distributed in the event of termination of the agreement was 11.8 percent.

The agreement requires participants to make pro rata contributions for ATC annual operating costs. Additionally, should enrollment of 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 ATC. The District's pro rata contributions for operating costs were \$325,372 for the 2008-09 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.

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

#### **19. INTERLOCAL AGREEMENT**

On September 8, 2005, the School Board entered into an interlocal agreement with Flagler County (County) pursuant to Section 163.01, Florida Statutes, to construct and use an administrative office facility. The District owns 44.2 percent and the County owns 55.8 percent of the facility, which represents their respective share of office space. The facility is owned by the participants as tenants in common in proportion to their ownership interest. The costs and expenses of maintaining the facility and any capital improvements are the responsibility of each party in their respective share of office space. The operating costs necessary to operate, maintain, repair, and replace the common areas are to be shared equally by each participant. The District's share of the operating costs was \$300,337.80 for the 2008-09 fiscal year.

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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

**20. RISK MANAGEMENT PROGRAMS**

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

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

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

**21. SUBSEQUENT EVENTS**

The District has authorized the issuance of a tax anticipation note (Note) in the amount of \$10,000,000. The proceeds will be used for operating expenses for the fiscal year ended June 30, 2010. The closing of the Note took place on September 17, 2009, and the Note matures on March 15, 2010. The stated interest rate is 1.15 percent.

**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, 2009**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 90,000.00	\$ 90,000.00	\$ 113,934.30	\$ 23,934.30
Federal Through State and Local	150,000.00	211,609.00	280,466.52	68,857.52
State	30,692,504.00	27,303,983.08	27,664,606.59	360,623.51
Local:				
Property Taxes	63,206,971.00	62,842,747.00	64,344,916.32	1,502,169.32
Miscellaneous	5,132,677.00	5,010,885.07	4,365,745.06	(645,140.01)
<b>Total Revenues</b>	<b>99,272,152.00</b>	<b>95,459,224.15</b>	<b>96,769,668.79</b>	<b>1,310,444.64</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	65,482,980.00	63,281,133.67	60,881,986.40	2,399,147.27
Pupil Personnel Services	5,770,163.00	5,793,700.37	5,674,136.37	119,564.00
Instructional Media Services	1,172,046.00	1,157,581.05	1,005,515.69	152,065.36
Instruction and Curriculum Development Services	951,873.00	1,034,090.80	953,689.63	80,401.17
Instructional Staff Training Services	305,310.00	301,631.80	244,225.07	57,406.73
Instruction Related Technology	564,021.00	654,463.43	640,718.70	13,744.73
Board of Education	413,533.00	388,345.72	358,883.09	29,462.63
General Administration	588,700.00	540,931.78	537,124.72	3,807.06
School Administration	5,591,519.00	5,640,946.64	5,611,607.90	29,338.74
Facilities Acquisition and Construction	1,200.00	1,200.00		1,200.00
Fiscal Services	1,086,208.00	1,157,156.98	1,156,446.75	710.23
Food Services		225.67	225.67	
Central Services	834,244.00	850,677.83	757,816.23	92,861.60
Pupil Transportation Services	5,225,666.00	5,516,431.48	4,698,841.77	817,589.71
Operation of Plant	9,976,776.00	10,535,898.07	8,750,155.59	1,785,742.48
Maintenance of Plant	2,819,302.00	3,146,311.99	2,366,910.80	779,401.19
Administrative Technology Services	52,673.00	83,749.48	43,260.06	40,489.42
Community Services	3,122,571.00	3,577,182.53	3,574,177.95	3,004.58
Fixed Capital Outlay:				
Facilities Acquisition and Construction	113,800.00	92,546.14	27,535.18	65,010.96
Other Capital Outlay		13,299.18		13,299.18
<b>Total Expenditures</b>	<b>104,072,585.00</b>	<b>103,767,504.61</b>	<b>97,283,257.57</b>	<b>6,484,247.04</b>
<b>Deficiency of Revenues Under Expenditures</b>	<b>(4,800,433.00)</b>	<b>(8,308,280.46)</b>	<b>(513,588.78)</b>	<b>7,794,691.68</b>
<b>Other Financing Sources</b>				
Transfers In	4,800,433.00	4,850,433.00	3,030,431.39	(1,820,001.61)
Proceeds from Sale of Capital Assets		50,000.00	66,168.69	16,168.69
Insurance Loss Recoveries		37,756.65	57,448.46	19,691.81
<b>Total Other Financing Sources</b>	<b>4,800,433.00</b>	<b>4,938,189.65</b>	<b>3,154,048.54</b>	<b>(1,784,141.11)</b>
<b>Net Change in Fund Balances</b>		(3,370,090.81)	2,640,459.76	6,010,550.57
Fund Balances, Beginning	3,164,301.58	3,164,301.58	3,164,300.58	(1.00)
<b>Fund Balances, Ending</b>	<b>\$ 3,164,301.58</b>	<b>\$ (205,789.23)</b>	<b>\$ 5,804,760.34</b>	<b>\$ 6,010,549.57</b>



**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -  
POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN  
For the Fiscal Year Ended June 30, 2009**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Agriculture:</b>				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 708,383.96	\$
National School Lunch Program	10.555	300	2,133,569.59	
Summer Food Service Program for Children	10.559	323	102,410.19	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	165,164.29	
<b>Total United States Department of Agriculture</b>			<b>3,109,528.03</b>	
<b>United States Department of Education:</b>				
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	263	2,207,620.92	
Special Education - Preschool Grants	84.173	267	33,826.08	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	20,937.96	
<b>Total Special Education Cluster</b>			<b>2,262,384.96</b>	
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	1,596,251.18	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	645.90	
<b>Total Title I, Part A Cluster</b>			<b>1,596,897.08</b>	
Adult Education - Basic Grants to States	84.002	191, 193	98,584.00	
Career and Technical Education - Basic Grants to States	84.048	161	204,253.13	37,198.00
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	29,489.16	
Charter Schools	84.282	298	246,290.99	
Twenty-First Century Community Learning Centers	84.287	244	320,273.13	
State Grants for Innovative Programs	84.298	113	1,723.98	
Education Technology State Grants	84.318	121	10,163.99	
English Language Acquisition Grants	84.365	102	89,580.19	
Improving Teacher Quality State Grants	84.367	224	319,144.55	
School Improvement Grants	84.377	126	47,253.22	
Daytona State College:				
Career and Technical Education - Basic Grants to States	84.048	None	63,891.00	
Volusia County District School Board:				
Tech-Prep Education	84.243	None	8,918.70	
Putnam County District School Board:				
Reading First State Grants	84.357	None	125,450.90	
Early Reading First	84.359	None	1,437.76	
<b>Total United States Department of Education</b>			<b>5,425,736.74</b>	<b>37,198.00</b>
<b>Corporation for National and Community Service:</b>				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	79,441.61	
<b>United States Department of Homeland Security</b>				
Indirect:				
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039 (2)(B)	None	206,338.99	
<b>United States Department of Defense:</b>				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	113,934.30	
<b>Total Expenditures of Federal Awards</b>			<b>\$ 8,934,979.67</b>	<b>\$ 37,198.00</b>

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

(2) Noncash Assistance.  
 (A) National School Lunch Program - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at the time of donation.  
 (B) Hazard Mitigation Grant - Represents Federally-paid portion of construction of an enclosure for an emergency shelter generator.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Flagler County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Flagler County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial

statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding Nos. 1 and 2, which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Financial Statement Finding No. 1 to be a material weakness.

### **Compliance and Other Matters**

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

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

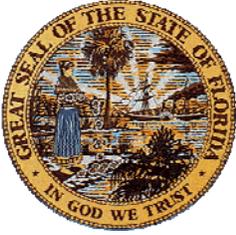
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA  
February 11, 2010



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

### Compliance

We have audited the Flagler County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

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

and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

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

Respectfully submitted,



David W. Martin, CPA  
February 11, 2010

**FLAGLER COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with Section \_\_\_\_ .510(a) of OMB *Circular A-133*? No

Identification of major programs: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391); and Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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, 2009**

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

**Finding No. 1: Financial Reporting**

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is by preparing its annual financial report. District personnel should ensure that the report is accurate and contains required presentations and disclosures so that the users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep, or to have kept, accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District’s annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

Our review of the District’s 2008-09 fiscal year annual financial report, as presented for audit, indicated that enhancements in financial reporting procedures could be made, as discussed in the following examples:

- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a fund as major when the fund’s assets, liabilities, revenues, or expenditures represent at least 10 percent of the total governmental funds for these respective classifications. While District personnel properly prepared a fund analysis, they did not use it to identify and separately report the Capital Projects – Local Capital Improvement Fund, Capital Projects – Public Education Capital Outlay Fund, and Capital Projects – Other Fund as major funds, contrary to GAAP. For example, the Capital Projects – Local Capital Improvement Fund should have been reported as a major fund because it had total assets, liabilities, revenues, and expenditures that represented approximately 44, 22, 15, and 10 percent of the respective total governmental fund amounts. Separately reporting major funds allows financial statement users to readily identify the District’s most significant funds and their related balances and transactions, ensures compliance with GAAP, and ensures that all major funds receive the appropriate level of audit attention.
- GAAP require that the basic financial statements include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District’s activity. However, the District mistakenly excluded the note disclosure regarding the amount and purpose of transfers in and transfers out, totaling \$11.4 million each. When note disclosures are not prepared as required, the risk increases for financial statement users to misunderstand the information presented on the financial statements.

A contributing factor for the above errors was that effective review procedures were not in place to ensure the annual financial report was accurate and complete. We extended our audit procedures to determine the revisions necessary, and the changes were accepted by the District to properly report financial statement amounts and note disclosures. Similar findings were noted in previous reports, most recently in our report No. 2009-184.

**Recommendation:** To facilitate necessary financial reporting, the District should improve procedures to properly report financial statement account balances, transactions, and note disclosures.

**SIGNIFICANT DEFICIENCY**

**Finding No. 2: Information Technology – Management of Access Privileges**

The implementation of separation of duties by management minimizes the possibility for a single employee to subvert a critical process. An appropriate separation of duties is typically enforced through system access privileges that restrict employees to performing only those system functions that are necessary for their job duties. We reviewed selected access privileges to the finance and human resource (HR) applications and identified several employees who had inappropriate access privileges that either permitted the employees to perform incompatible duties or were not necessary for their job functions, increasing the risk of unauthorized or erroneous disclosure, modification, or destruction of financial information and information technology (IT) resources. Specifically:

- Five employees from various departments had the ability to update both vendor information and invoice information.
- A school secretary had the unnecessary access ability to update general employee information through HR screens.
- A program manager had the unnecessary access ability to update job record information through HR screens.
- Five employees with payroll duties had the access ability to update both general employee information and job record information through HR screens.
- Two secretaries and an insurance specialist had the access ability to update information through the direct deposit fast entry and manual or void checks payroll screens.

To compensate, in part, for these control deficiencies, District supervisors periodically monitor department budgets and related expenditures, and District Information Technology personnel review exception reports weekly that are automatically generated from updates made to the general employee information screen. However, there are no exception reports generated for updates to vendor, invoice, and job record information, and direct deposit fast entry and manual or void checks payroll screens, increasing the risk of errors or misappropriations.

In response to our inquiry, District management indicated that the employees’ access privileges have now been changed to reflect current job responsibilities. Additionally, we reviewed selected access privileges for network administrative accounts and identified one service account that had inappropriate access privileges that granted excessive rights beyond its required functions. For example, the service account had the ability to perform systemwide backups, which is not a function of its intended use. In response to our inquiry, District management indicated that a new service account would be created to follow recommended industry standards. Also, effective January 1, 2010, the District has implemented a new financial and human resources software package, requiring that the District establish new access privileges.

**Recommendation:** The District should review the ongoing appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access as detected to ensure that access privileges are compatible with employee current job responsibilities.

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## ADDITIONAL MATTERS

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### Finding No. 3: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that the Board may levy no more than 1.75 mills against the District's taxable value for capital outlay purposes. In addition, it provides that revenue generated by the capital outlay millage levy should be used for only certain purposes, such as the costs of new construction and remodeling projects, maintenance, renovation, and repair of existing school plants; and the opening day collection for the library media center of a new school. The District reported capital outlay millage levy expenditures, totaling approximately \$16 million, during the 2008-09 fiscal year. Our test of 20 expenditures, totaling approximately \$212,000, disclosed 2 expenditures, totaling \$9,165, for software technical support services in the amount of \$5,600, and a public performance site license with a cost of \$3,565, which were not specifically allowable under the provisions of Section 1011.71(2), Florida Statutes. In response to our inquiry, the District transferred \$9,165, in July 2009, from the General Fund to the Local Capital Improvement Fund, for these questioned expenditures. A similar finding was noted in our report No. 2009-184.

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**Recommendation:** The District should continue its efforts to ensure the capital outlay millage levy expenditures are only for authorized purposes.

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### Finding No. 4: Purchasing Card Administration

Our review of District's purchasing card program indicated that improvements were needed in the administration and monitoring of the program. The District provides credit cards (purchasing cards) to authorized employees for the purchase of goods and services. Purchasing cards are designed to handle and expedite low dollar purchases of goods and services in a more efficient, effective, and economical manner than may be achieved through the purchase order system. The District contracted with a financial institution to provide the purchasing cards and to process purchases. The District has placed certain dollar limits on employees' use of purchasing cards, including single transaction and monthly purchasing limits. Additionally, purchases made with purchasing cards are subject to the same rules and regulations that apply to regular District purchases.

The District had expenditures, totaling \$3,083,307, using purchasing cards during the 2008-09 fiscal year. During September 2008 and February 2009, purchasing card transactions for these months totaled approximately \$983,000. Our review of 65 transactions, totaling \$59,094, during these two months for purchasing cardholders disclosed the following:

- The District used a cardholder agreement to evidence approval of the issuance of cards, as well as evidence that each employee accepted their card and the established conditions of card use. Established conditions include procedures for preapproval of charges, prohibited personal or non-District business related purchases, disciplinary action for unauthorized use, purchasing limits, and other requirements. We noted that the District issued individual purchasing cards to the Superintendent, Title I Director, and Curriculum Department I; however, the cardholder agreements were unsigned for these three cards, and the District did not designate responsibility for the card used by the Curriculum Department I. District personnel indicated that two of the agreements were unsigned due to oversights, and the Superintendent was not required to sign the agreement. During the 2008-09 fiscal year, purchasing card charges for the Superintendent, Title I Director, and the Curriculum Department I cards totaled \$2,147, \$77,780, and \$3,070, respectively. Without cardholders signing the agreements, responsibilities for purchasing cards may not be clearly established and acknowledged, and the District may not formally communicate the Board's intentions regarding card use.

- The Purchasing Agent may increase or decrease a cardholder's monthly purchasing limit, using online banking services, when provided with written authorization from the Chief Financial Officer (CFO). Our review disclosed that the Superintendent, Service Learning Coordinator, and Fleet Services Manager had original aggregate monthly purchasing limits of \$25,500 each, pursuant to the cardholder agreements, but the Purchasing Agent increased their limits to \$47,000 each, without evidence to substantiate the need for the increase, written authorization from the CFO, or the timeframe that the increases would apply. Limiting monthly purchases for each employee, and requiring approval and justification for increasing limits, may help the District monitor department budgets, and ensure that each employee's purchasing ability is consistent with the Board's intention for such positions.
- The District used monthly reports, signed by cardholders and their respective supervisor, to evidence monthly approval of the charges; however, our review disclosed that the cardholders and supervisors did not sign 13 and 11 reports, respectively. By signing monthly reports, employees and supervisors establish responsibility and authorization to pay purchasing card billings.
- For airline ticket purchases, purchasing card procedures require an approved purchase order and preapproval by the Board; however, District personnel did not issue a purchase order to preapprove an airline ticket purchase of \$217 on February 18, 2009, and the Board did not approve the ticket until March 3, 2009. Without proper preapproval of airline tickets, the risk increases that such purchases may be for unallowable purposes.
- Purchasing card procedures require the return and destruction of cards from terminated employees. During the 2008-09 fiscal year, five employees who were issued purchasing cards terminated employment, and the District contacted the bank and canceled the cards; however, District records did not evidence that the cards were returned and destroyed. Timely and documented return and destruction of purchasing cards from terminated employees may minimize the risk of unauthorized purchases.
- Our test disclosed four purchasing cards that were reported as either lost or stolen during the 2008-09 fiscal year. Although District personnel believed the cards were misplaced, District records did not evidence the specific dates that the cards became missing or were reported as missing. While documentation was available to evidence that the bank canceled the cards and we noted no unauthorized purchases using these cards, without evidence of when the cards were lost or stolen, District records did not evidence timely cancellation of the cards to reduce the risk of misuse.

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**Recommendation:** The District should enhance controls over purchasing card transactions. Such controls should include maintaining signed cardholder agreements, written authorization for cardholder purchasing limits, and evidence of timely approval of purchasing card charges; ensuring that cards are timely returned and destroyed for terminated employees, and lost or stolen cards are timely canceled.

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#### **Finding No. 5: Student Diplomas**

Improvements could be made in controls over student diplomas. For the 2008-09 fiscal year, the District's two high schools had approximately 728 graduates who received diplomas. Our review of student graduation and diploma processing at these two high schools disclosed the following:

- There were no written agreements with the printing companies specifying the procedures to follow for diploma orders and the District employees authorized to submit orders. Written agreements may establish District expectations and staff responsible for diploma orders, and reduce potential misunderstandings related to such orders.
- Our tests of 20 diploma recipients disclosed 1 recipient who was ineligible to graduate because the individual lacked one-half credit of physical education coursework, and this exception was inadvertently overlooked.

**Recommendation:** The District should strengthen internal controls over diploma processing to ensure that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

#### **Finding No. 6: Information Technology – User Authentication**

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

#### **Finding No. 7: Information Technology - Written Policies and Procedures**

Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

The District lacked written policies and procedures for the following IT functions:

- Administering network user identification codes (IDs), including the creation and revocation of access privileges for transferred and terminated employees.
- Changing a user's existing access.
- Logging, monitoring, and reviewing security violations and activities, changes to security tables, and access and modification to sensitive or critical tables, files, or transactions.

Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

**Recommendation:** The District should establish written policies and procedures to document management's expectations for the performance of the above-described IT functions.

### **FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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

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**PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-184.

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**MANAGEMENT'S RESPONSE**

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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, 2009*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2009-184		No prior Federal audit findings.		

EXHIBIT A  
MANAGEMENT'S RESPONSE



# Flagler County Public Schools

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

**BOARD OF EDUCATION**

Evelyn Shellenberger  
Chairman  
District 5

Sue Dickinson  
Vice Chairman  
District 4

Trevor Tucker  
Board Member  
District 3

Colleen Conklin  
Board Member  
District 2

Andy Dance  
Board Member  
District 1

Student School Board Member  
Vincent Scerbo  
Flagler Palm Coast H.S.

Student School Board Member  
Keith Simpson  
Matanzas H.S.

Teacher of the Year  
Jill Stirling

Employee of the Year  
Aimee Mock

Bill Delbrugge  
Superintendent

February 10, 2010

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

Dear Mr. Martin:

Please find attached our response to the Preliminary and Tentative Audit Findings and Recommendations for the fiscal year ending June 30, 2009. Our responses follow the order of the findings cited. Should additional information be required, please contact Mr. Tom Tant, Chief Finance Officer.

Sincerely,

Bill Delbrugge  
Superintendent

cc: Board Members

MATERIAL WEAKNESS

## Finding No. 1:

Improvements were needed in procedures to ensure that financial statement account balances, transactions, and note disclosures are properly reported.

Recommendation: To facilitate necessary financial reporting, the District should improve procedures to properly report financial statement account balances, transaction, and note disclosures.

Response:

The District is installing a new accounting software system that will enhance the recording and reporting requirements to improve the preparation of the Annual Financial Report. The staff responsible for a specific segment of the financial information will also be responsible for editing the accompanying notes to the financial statements. There will be an additional review step of the Annual Financial Report, by someone other than the preparers, prior to the submission for approval to the School Board.

SIGNIFICANT DEFICIENCY

## Finding No. 2:

Information Technology-Management of Access privileges. The administration of information technology (IT) access privileges needs improvement.

Recommendation: The District should review the ongoing appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access as detected to ensure that access privileges are compatible with employee current job responsibilities.

Response:

The District is implementing new software applications that will strengthen access privileges.

ADDITIONAL MATTERS

## Finding No. 3:

Ad Valorem Taxation. The District incurred capital outlay tax levy expenditures, totaling \$9,165, for software technical support services and a public performance site license, contrary to Section 1011.71(2), Florida Statutes.

Response:

The District will continue monitoring all capital expenditures to assure compliance to Florida Statutes.

Finding No. 4:  
Purchasing Card Administration. Improvements are needed to enhance the administration and monitoring of the purchasing card program.

**Response:**

The District purchasing card program has been revised to enhance the controls and approval structure as recommended by the audit.

Finding No. 5:  
Student Diplomas. Enhancements could be made in controls over high school diplomas.

**Response:**

The District has implemented additional controls and ordering procedures over high school diplomas.

Finding No. 6:  
Information Technology – User Authentication. Improvements are needed to enhance IT security controls related to user authentication.

**Response:**

The District has implemented enhanced IT controls. We understand the auditors concerns, and we are working to make changes to improve the user authentication security controls

Finding No. 7:  
Information Technology – Written Policies and Procedures. The District lacked written policies and procedures for certain IT functions.

**Response:**

We agree with the auditors' comments, and actions are taking place to improve the situation. We are working to formalize in writing key IT functions, including those addressed in the Audit findings. We have expanded our Internal IT Knowledge Base (KB) to include a dedicated area for written IT Policies and Procedures to be housed. All IT related policies and procedures will be placed in the KB and made accessible to all IT staff.