REPORT NO. 2013-171
MARCH 2013

ST. LUCIE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	District No.
Debbie Hawley, Vice Chair from 11-22-11	1
Carol A. Hilson, Vice Chair to 11-21-11, Chair from 11-22-11	2
Dr. Donna Mills	3
Kathryn Hensley, Chair to 11-21-11	4
Troy Ingersoll	5

Michael J. Lannon, 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 Mark Smith, CPA, and the audit was supervised by Tim L. Tucker, CPA. For the information technology portion of this audit, the audit team leader was William Marshall, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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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 significant deficiency as summarized below. However, this significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that account balances and transactions are properly reported on the financial statements.

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

ADDITIONAL MATTERS

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Controls over the purchasing card program could be strengthened.

Finding No. 4: The District did not timely obtain required background screenings for certain noninstructional contractor employees.

Finding No. 5: District records did not always evidence that sales surtax proceeds were used consistent with restrictions governing these proceeds.

Finding No. 6: Controls over terminal leave payments needed enhancement.

Finding No. 7: The Superintendent's employment agreement included a severance pay provision that was contrary to Section 215.425(4)(a), Florida Statutes.

Finding No. 8: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 9: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for improved District review of user access privileges.

Finding No. 10: District procedures needed improvement with regard to documenting, monitoring, and deactivating IT network access privileges.

Finding No. 11: Certain District IT security controls related to user authentication, data loss prevention, and monitoring of database activity needed improvement.

Finding No. 12: The District had not developed a written IT security incident response plan and had not made provisions for a team trained in incident response.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: The District's local fiscal effort for the Special Education Program services decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of $267,432.

Audit Objectives and Scope

Our audit objectives were to determine whether the St. Lucie 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 previous audit reports.**

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

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the St. Lucie County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 13 percent of the assets and 35 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the St. Lucie County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the District changed the funds it used to report American Recovery and Reinvestment Act debt service and capital projects financial information for the 2011-12 fiscal year. This affects the comparability of amounts reported for the 2011-12 fiscal year with amounts reported for the 2010-11 fiscal year.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the St. Lucie County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased by $45,335,640.10, or 7.9 percent.
- General revenues total $334,310,726.95, or 93.8 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $22,064,250.30, or 6.2 percent of all revenues.
- Expenses total $401,710,617.35. Only $22,064,250.30 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by $45,335,640.10.
- The assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $27,685,318.41 at June 30, 2012, or 10.5 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

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

- Component units – The District presents the St. Lucie County Education Foundation Inc.; Renaissance Charter School of St. Lucie, a Department of Renaissance Charter School, Inc.; and Imagine Charter Schools – Nau, a division of Imagine St Lucie County, LLC, as discretely presented component units. Although legally separate organizations, these 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 St. Lucie 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 entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service Fund – ARRA Economic Stimulus Fund, Capital Projects Fund – ARRA Economic Stimulus Fund, Capital Projects – Section 1011.14/1011.15 Notes 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 Special Revenue – Federal Economic Stimulus Fund, to demonstrate compliance with the budget.

Proprietary Funds: Proprietary funds, such as internal service funds, may be established to account for activities in which a fee is charged for services. The District maintains an internal service fund to report the activities of its publications operation. Since the services predominantly benefit governmental rather than business-type functions,

the internal service fund has been included within governmental activities in the government-wide financial statements.

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 agency funds to account for school internal funds which are used to account for moneys collected at the schools in connection with school, student athletic, class, and club activities.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year

	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	$ 85,250,000.37	$ 100,865,442.17
Capital Assets	827,392,214.98	858,169,492.41
Total Assets	912,642,215.35	959,034,934.58
Long-Term Liabilities	347,628,015.66	357,370,809.07
Other Liabilities	32,949,317.47	24,263,603.19
Total Liabilities	380,577,333.13	381,634,412.26
Net Assets:		
Invested in Capital Assets - Net of Related Debt	505,649,781.37	528,854,607.00
Restricted	20,827,531.54	30,967,969.00
Unrestricted	5,587,569.31	17,577,946.32
Total Net Assets	$ 532,064,882.22	$ 577,400,522.32

The largest portion of the District's net assets (95 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 (3.9 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (1.1 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	$ 5,447,405.04	$ 5,174,593.71
Operating Grants and Contributions	15,176,265.09	13,530,423.96
Capital Grants and Contributions	1,440,580.17	3,338,822.36
General Revenues:		
Property Taxes, Levied for Operational Purposes	97,561,033.89	107,619,812.79
Property Taxes, Levied for Capital Projects	22,949,388.67	24,248,233.84
Local Sales Taxes	12,649,887.96	12,323,138.32
Grants and Contributions Not Restricted to Specific Programs	178,931,242.89	201,751,217.51
Unrestricted Investment Earnings	136,555.60	247,967.86
Miscellaneous	22,082,617.94	22,454,878.14
Total Revenues	356,374,977.25	390,689,088.49
Functions/Program Expenses:		
Instruction	187,558,320.08	199,477,957.90
Pupil Personnel Services	15,198,782.22	14,971,295.19
Instructional Media Services	4,103,007.80	3,542,490.16
Instruction and Curriculum Development Services	6,998,571.75	7,440,160.23
Instructional Staff Training Services	6,481,977.11	6,680,581.77
Instruction Related Technology	282,712.04	293,077.01
School Board	871,952.88	900,602.79
General Administration	2,598,285.43	3,386,938.96
School Administration	21,692,374.60	21,783,491.76
Facilities Acquisition and Construction	8,427,364.25	3,730,907.99
Fiscal Services	1,475,238.71	1,531,661.70
Food Services	19,467,221.16	18,445,629.98
Central Services	4,072,137.39	3,913,023.20
Pupil Transportation Services	25,387,048.16	25,809,038.40
Operation of Plant	25,117,173.16	26,502,453.44
Maintenance of Plant	6,472,813.04	6,410,273.84
Administrative Technology Services	3,839,307.66	4,726,105.37
Community Services	1,105,421.66	1,181,333.11
Unallocated Interest on Long-Term Debt	15,852,985.50	15,744,929.03
Unallocated Depreciation Expense	44,707,922.75	40,441,005.33
Total Functions/Program Expenses	401,710,617.35	406,912,957.16
Decrease in Net Assets	$ (45,335,640.10)	$ (16,223,868.67)

Significant revenue sources included property and sales taxes, representing 37.7 percent of total revenues, and State revenues, representing 42.6 percent of total revenues. Revenues from State sources for current operation are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking

into consideration the District's funding ability based on the local property tax base. Other State revenues are primarily for acquisition, construction, and maintenance of education facilities.

Grants and contributions not restricted to specific programs represented 50.2 percent of total governmental revenues in the 2011-12 fiscal year. Grants and contributions not restricted to specific programs decreased by $22,819,974.62, or 11.3 percent, primarily due to the elimination of nonrecurring sources of revenue, including American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund programs.

Property tax revenues decreased by $11,357,624.07, or 8.6 percent, as a result of a decrease in taxable assessed values and a 3.7 percent decrease in the total millage rate.

Capital grants and contributions declined $1,898,242.19, or 56.9 percent, primarily due to a decline in Public Education Capital Outlay revenues.

Instruction expenses continued to be the major component of District outlays, representing 46.7 percent of total expenses. Total expenses decreased $5,202,339.81, or 1.3 percent from the 2010-11 fiscal year, primarily due to reductions in Florida Retirement System contribution rates.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $26,665,342.11, while the total fund balance is $30,179,790.45. The unassigned fund balance decreased by $1,698,792.89 compared to the 2010-11 fiscal year, and total fund balance decreased by $3,963,481.03. Key factors in this decrease are as follows:

- Property tax revenues decreased $10,058,779.11 due to a reduction in the local property tax rate and a decrease in property values.
- Total expenditures in the General Fund increased $8,109,081.53 due to a decrease in grant funding for ARRA and Education Jobs Fund programs, which had previously assumed some General Fund expenditures.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $2,024,512.95 each for the current fiscal year, representing decreases of $25,994,665.05 or 92.8 percent, from the previous fiscal year. The significant decreases were primarily due to reductions in funding and related expenditures, primarily for staffing positions, from nonrecurring ARRA and Education Jobs Fund sources. Because grant revenues are recognized to the extent that eligible expenditures have been incurred for these Federal grant program resources, the fund does not maintain a fund balance.

The Debt Service Fund – ARRA Economic Stimulus Fund has a restricted fund balance of $1,931,344.89, and is used to account for the accumulation of resources for, and the payment of, debt principal, interest, and the related costs of Qualified School Construction Bonds. The fund balance increased in the current fiscal year as a result of an increase in Federal interest subsidy and transfers in. In prior fiscal years, this fund was reported in the Other Governmental Funds, as discussed in note 2 to the financial statements.

The Capital Projects Fund – ARRA Economic Stimulus Fund has a restricted fund balance of $248,373.37, and is used to account for the financial resources of the Qualified School Construction Bonds to be used for capital construction and improvement projects. The fund balance decreased during the current fiscal year due to the substantial completion of Lincoln Park Academy. In prior fiscal years, this fund was not reported as a major fund, as discussed in note 2 to the financial statements.

The Capital Projects – Section 1011.14/1011.15 Notes Fund is used to account for the financial resources generated by the District's Revenue Anticipation Note of $12,500,000, borrowed on May 25, 2012, under the provisions of Section 1011.14, Florida Statutes. The proceeds are used for heating, ventilation, and air conditioning improvements to certain facilities. Because the $12,500,000 note payable is considered short-term debt and reported as a fund liability, the fund has an unassigned deficit fund balance of $900,322.95. It should be noted that this fund also has $836,967.31 in encumbrances.

The Capital Projects – Other Capital Projects Fund has a fund balance of $8,316,636.74, of which $724,997.10 has been encumbered for specific projects. The fund balance decreased during the fiscal year by $15,441,544.41, partially from a reclassifying of the Capital Projects Fund – ARRA Economic Stimulus Fund as a separately-reported major fund as discussed in note 2 to the financial statements. The remaining $8,302,545.71 decrease in fund balance was a result of ongoing capital projects and an increase in operating transfers out.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of $1,654,056.76, or 0.6 percent. At the same time, final appropriations are less than the original budgeted amounts by $13,672,446.05, or 4.7 percent. Budget amendments were generally due to three factors: 1) supplemental appropriations and amendments approved after the beginning of the fiscal year to reflect new grants, changes to existing grants, and new revenue sources; 2) changes in revenue estimates for the FEFP, and 3) approval of transfers between expenditure functions. The District maintained its ongoing practice of conservative budgeting and monitoring of expenditures to increase fund balance for emergencies. The actual ending fund balance was less than the final amended budget by $171,455.51.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities at June 30, 2012, is $827,392,214.98 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles;; construction in progress; and audio visual materials and computer software. Major capital asset events during the 2011-12 fiscal year included the substantial completion of Lincoln Park Academy, the continuation of the Bayshore Elementary School HVAC renovation, and the Port St. Lucie High School Hybrid renovation. Additional information on the District's capital assets can be found in note 5 to the financial statements.

Long-Term Debt

At June 30, 2012, the District has total long-term debt outstanding of $325,643,182.31, comprised of certificates of participation and bonds payable. During the fiscal year, the District issued Series 2011B Refunding Certificates of Participation, to refund a portion of Certificates of Participation, Series 2001A, B, C, and Certificates of Participation, Series 2003. Additional information on the District's long-term debt can be found in notes 7 through 10 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

As previously noted, 42.6 percent of the District's revenues came from the State of Florida, and 37.7 percent came from property and sales taxes. The State's primary source of revenue is sales tax, which is dependent on consumer spending by residents and tourists. County property taxes are dependent on assessed property values as well as tax payments by homeowners. As a result, changes in tourism, employment, property values, and the arrival of new

residents into Florida and into St. Lucie County can significantly impact the District's expected revenues in any given fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the St. Lucie County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, St Lucie County District School Board, 4204 Okeechobee Road, Ft. Pierce, Florida 34947.

BASIC FINANCIAL STATEMENTS

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 8,842,977.23	$ 1,450,578.00
Investments	61,154,863.15	
Investments with Fiscal Agent	451,969.96	
Accounts Receivable	2,922,056.67	9,762.00
Deposits Receivable		49,409.00
Internal Balances		
Due from Other Agencies	6,796,691.48	51,163.00
Due from Trustee		680,854.00
Due from Agency Fund		6,464.00
Due from Management Company		11,453.00
Due from Operating Company		218,715.00
Prepaid Items	1,430.40	34,782.00
Inventories	1,179,262.78	
Deferred Charges	3,900,748.70	
Capital Assets:		
Nondepreciable Capital Assets	43,876,653.52	
Depreciable Capital Assets, Net	783,515,561.46	18,196,595.00
TOTAL ASSETS	$ 912,642,215.35	$ 20,709,775.00
LIABILITIES		
Salaries and Benefits Payable	$ 6,996,989.33	$ 563,298.00
Payroll Deductions and Withholdings	5,235,499.34	
Accounts Payable	1,964,426.66	187,077.00
Other Liabilities		5,640.00
Construction Contracts Payable - Retainage	268,939.51	
Due to Other Agencies	6.00	
Accrued Interest Payable	1,885,789.40	
Notes Payable	12,500,000.00	
Deferred Revenue	4,097,667.23	
Long-Term Liabilities:		
Portion Due Within One Year	14,974,005.96	246,736.00
Portion Due After One Year	332,654,009.70	18,436,105.00
Total Liabilities	380,577,333.13	19,438,856.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	505,649,781.37	54,646.00
Restricted for:		
State Required Carryover Programs	519,530.15	
Debt Service	2,203,263.04	
Capital Projects	14,207,496.69	
Food Service	2,709,706.97	
Fuel Tax Rebate	1,187,534.69	
Other Purposes		66,826.00
Unrestricted	5,587,569.31	1,149,447.00
Total Net Assets	532,064,882.22	1,270,919.00
TOTAL LIABILITIES AND NET ASSETS	$ 912,642,215.35	$ 20,709,775.00

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

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ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	$ 187,558,320.08	$	$	$
Pupil Personnel Services	15,198,782.22			
Instructional Media Services	4,103,007.80			
Instruction and Curriculum Development Services	6,998,571.75			
Instructional Staff Training Services	6,481,977.11			
Instruction Related Technology	282,712.04			
School Board	871,952.88			
General Administration	2,598,285.43			
School Administration	21,692,374.60			
Facilities Acquisition and Construction	8,427,364.25			481,700.34
Fiscal Services	1,475,238.71			
Food Services	19,467,221.16	5,447,405.04	15,176,265.09	
Central Services	4,072,137.39			
Pupil Transportation Services	25,387,048.16			
Operation of Plant	25,117,173.16			
Maintenance of Plant	6,472,813.04			
Administrative Technology Services	3,839,307.66			
Community Services	1,105,421.66			
Unallocated Interest on Long-Term Debt	15,852,985.50			958,879.83
Unallocated Depreciation/Amortization Expense*	44,707,922.75			
Total Primary Government	$ 401,710,617.35	$ 5,447,405.04	$ 15,176,265.09	$ 1,440,580.17
Component Units				
Charter Schools/Educational Foundation	$ 12,937,132.00	$ 228,274.00	$ 299,276.00	$ 456,395.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

* This amount excludes the depreciation/amortization that is included in the direct expenses of the various functions.

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Units
Governmental Activities	
$ (187,558,320.08)	$
(15,198,782.22)	
(4,103,007.80)	
(6,998,571.75)	
(6,481,977.11)	
(282,712.04)	
(871,952.88)	
(2,598,285.43)	
(21,692,374.60)	
(7,945,663.91)	
(1,475,238.71)	
1,156,448.97	
(4,072,137.39)	
(25,387,048.16)	
(25,117,173.16)	
(6,472,813.04)	
(3,839,307.66)	
(1,105,421.66)	
(14,894,105.67)	
(44,707,922.75)	
(379,646,367.05)	
	(11,953,187.00)
97,561,033.89	
22,949,388.67	
12,649,887.96	
178,931,242.89	11,469,456.00
136,555.60	3,317.00
22,082,617.94	109,907.00
334,310,726.95	11,582,680.00
(45,335,640.10)	(370,507.00)
577,400,522.32	1,641,426.00
$ 532,064,882.22	$ 1,270,919.00

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - ARRA Economic Stimulus Fund	Capital Projects - ARRA Economic Stimulus Fund
ASSETS				
Cash	$ 2,360,258.32	$ 3,986.06	$ 14.41	$ 196,182.75
Investments	34,603,271.71		1,911,998.38	23,764.81
Investments with Fiscal Agent			19,332.10	267,509.90
Accounts Receivable	2,720,067.11			
Due from Other Funds	4,572,546.22	5,715.17		18,991.88
Due from Other Agencies	891,178.84	141,446.61		
Prepaid Items	1,430.40			
Inventories	787,407.20			
TOTAL ASSETS	$ 45,936,159.80	$ 151,147.84	$ 1,931,344.89	$ 506,449.34
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 6,959,219.46	$	$	$
Payroll Deductions and Withholdings	5,224,795.00			
Accounts Payable	598,661.90	52,518.17		10,130.75
Construction Contracts Payable - Retainage				30,896.56
Due to Other Funds	485,504.33	98,629.67		217,048.66
Due to Other Agencies	6.00			
Notes Payable				
Deferred Revenue	2,488,182.66			
Total Liabilities	15,756,369.35	151,147.84		258,075.97
Fund Balances:				
Nonspendable	787,407.20			
Restricted	1,707,064.84		1,931,344.89	248,373.37
Assigned	1,019,976.30			
Unassigned	26,665,342.11			
Total Fund Balances	30,179,790.45		1,931,344.89	248,373.37
TOTAL LIABILITIES AND FUND BALANCES	$ 45,936,159.80	$ 151,147.84	$ 1,931,344.89	$ 506,449.34

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

Capital Projects - Sec.1011.14/ 1011.15 Notes Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 3,397,583.31	$ 1,516,305.19	$ 1,357,494.10	$ 8,831,824.14
8,416,816.18	7,789,914.46	8,408,257.90	61,154,023.44
		165,127.96	451,969.96
		134,075.76	2,854,142.87
	245,453.11	185,681.23	5,028,387.61
	1,996,270.76	3,767,795.27	6,796,691.48
			1,430.40
		391,855.58	1,179,262.78
$ 11,814,399.49	$ 11,547,943.52	$ 14,410,287.80	$ 86,297,732.68
$	$	$ 37,769.87	$ 6,996,989.33
			5,224,795.00
190,108.59	350,688.35	730,576.18	1,932,683.94
24,613.85	114,432.65	98,996.45	268,939.51
	1,160,803.98	3,028,941.43	4,990,928.07
			6.00
12,500,000.00			12,500,000.00
	1,605,381.80	4,102.77	4,097,667.23
12,714,722.44	3,231,306.78	3,900,386.70	36,012,009.08
		391,855.58	1,179,262.78
	8,316,636.74	10,118,045.52	22,321,465.36
			1,019,976.30
(900,322.95)			25,765,019.16
(900,322.95)	8,316,636.74	10,509,901.10	50,285,723.60
$ 11,814,399.49	$ 11,547,943.52	$ 14,410,287.80	$ 86,297,732.68

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		$ 50,285,723.60
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.		827,392,214.98
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		3,900,748.70
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Certificates of Participation Payable	$ (210,685,211.47)	
Bonds Payable	(114,957,970.84)	
Other Postemployment Benefits Payable	(11,020,509.00)	
Compensated Absences Payable	(10,964,324.35)	(347,628,015.66)
Interest on long-term debt is accrued as a liability in the government-wide statements but is not recognized in the governmental funds.		(1,885,789.40)
Total Net Assets - Governmental Activities		$ 532,064,882.22

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

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ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - ARRA Economic Stimulus Fund	Capital Projects - ARRA Economic Stimulus Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 323,701.46	$	$ 1,048,527.99	$
Federal Through State and Local	1,319,288.20	2,024,512.95		
State	148,015,689.12			
Local:				
Property Taxes	97,561,033.89			
Local Sales Taxes				
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	17,691,864.09		4,015.24	14,013.59
Total Local Revenues	115,252,897.98		4,015.24	14,013.59
Total Revenues	264,911,576.76	2,024,512.95	1,052,543.23	14,013.59
Expenditures				
Current - Education:				
Instruction	173,004,819.45	779,988.90		
Pupil Personnel Services	14,070,761.68	56,912.87		
Instructional Media Services	4,070,551.65			
Instruction and Curriculum Development Services	2,488,694.40	121,182.04		
Instructional Staff Training Services	580,807.68	564,277.20		
Instruction Related Technology	275,625.90			
School Board	864,851.54			
General Administration	1,788,384.78	101,674.07		
School Administration	21,367,935.05			
Facilities Acquisition and Construction	731,895.24			1,821,610.80
Fiscal Services	1,463,186.64			
Food Services	4,780.63			
Central Services	3,901,985.79	32,554.90		
Pupil Transportation Services	19,560,194.60	64,307.35		
Operation of Plant	24,906,125.59			
Maintenance of Plant	6,420,020.22			
Administrative Technology Services	3,756,889.77	51,301.58		
Community Services	756,264.59			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	82,963.90			3,759,046.11
Other Capital Outlay	233,297.46	252,314.04		1,323,982.01
Debt Service:				
Principal				
Interest and Fiscal Charges			1,140,653.85	
Total Expenditures	280,330,036.56	2,024,512.95	1,140,653.85	6,904,638.92
Excess (Deficiency) of Revenues Over Expenditures	(15,418,459.80)		(88,110.62)	(6,890,625.33)
Other Financing Sources (Uses)				
Transfers In	11,286,774.09		1,274,334.48	
Refunding Bonds Issued				
Premium on Refunding Bonds				
Payments to Refunded Bond Escrow Agent				
Certificates of Participation Issued				
Premium on Certificatess of Participation				
Proceeds from Sale of Capital Assets	11,876.70			
Insurance Loss Recoveries	1,251,146.25			
Transfers Out	(1,094,818.27)			
Total Other Financing Sources (Uses)	11,454,978.77		1,274,334.48	
Net Change in Fund Balances	(3,963,481.03)		1,186,223.86	(6,890,625.33)
Fund Balances, Beginning	34,143,271.48			
Adjustment to Beginning Fund Balance			745,121.03	7,138,998.70
Fund Balances, Beginning as Restated	34,143,271.48		745,121.03	7,138,998.70
Fund Balances, Ending	$ 30,179,790.45	$ 0.00	$ 1,931,344.89	$ 248,373.37

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

Capital Projects - Sec.1011.14/ 1011.15 Notes Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 27,424.28	$ 1,399,653.73
		40,379,869.86	43,723,671.01
		2,408,741.42	150,424,430.54
		22,949,388.67	120,510,422.56
	12,649,887.96		12,649,887.96
	600,601.46		600,601.46
		5,447,405.04	5,447,405.04
5,357.98	9,234.21	874,153.39	18,598,638.50
5,357.98	13,259,723.63	29,270,947.10	157,806,955.52
5,357.98	13,259,723.63	72,086,982.66	353,354,710.80
		11,765,750.85	185,550,559.20
		947,197.10	15,074,871.65
			4,070,551.65
		4,332,561.04	6,942,437.48
		5,284,371.68	6,429,456.56
		4,776.14	280,402.04
			864,851.54
		687,002.93	2,577,061.78
		147,262.30	21,515,197.35
	4,425,408.16	1,448,450.05	8,427,364.25
			1,463,186.64
		19,305,616.70	19,310,397.33
		104,381.12	4,038,921.81
		926,094.39	20,550,596.34
		5,978.40	24,912,103.99
			6,420,020.22
			3,808,191.35
		340,132.27	1,096,396.86
862,430.93	3,206,579.00	5,807,164.28	13,718,184.22
	556,790.78	2,580,759.94	4,947,144.23
		12,740,000.00	12,740,000.00
43,250.00		14,587,586.26	15,771,490.11
905,680.93	8,188,777.94	81,015,085.45	380,509,386.60
(900,322.95)	5,070,945.69	(8,928,102.79)	(27,154,675.80)
	26,782.00	25,048,678.86	37,636,569.43
		865,000.00	865,000.00
		95,114.95	95,114.95
		(14,345,463.00)	(14,345,463.00)
		12,725,000.00	12,725,000.00
		934,484.30	934,484.30
			11,876.70
	7,080.08	1,817,466.54	3,075,692.87
	(13,407,353.48)	(23,538,811.43)	(38,040,983.18)
	(13,373,491.40)	3,601,470.22	2,957,292.07
(900,322.95)	(8,302,545.71)	(5,326,632.57)	(24,197,383.73)
	23,758,181.15	16,581,654.70	74,483,107.33
	(7,138,998.70)	(745,121.03)	
	16,619,182.45	15,836,533.67	74,483,107.33
$ (900,322.95)	$ 8,316,636.74	$ 10,509,901.10	$ 50,285,723.60

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances - Governmental Funds		$ (24,197,383.73)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year:		
Capital Outlay - Capitalized	$ 18,665,328.45	
Undepreciated Costs of Assets Sold	(67,303.12)	
Less: Depreciation Expense	(49,375,302.76)	(30,777,277.43)
Debt financing provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current fiscal year.		
Issuance of Certificates of Participation	$ (12,725,000.00)	
Premium on Issueance of Certificates of Participation	(934,484.30)	
Issuance of Bonds	(865,000.00)	
Refunded Bonds	950,000.00	
Repayment of Bonds	5,755,000.00	
Refunded Certificates of Participation	13,190,000.00	
Repayment of Certificates of Participation	6,985,000.00	12,355,515.70
Premiums, discounts, and deferred gains on debt refundings are reported in the governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the government-wide statements. This is the net amount attributable to the amortization of premiums and discounts and deferred refunding in the current fiscal year.		
Premium/Discount Amortization		(127,475.62)
Deferred refunding costs		
Deferred Refunding, June 30, 2012	$ 3,677,299.17	
Deferred Refunding, June 30, 2011	3,471,434.53	$ 205,864.64
Debt issuance costs are reported in the fiscal year the debt is issued as an expenditure in the governmental funds. These costs are reported in the government-wide statements as an asset and are amortized over the life of the associated debt:		
Deferred Charges, June 30, 2012	$ 3,900,748.70	
Deferred Charges, June 30, 2011	(4,055,905.91)	(155,157.21)
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as an expense when interest accrues in the Statement of Activities. This is the amount of accrued interest at year-end, less the amount accrued in the prior fiscal year:		
Accrued Interest, June 30, 2012	$ (1,885,789.40)	
Accrued Interest, June 30, 2011	1,991,410.25	105,620.85
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year.		(698,934.30)
Other postemployment benefits are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(2,046,413.00)
Change in Net Assets - Governmental Activities		$ (45,335,640.10)

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash	$ 11,153.09
Investments	839.71
Due From Other Funds	34,178.67
TOTAL ASSETS	$ 46,171.47
LIABILITIES	
Current Liabilities:	
Salaries and Benefits Payable	$ 10,704.34
Accounts Payable	31,742.72
Due to Other Funds	3,724.41
TOTAL LIABILITIES	$ 46,171.47

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for Services	$ 446,827.86
OPERATING EXPENSES	
Salaries	287,231.00
Employee Benefits	127,729.78
Purchased Services	145,608.92
Materials and Supplies	260,386.95
Capital Outlay	30,335.05
Total Operating Expenses	851,291.70
Operating Loss	(404,463.84)
NONOPERATING REVENUES	
Interest Revenue	50.09
Loss Before Transfers	(404,413.75)
Transfers In	404,413.75
Change in Net Assets	
Total Net Assets - Beginning	
Total Net Assets - Ending	$ 0.00

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Services	$ 412,649.19
Cash Payments to Suppliers for Goods and Services	(411,727.52)
Cash Payments to Employees for Services	(522,633.78)
Net Cash Used by Operating Activities	(521,712.11)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from Other Funds	404,413.75
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturity of Investments	128,401.36
Interest Income	50.09
Net Cash Provided by Investing Activities	128,451.45
Net Increase in Cash	11,153.09
Cash, Beginning	
Cash, Ending	$ 11,153.09

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	$ (404,463.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Due To Other Funds	3,724.41
Increase in Accounts Payable	20,878.99
Increase in Due From Other Funds	(34,178.67)
Decrease in Salaries and Benefits Payable	(107,673.00)
Total Adjustments	(117,248.27)
Net Cash Used by Operating Activities	$ (521,712.11)

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2012

		Agency Funds
ASSETS		
Cash	$	2,086,188.00
Accounts Receivable		1,071.80
Inventory		28,680.00
TOTAL ASSETS	$	2,115,939.80
LIABILITIES		
Accounts Payable	$	32,089.00
Due to Other Funds		67,913.80
Internal Accounts Payable		2,015,937.00
TOTAL LIABILITIES	$	2,115,939.80

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Blended Component Unit. The St. Lucie County School Board Leasing Corporation (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Units. The component units column in the government-wide financial statements include the financial data of the District's other component units.

The St. Lucie County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

Renaissance Charter School of St. Lucie, a department of Renaissance Charter School, Inc., and Imagine Charter School – Nau Campus, a division of Imagine St. Lucie County, LLC, are authorized by Section 1002.33, Florida Statutes. The charter schools operate under a charter approved by their sponsor, the St. Lucie 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.

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The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2012. The audit reports are filed in the District's administrative offices.

The District also considered the Palm Pointe Educational Research School at Tradition operated by Florida Atlantic University (FAU) for inclusion in its reporting entity; however, because the Palm Pointe Educational Research School at Tradition is an operating component of FAU and is not a separate legal entity, it does not meet the criteria for inclusion as a District component unit.

Basis of Presentation:

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

  Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation departments is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

  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, except for interfund services provided and used.

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

  The District reports the following major governmental funds:

  - General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
  - Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
  - Debt Service Fund – ARRA Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and the related costs of QSCBs.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- Capital Projects Fund – ARRA Economic Stimulus Fund – to account for the financial resources of the QSCBs to be used for certain capital construction and improvement projects.
- Capital Projects – Section 1011.14/1011.15 Notes Fund – to account for the financial resources generated by the District's Revenue Anticipation Notes of $12,500,000, borrowed on May 25, 2012, under the provisions of Section 1011.14, Florida Statutes, the proceeds of which were used for HVAC improvements to certain facilities.
- Capital Projects – Other – to account for other financial resources generated by Certificates of Participation, Sales Tax Revenue Bonds, and other debt; Classrooms First funds to be used for educational capital outlay needs, including new construction, and remodeling and renovation projects; and repair and remediation of damage caused by hurricanes and tropical storms, along with associated insurance loss recoveries.

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

- Internal Service Fund – to account for the District's publications operation.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

Government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund and 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, with the exception of insurance loss recoveries, which the District considers to be available if collection is expected. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary fund consisting of the internal service fund, is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of the District's internal service fund are charges for printing. Operating

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expenses include supplies, materials, and personnel involved in printing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Foundation and 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 is considered to be cash on hand and demand deposits.

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 with the State Board of Administration (SBA) in the Florida PRIME, with SBA for participation in 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. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, 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 the Florida Education Investment Trust Fund (FEITF), which the FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value.

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

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

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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 or amortized using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	8 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 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. Bond and certificates of participation premiums and discounts, as well as issuance costs and refunding costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds and certificates of participation payable are reported net of the applicable premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

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

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

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

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

The Board adopted the 2011 tax levy on September 13, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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Capital Outlay Surtax. In October 2005, the voters of St. Lucie County approved a one-half cent school capital outlay surtax on sales in the County for 20 years, effective January 1, 2006, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

Educational Impact Fees. St. Lucie County imposes an educational impact fee based on an ordinance adopted by the County Commission. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness necessitated by new residential development.

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

2. ACCOUNTING CHANGES

Pursuant to the *Florida Financial and Program Cost Accounting and Reporting for Florida Schools (Red Book)*, the Florida Department of Education requires that the District report the Capital Projects – ARRA Economic Stimulus Fund and Debt Service – ARRA Economic Stimulus Fund as major governmental funds for financial reporting transparency of ARRA capital projects and debt service transactions, respectively. In prior fiscal years, the District reported these transactions in the Capital Projects - Other Fund and Other Governmental Funds, necessitating the following accounting changes to reported beginning fund balances:

	Capital Projects - Other Fund	Other Governmental Funds	Capital Projects Fund-ARRA Economic Stimulus Fund	Debt Service Fund-ARRA Economic Stimulus Fund
Beginning Fund Balances July 1, 2011	$ 23,758,181.15	$ 16,581,654.70	$	$
Accounting Changes	(7,138,998.70)	(745,121.03)	7,138,998.70	745,121.03
Restated: Beginning Fund Balances July 1, 2011	$ 16,619,182.45	$ 15,836,533.67	$ 7,138,998.70	$ 745,121.03

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

3. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

4. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	$ 862,192.04
Fund B	5.73 Year Average	216,323.57
Debt Service Accounts	6 Months	109,806.54
Fidelity Institutional Prime Money Market (2)	46 Day Average	11,004.00
United States Treasury Bill (3)	July 26, 2012	1,909,647.08
Florida Education Investment Trust Fund	46 Day Average	10,524,438.24
Bank of America Master Repurchase Contract (4)	April 2020	970,105.28
First American Treasury Obligations Fund Class Z (4)	52 Day Average	1,627.34
Fidelity Institution Money Market Treasury Portfolio Class III (5)	58 Day Average	47,001,689.02
Total Investments, Primary Government		$ 61,606,833.11

Notes: (1) Includes $440,962.34 of funds held in trust in connection with Certificates of Participation, Series 2004A, Series 2005, Series 2010B-QSCB, and Series 2010C-QSCB reported as Investments with Fiscal Agent for financial statement reporting purposes.

(2) Comprised of funds held in trust in connection with Certificates of Participation, Series 2011A and 2011B reported as Investments with Fiscal Agent for financial statement reporting purposes.

(3) Comprised of funds held in trust in connection with Certificiates of Participation, Series 2010B-QSCB and Series 2010C-QSCB.

(4) Comprised of funds held in connection with Certificates of Participation, Series 2004-QZAB.

(5) Includes $3.62 in funds held in trust in connection with Certificates of Participation, Series 2010B-QSCB, and Series 2010C-QSCB, and reported as Investments with Fiscal Agent for financial statement reporting purposes.

- Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy encourages investment maturities that match known cash flow needs and anticipated cash flow requirements as a means of managing its exposure to fair value losses from increasing

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

interest rates. Investment of current operating funds shall have maturities no longer than two years. Investment of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate to the need for funds and in accordance with debt covenants, but shall not exceed five years.

The District's various money market investments had a weighted average days to maturity (WAM) ranging from 46 to 58 days at June 30, 2012. Florida PRIME had a WAM of 38 days and the FEITF had a WAM of 46 days. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. As of June 30, 2012, based on expected future cash flows, the WAL, of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits investments to Florida PRIME or any intergovernmental pool authorized pursuant to the Florida Interlocal Cooperating Act, as provided in Section 163.01, Florida Statutes; United States Treasury securities, obligations of United States Government Agencies and Instrumentalities, SEC registered money market funds with an average weighted maturity of 90 days or less; certain repurchase agreements, commercial paper, bankers' acceptances, and State or local government taxable or tax-exempt debt, subject to various limitations.

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

As of June 30, 2012, the District's investment in Florida PRIME, the First American Treasury Obligations Fund Class Z, Fidelity Institution Money Market Treasury Portfolio Class III Fund, Fidelity Institutional Prime Money Market Fund and the FEITF are rated AAAm by Standard & Poor's. Fund B is unrated. The United States Treasury bill is rated AA by Standard & Poor's.

- Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy addresses custodial credit risk in that all securities, are held with a third-party custodian; and all securities purchased by and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution.

- Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy limits the amounts that may be invested in any one issuer ranging from 25 to 100 percent depending on investment type. As of June 30, 2012, all District investments were in compliance with the District's investment policy.

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

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions		Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	$ 40,036,879.59	$	$		$ 40,036,879.59
Land Improvements-Nondepreciable	1,085,899.95	12,746.52			1,098,646.47
Construction in Progress	27,389,735.99	689,080.96	25,337,689.49		2,741,127.46
Total Capital Assets Not Being Depreciated	68,512,515.53	701,827.48	25,337,689.49		43,876,653.52
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	14,028,222.51	243,807.48			14,272,029.99
Buildings and Fixed Equipment	946,555,868.02	39,735,227.33			986,291,095.35
Furniture, Fixtures, and Equipment	47,251,859.16	1,898,907.52	357,794.14		48,792,972.54
Motor Vehicles	29,646,653.82				29,646,653.82
Audio Visual Materials and Computer Software	15,009,205.25	1,423,248.13			16,432,453.38
Total Capital Assets Being Depreciated	1,052,491,808.76	43,301,190.46	357,794.14		1,095,435,205.08
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	5,625,431.58	799,690.08			6,425,121.66
Buildings and Fixed Equipment	193,082,762.73	39,652,536.32			232,735,299.05
Furniture, Fixtures, and Equipment	35,359,990.03	5,014,332.19	262,147.20		40,112,175.02
Motor Vehicles	17,423,893.89	2,611,606.10			20,035,499.99
Audio Visual Materials and Computer Software	11,342,753.65	1,297,138.07	28,343.82	(1)	12,611,547.90
Total Accumulated Depreciation	262,834,831.88	49,375,302.76	290,491.02		311,919,643.62
Total Capital Assets Being Depreciated, Net	789,656,976.88	(6,074,112.30)	67,303.12		783,515,561.46
Governmental Activities Capital Assets, Net	$ 858,169,492.41	$ (5,372,284.82)	$ 25,404,992.61		$ 827,392,214.98

Note 1: Includes adjustment of $28,343.82 of accumulated depreciation to property records.

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 4,667,380.01
Unallocated	44,707,922.75
Total Depreciation Expense - Governmental Activities	$49,375,302.76

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

6. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Revenue Anticipation Note	$	$ 12,500,000	$	$ 12,500,000

On May 25, 2012, the District issued Revenue Anticipation Note (RAN), Series 2012A in the amount of $12,500,000. The proceeds are used for heating, ventilation, and air conditioning improvements to certain facilities. The note was issued at an interest rate of 1.3934 percent, matures on May 15, 2013, and may be extended each year for a period of four years.

7. CERTIFICATES OF PARTICIPATION

Certificates of Participation outstanding at June 30, 2012, were as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
2003A	$ 1,365,000	4.10	2018	$ 34,805,000
2004A	75,040,000	3.625 - 5.00	2030	75,580,000.00
2004-QZAB	1,277,000	(1)	2020	1,277,000.00
2005	31,410,000	3.375 - 5.00	2030	38,600,000.00
2007	20,645,000	3.625 - 4.50	2033	21,865,000.00
2010B-QSCB	12,232,000	0.47 (2)	2027	12,232,000.00
2010C-QSCB	8,000,000	0.39 (2)	2028	8,000,000.00
2011A, Refunding	51,165,000	2.00 - 4.00	2021	54,850,000.00
2011B, Refunding	12,725,000	3.60 - 5.00	2023	12,725,000.00
Total Certificates of Participation Payable	$ 213,859,000			

Notes: (1) Interest on this debt is paid by the United States Government through the issuance of Federal income tax credits to the holder of the QZAB. The rate of return to the holders was established by the United States Government at the time of the sale.

(2) Series 2010B and Series 2010C are desigated as "qualified school constuction bonds" as defined in Section 54F of the Internal Revenue Code, and pursuant to Section 6431 of the Code, the Board has elected to receive a federal subsidy payments on each interest payment date for the Certificates in an amount equal to the lesser of the amount of interest payable with respect to the Certificates on such date or the amount of interest which would have been payable with respect to the Certificates if the interest were determined at the applicable tax credit rate for the Certificates pursuant to Section 54A(3)(b) of the Code. The interest rate for the 2010B Certificates is 5.87 percent with an allowed Federal subsidy of 5.40 percent. The interest rate for the 2010C Certificates is 5.24 percent with allowed Federal subsidy of 4.85 percent.

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The Series 2003 Certificates. The District entered into a financing arrangement on April 4, 2003, which was characterized as a lease-purchase agreement, with the St. Lucie County School Board (Leasing Corporation) whereby the District secured financing of $34,805,000 to refund the remaining portion of its Certificates Participation Series 2001 A, B, and C. The Series 2003 Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 30 years commencing on July 1, 2003. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 30 years from the date of inception of the arrangement.

The Series 2004 Certificates. The District entered into a financing arrangement on April 30, 2004, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $75,580,000 for various educational facilities. The Series 2004 Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 26 years commencing on April 15, 2004. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 30 years from the date of inception of the arrangement.

The Series 2004 QZAB Certificates. The District entered into a financing arrangement on April 30, 2004 under the Qualified Zone Academy Bonds (QZAB) Program. The QZAB Program provides no-interest cost financing to purchase certain goods and services for schools located in eligible District areas (zones). The District secured financing of $1,277,000 through the issuance of Certificates of Participation, Series 2004-QZAB. Repayment of the original $1,277,000 financing proceeds is due in full on April 29, 2020. In connection with the financing, the District was required to make annual deposits to a sinking fund of $165,545.25 for 5 consecutive years beginning July 1, 2005. The required deposits, along with the accrued interest, will be sufficient to repay the debt at maturity. The invested assets accumulated pursuant to this agreement are held under a custodial agreement until the debt matures.

The Series 2005 Certificates. The District entered into a financing arrangement on September 21, 2005, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $38,600,000 for various educational facilities. The Series 2005 Certificates were to be repaid from the proceeds of rents paid by the District.

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As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 23 years commencing on September 1, 2005. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 30 years from the date of inception of the arrangement.

The Series 2007 Certificates. The District entered into a financing arrangement on January 1, 2007, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $21,865,000 for the planning and construction of the Treasure Coast University Charter School (now called Palm Pointe Educational Research School at Tradition). The Series 2007 Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 25 years commencing on January 1, 2007. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 30 years from the date of inception of the arrangement.

In connection with this financing arrangement, the District entered into an Educational Facilities Lease Purchase Agreement with the FAU – Treasure Coast University Schools, Inc. (TCUS), a Florida non-for-profit corporation authorized and created by Florida Atlantic University, for the purpose of facilitating the acquisition, construction, and operation of TCUS, as sub lessee. The term of the sublease commenced on January 1, 2007, and extends through June 30, 2021. In accordance with the sublease, TCUS will remit Charter School Capital Funds to the Trustee directly for deposit to the TCUS Revenue Fund.

The Series 2010B-QSCB Certificates. The District entered into a financing arrangement on June 29, 2010, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $12,232,000 for various educational facilities. The Series 2010B Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 17 years commencing on June 29, 2010. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 17 years from the date of inception of the arrangement.

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The Series 2010C-QSCB Certificates. The District entered into a financing arrangement on September 30, 2010, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $8,000,000 for various educational facilities. The Series 2010B Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 17 years commencing on October 1, 2010. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 17 years from the date of inception of the arrangement.

The Series 2011A Refunding Certificates. The District entered into a financing arrangement on May 3, 2011, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $54,850,000 to refund a portion of Certificates of Participation, Series 2001A, B, C, and Certificates of Participation, Series 2003. The Series 2011A Refunding Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 22 years commencing on May 1, 2011. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 22 years from the date of inception of the arrangement.

The Series 2011B Refunding Certificates. The District entered into a financing arrangement on January 5, 2012, which was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing of $12,725,000 to refund a portion of Certificates of Participation, Series 2001A, B, C, and Certificates of Participation, Series 2003. The Series 2011B Refunding Certificates were to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of $10 per year. The initial term of the lease is 11 years commencing on January 5, 2012. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be 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 arrangement which may be up to 11 years from the date of inception of the arrangement.

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

Series 2003	Rivers Edge Elementary School
	Savanna Ridge Elementary School
	Southern Oaks Middle School
	Dan McCarty Middle School Addition
	St. Lucie Elementary School Addition
	Lincoln Park Academy Addition
Series 2004	Oak Hammock K-8 School
	Treasure Coast High School
Series 2004-QZAB	Technology-related equipment at 19 schools
Series 2005	Westgate K-8 School
	Treasure Coast High School Improvements
Series 2007	Palm Pointe Educational Research School at Tradition
Series 2010B-QSCB	Lincoln Park Academy Additions and Renovations
Series 2010C-QSCB	Lincoln Park Academy Additions and Renovations
Series 2011A and 2011B	District Administration Building
	Fairlawn Elementary School
	Frances K. Sweet Elementary School
	Dan McCarty Middle School
	Ft. Pierce Magnet School of the Arts

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

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 16,855,385.30	$ 7,185,000.00	$ 9,670,385.30
2014	16,850,838.43	7,420,000.00	9,430,838.43
2015	16,847,713.42	7,675,000.00	9,172,713.42
2016	16,855,982.16	7,975,000.00	8,880,982.16
2017	16,852,932.16	8,280,000.00	8,572,932.16
2018-2022	85,512,295.80	48,017,000.00	37,495,295.80
2023-2027	97,675,805.15	71,822,000.00	25,853,805.15
2028-2032	59,157,837.50	54,030,000.00	5,127,837.50
2033-2037	1,487,737.50	1,455,000.00	32,737.50
Total Minimum Lease Payments	328,096,527.42	213,859,000.00	114,237,527.42
Plus: Net Unamortized Premium	503,510.64	503,510.64	
Plus: Deferred Costs on Refunding	(3,677,299.17)	(3,677,299.17)	
Total Minimum Lease Payments	$ 324,922,738.89	$ 210,685,211.47	$ 114,237,527.42

8. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2003A	$ 35,000	3.125	2013
Series 2005A	2,120,000	5.00	2017
Series 2005B	380,000	5.00	2018
Series 2009A, Refunding	325,000	4.00-5.00	2019
Series 2011A, Refunding	865,000	3.00-5.00	2023
Sales Tax Revenue Bonds:			
Series 2001	2,660,000	4.60-5.00	2031
Series 2006	106,165,000	4.024 - 4.994	2027
Total Bonds Payable	$ 112,550,000		

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

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

- State School Bonds

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

- Sales Tax Revenue Bonds

  - Series 2001 (Pari-Mutuel Revenues Replacement Program)

    These bonds are authorized by Chapters 67-1996 and 76-480, Laws of Florida, Section 212.20, Florida Statutes; Chapters 230, 235, 236, and 550, and a resolution adopted by the St. Lucie County District School Board on June 12, 2001. These bonds are secured by pari-mutuel replacement revenues distributed annually to St. Lucie County from the State pursuant to Section 212.20 (6)(d)7.a., Florida Statutes, as a replacement for moneys distributed under Section 550.135, Florida Statutes, prior to July 1, 2000.

  - Series 2006

    These bonds are authorized by Chapters 212, 1001, 1011, and 1013 Florida Statutes; and a resolution adopted by the Board on May 23, 2006. These bonds are secured by a pledge of the proceeds received by the District from the levy and collection of the one-half cent discretionary sales surtax revenues originally approved by referendum of the voters of St. Lucie County on March 12, 1996, and extended by the voters on October 18, 2005, through December 31, 2026. The sales tax collections began on July 1, 2006, and will be in place for twenty years, through December 2026. At the time of issuance in May 2006, the District pledged approximately 74 percent of the estimated $270,251,553 of discretionary surtax sales revenues in connection with the Series 2006 Sales Tax Bond issue totaling $200,134,935. During the 2011-12 fiscal year, the District recognized sales tax revenues of $12,649,888 and expended $10,228,988 (81 percent) of these revenues for debt service directly collateralized by these revenues. As of June 30, 2012, the remaining pledged sales tax revenues are committed until final maturity of the debt, or October 2026. Assuming a nominal growth rate in the collection of sales tax revenues, which are levied through December 2026, approximately $190,974,037 or 77 percent of this revenue stream has been pledged in connection with remaining debt service of $146,517,872, on the sales tax revenue bonds.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	$ 970,213.52	$ 790,000.00	$ 180,213.52
2014	964,250.00	820,000.00	144,250.00
2015	763,250.00	660,000.00	103,250.00
2016	780,250.00	710,000.00	70,250.00
2017	279,750.00	245,000.00	34,750.00
2018-2022	490,750.00	435,000.00	55,750.00
2023	66,950.00	65,000.00	1,950.00
Total State School Bonds	4,315,413.52	3,725,000.00	590,413.52
Sales Tax Revenue Bonds:			
2013	10,206,235.00	5,185,000.00	5,021,235.00
2014	10,186,532.50	5,410,000.00	4,776,532.50
2015	10,200,495.00	5,675,000.00	4,525,495.00
2016	10,199,733.75	5,915,000.00	4,284,733.75
2017	10,194,051.25	6,155,000.00	4,039,051.25
2018-2022	50,770,526.28	35,120,000.00	15,650,526.28
2023-2027	50,510,865.00	44,585,000.00	5,925,865.00
2028-2031	880,000.00	780,000.00	100,000.00
Total District Revenue Bonds	153,148,438.78	108,825,000.00	44,323,438.78
Plus Net Unamortized Premium	2,407,970.84	2,407,970.84	
Total	$ 159,871,823.14	$ 114,957,970.84	$ 44,913,852.30

9. DEFEASED DEBT

During the 2011-12 fiscal year, State School Bonds, Series 2002, and a portion of State School Bonds, Series 2003, were defeased in substance by placing a portion of the proceeds of State School Bonds, Series 2011-A, in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the District's financial statements. On June 30, 2012, State School Bonds, Series 2002, totaling $460,000 outstanding, and State School Bonds, Series 2003, totaling $490,000 outstanding, are considered defeased in substance.

On January 5, 2012, the Board issued $12,725,000 in Refunding Certificates of Participation, Series 2011B, with an average interest rate of 4.47 percent, to refund the remaining $13,190,000 of the District's Certificates of Participation, Series 2001A, B, and C. The net proceeds of $13,659,484 (after payment of $271,634 in underwriting fees, insurance, and other issuance costs) was placed in an irrevocable trust to provide for the future debt service payments on the Certificates of Participation, Series 2001A, B, and C. The Certificates of Participation, Series 2001A, B, and C were redeemed on February 7, 2012. As a result, the liability for these

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JUNE 30, 2012

bonds has been removed from the government-wide financial statements. The Certificates were refunded to reduce total debt service payments over the next 11 years by approximately $1,432,005 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,111,653.

In a prior fiscal year, a portion of Certificates of Participation, Series 2001A, B, and C, and a portion of Certificates of Participation, Series 2003, were defeased in substance by placing a portion of the proceeds of Certificates of Participation, Series 2011A, in an irrevocable trust to provide for all future debt service payments on the refunded Certificates. The refunded Certificates were redeemed on July 1, 2011, and accordingly are not included in the District's financial statements.

10. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	$ 221,309,000.00	$ 12,725,000.00	$ 20,175,000.00	$ 213,859,000.00	$ 7,185,000.00
Unamortized Premiums/Discounts	(730,986.60)	934,484.30	(300,012.94)	503,510.64	72,186.39
Less: Deferred Amount on Refundings	(3,471,434.53)	(596,321.57)	(390,456.93)	(3,677,299.17)	(397,065.72)
Certificates of Participation Payable, Net	217,106,578.87	13,063,162.73	19,484,530.13	210,685,211.47	6,860,120.67
Bonds Payable	118,390,000.00	865,000.00	6,705,000.00	112,550,000.00	5,975,000.00
Unamortized Premium	2,580,508.16		172,537.32	2,407,970.84	172,537.32
Bonds Payable, Net	120,970,508.16	865,000.00	6,877,537.32	114,957,970.84	6,147,537.32
Other Postemployment Benefits Payable	8,974,096.00	3,447,127.00	1,400,714.00	11,020,509.00	
Compensated Absences Payable	10,265,390.05	2,665,282.27	1,966,347.97	10,964,324.35	1,966,347.97
Total Governmental Activities	$ 357,316,573.08	$ 20,040,572.00	$ 29,729,129.42	$ 347,628,015.66	$ 14,974,005.96

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

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

11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 4,572,546.22	$ 485,504.33
Special Revenue:		
Federal Economic Stimulus	5,715.17	98,629.67
Capital Projects:		
ARRA Economic Stimulus	18,991.88	217,048.66
Other	245,453.11	1,160,803.98
Nonmajor Governmental	185,681.23	3,028,941.43
Internal Service	34,178.67	3,724.41
Fiduciary		67,913.80
Total	$ 5,062,566.28	$ 5,062,566.28

Interfund receivables and payables are generally temporary loans between funds to cover operating expenses.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 11,286,774.09	$ 1,094,818.27
Debt Service:		
ARRA Economic Stimulus	1,274,334.48	
Capital Projects:		
Other	26,782.00	13,407,353.48
Nonmajor Governmental	25,048,678.86	23,538,811.43
Internal Service	404,413.75	
Total	$ 38,040,983.18	$ 38,040,983.18

The General Fund received transfers from the nonmajor Capital Projects – Local Capital Improvement Fund (LCIF) and Sales Surtax Fund (subfund of the Capital Projects – Other Fund) to cover maintenance, the administrative technology function, property-casualty insurance, and capital outlay costs. The General Fund also received from the nonmajor Capital Projects – Public Education Capital Outlay (PECO) Fund money distributed to charter schools capital outlay. The General Fund transferred money to the Internal Service Fund for publication services in excess of charges and to the nonmajor Debt Service – Other Fund for principal and interest and related debt service costs.

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The Capital Projects - Sales Surtax Fund transferred money to the Debt Service - Other Fund, for principal and interest and letter of credit costs related to the sales tax bonds. In addition, the Capital Projects – Sales Surtax Fund transferred money to the General Fund for administrative technology.

The nonmajor LCIF transferred money to the Debt Service – ARRA Economic Stimulus Fund and the nonmajor Debt Service – Other Debt Service Fund for principal and interest on various certificates of participation and qualified school construction bond debt. Also, the LCIF transferred money to the General Fund for allowable maintenance, property insurance and capital costs. The nonmajor Capital Projects - PECO Fund transferred money to the General Fund for charter school capital outlay payments.

12. FUND BALANCE REPORTING

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

- Nonspendable

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

- Restricted

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

- Committed

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

- Assigned

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

- Unassigned

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

  The Capital Projects fund contains a deficit fund balance of $900,322.95 for funds related to Section 1011.14/1011.15 notes. The deficit fund balance occurred because the short-term debt is a fund liability while the capital assets constructed with the note proceeds are considered long-term and not recorded in the

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JUNE 30, 2012

fund financial statements. The deficit is expected to be restored when the District pays the obligation in its entirety.

The following is a schedule of fund balances by category at June 30, 2012:

	Major Funds							
	General	Special Revenue - Federal Economic Stimulus	Debt Service - ARRA Economic Stimulus Fund	Capital Projects - ARRA Economic Stimulus Fund	Capital Projects - Section 1011.14/1011.15 Notes Fund	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances								
Nonspendable:								
Inventories	$ 787,407.20	$	$	$	$	$	$ 391,855.58	$ 1,179,262.78
Restricted:								
State Req. Carryover	519,530.15							519,530.15
Fuel Tax Reserve	1,187,534.69							1,187,534.69
Debt Service			1,931,344.89				2,157,707.55	4,089,052.44
Food Service							2,317,851.39	2,317,851.39
Capital Projects				248,373.37		8,316,636.74	5,642,486.58	14,207,496.69
Assigned:								
Contracted Services	12,834.57							12,834.57
Materials and Supplies	1,007,141.73							1,007,141.73
Unassigned	26,665,342.11				(900,322.95)			25,765,019.16
Total Fund Balances	$30,179,790.45	$ 0.00	$ 1,931,344.89	$ 248,373.37	$ (900,322.95)	$ 8,316,636.74	$10,509,901.10	$50,285,723.60

13. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	$ 102,825,104.00
Categorical Educational Program - Class Size Reduction	42,171,186.00
School Recognition	1,678,818.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,424,695.12
Voluntary Prekindergarten Program	847,088.86
Charter School Capital Outaly Funds	456,395.35
Food Service Supplement	292,830.00
Mobile Home License Tax	237,336.84
Discretionary Lottery Funds	124,112.00
Fuel Tax Refunds	100,487.88
Interest on Undistributed CO & DS	15,552.18
Miscellaneous	250,824.31
Total	$ 150,424,430.54

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

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14. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.315	$ 85,301,250
Prior Period Funding Adjustment Millage	0.065	1,043,195
Basic Discretionary Local Effort	0.748	12,004,767
Critical Operating Needs	0.250	4,012,288
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	24,073,734
Total	7.878	$ 126,435,234

15. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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

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

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $18,327,798.87, $20,314,129.94, and $12,034,008.68, respectively, which were equal to the required contributions for each fiscal year.

There were 789 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $2,546,522.53, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

16. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 216 retirees received other postemployment benefits. The District provided required contributions of $1,400,714 toward the annual OPEB cost, net of retiree contributions totaling $1,703,636, which represents 1.04 percent of covered payroll.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Amount
Normal Cost (service cost for one year)	$ 2,231,653
Amortization of Unfunded Actuarial Accrued Liability	1,188,884
Annual Required Contribution	3,420,537
Interest on Net OPEB Obligation	358,964
Adjustment to Annual Required Contribution	(332,374)
Annual OPEB Cost (Expense)	3,447,127
Contribution Toward the OPEB Cost	(1,400,714)
Increase in Net OPEB Obligation	2,046,413
Net OPEB Obligation, Beginning of Year	8,974,096
Net OPEB Obligation, End of Year	$11,020,509

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 2,133,964	44.20%	$ 7,048,012
2010-11	3,256,942	40.86%	8,974,096
2011-12	3,447,127	40.63%	11,020,509

Funded Status and Funding Progress. As of January 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $30,265,874, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $30,265,874 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $164,348,668, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18.42 percent.

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

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of January 1, 2011 used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially beginning January 1, 2011, reduced by 0.5 percent per calendar year, to an ultimate rate of 5 percent after eight years. The investment rate of return includes a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 26 years.

17. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

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

Major Funds					
General	Capital Projects - ARRA Economic Stimulus Fund	Capital Projects - Section 1011.14/1011.15 Notes Fund	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,019,976.30	$ 234,888.45	$ 836,967.31	$ 724,997.10	$ 2,534,142.78	$ 5,350,971.94

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Construction Contracts. The District had the following major construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Bayshore Elementary School HVAC Renovation	$ 1,000,000.00	$ 845,384.00	$ 154,616.00
Forest Grove Middle School Chiller Renovation	1,334,459.00	690,313.00	644,146.00
St. Lucie West Centennial High School Hybrid Relocation	1,037,379.00	222,092.00	815,287.00
Port St. Lucie High School Hybrid Renovation	1,699,377.00	1,291,514.00	407,863.00
St. Lucie West Centennial High School HVAC Relocation	536,873.00	4,500.00	532,373.00
Total	$ 5,608,088.00	$ 3,053,803.00	$ 2,554,285.00

18. 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; third party injuries and/or property damage and natural disasters. The District is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which eight district school boards have established a combined limited self-insurance program for Property, General Liability, Automobile Liability, Workers' Compensation, Government Crime and other coverage deemed necessary by the members of the SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. SCERMP is self-sustaining through member contributions (premiums), and purchased insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents/finance directors or an authorized representative of all participating districts. Employers' Mutual, Inc. serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of $100,000 (except wind/hail/flood), respectively. The named wind/hail/hurricane deductible is 5 percent of replacement cost value with a minimum of $100,000 per occurrence. The deductibles for all other wind events are $100,000. Special hazard flood areas deductibles are $500,000 per building and $500,000 contents plus $100,000 time element per occurrence. The flood deductible outside a special flood hazard area is $100,000. SCERMP's purchased excess property loss limit during the 2011-12 fiscal year was $100 million per tower (consisting of 4 members per tower) except for Flood/Earthquake of $75 million.

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

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2011-12 fiscal year was $850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insurance retention. Employers' liability is included subject to $2,000,000 per occurrence claim and $300,000 per occurrence.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, which effectively limits the amount of liability of governmental entities for tort claims to $200,000 per claim and $300,000 per occurrence.

The District's health insurance, life insurance, dental insurance and vision care plan are being provided through purchased commercial insurance.

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

19. SUBSEQUENT EVENTS

On February 22, 2013, the District issued Refunding Certificates of Participation, Series 2013A, in the amount of $77,255,000. The Series 2013A Certificates of Participation are being issued to refund the outstanding Series 2003A Certificates and a portion of the Series 2004A Certificates.

In March 2012, a school bus operated by the School Board was involved in a two-vehicle accident that resulted in serious injury to several students, and the death of one student. The School Board has settled, within the limits of available insurance, the claims filed on behalf of all the students for whom notices of claim have been received, except for one claimant. On or about February 20, 2013, the remaining claimants filed a court action against the School Board which indicates their demand will exceed the balance of insurance proceeds available for the accident. The District is unable to quantify the likelihood of success or the magnitude of any adverse monetary award that the remaining claimants might achieve in their litigation against the School Board, or the likelihood of an act of the Florida Legislature, that would be required before the School Board could pay any judgment in excess of available insurance proceeds.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 265,265.98	$ 323,701.46	$ 323,701.46	$
Federal Through State and Local	1,419,001.82	1,319,288.20	1,319,288.20	
State	151,831,250.55	147,994,317.06	148,015,689.12	21,372.06
Local:				
Property Taxes	97,201,030.00	97,561,033.89	97,561,033.89	
Miscellaneous	12,789,650.64	17,961,915.14	17,691,864.09	(270,051.05)
Total Local Revenues	109,990,680.64	115,522,949.03	115,252,897.98	(270,051.05)
Total Revenues	263,506,198.99	265,160,255.75	264,911,576.76	(248,678.99)
Expenditures				
Current - Education:				
Instruction	184,197,118.67	173,004,819.45	173,004,819.45	
Pupil Personnel Services	14,315,459.57	14,074,734.17	14,070,761.68	3,972.49
Instructional Media Services	3,902,640.77	4,076,415.13	4,070,551.65	5,863.48
Instruction and Curriculum Development Services	2,762,083.01	2,491,189.59	2,488,694.40	2,495.19
Instructional Staff Training Services	847,011.62	587,101.96	580,807.68	6,294.28
Instruction Related Technology	282,270.78	275,763.71	275,625.90	137.81
School Board	986,676.33	865,285.59	864,851.54	434.05
General Administration	1,647,656.69	1,788,384.78	1,788,384.78	
School Administration	20,500,685.07	21,378,326.40	21,367,935.05	10,391.35
Facilities Acquisition and Construction	423,681.81	289,901.83	731,895.24	(441,993.41)
Fiscal Services	1,485,373.74	1,463,918.24	1,463,186.64	731.60
Food Services	3,327.99	8,842.24	4,780.63	4,061.61
Central Services	4,145,505.73	3,903,936.78	3,901,985.79	1,950.99
Pupil Transportation Services	20,327,788.06	19,569,981.79	19,560,194.60	9,787.19
Operation of Plant	26,118,060.55	24,918,161.12	24,906,125.59	12,035.53
Maintenance of Plant	6,940,111.35	6,420,020.22	6,420,020.22	
Administrative Technology Services	3,946,118.62	3,756,889.77	3,756,889.77	
Community Services	787,452.54	756,642.72	756,264.59	378.13
Fixed Capital Outlay:				
Facilities Acquisition and Construction		82,963.90	82,963.90	
Other Capital Outlay		233,297.46	233,297.46	
Total Expenditures	293,619,022.90	279,946,576.85	280,330,036.56	(383,459.71)
Excess (Deficiency) of Revenues Over Expenditures	(30,112,823.91)	(14,786,321.10)	(15,418,459.80)	(632,138.70)
Other Financing Sources (Uses)				
Transfers In	10,830,378.74	10,830,378.74	11,286,774.09	456,395.35
Proceeds from Sale of Capital Assets		11,876.70	11,876.70	
Insurance Loss Recoveries		1,246,858.41	1,251,146.25	4,287.84
Transfers Out	(419,749.07)	(1,094,818.27)	(1,094,818.27)	
Total Other Financing Sources (Uses)	10,410,629.67	10,994,295.58	11,454,978.77	460,683.19
Net Change in Fund Balances	(19,702,194.24)	(3,792,025.52)	(3,963,481.03)	(171,455.51)
Fund Balances, Beginning	34,143,271.48	34,143,271.48	34,143,271.48	
Fund Balances, Ending	$ 14,441,077.24	$ 30,351,245.96	$ 30,179,790.45	$ (171,455.51)

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 6,181,800.79	$ 2,024,512.95	$ 2,024,512.95	$
6,181,800.79	2,024,512.95	2,024,512.95	
684,064.02	779,988.90	779,988.90	
47,184.76	56,912.87	56,912.87	
189,426.08	121,182.04	121,182.04	
1,174,467.47	564,277.20	564,277.20	
157,638.74	101,674.07	101,674.07	
617,699.28	32,554.90	32,554.90	
62,759.36	64,307.35	64,307.35	
3,247,840.00	51,301.58	51,301.58	
	252,314.04	252,314.04	
6,181,079.71	2,024,512.95	2,024,512.95	
721.08			
721.08			
$ 721.08	$ 0.00	$ 0.00	$ 0.00

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	$ 0	$ 37,471,029	$ 37,471,029	0.0%	$ 171,627,548	21.83%
January 1, 2009	0	21,396,657	21,396,657	0.0%	181,770,407	11.77%
January 1, 2011	0	30,265,874	30,265,874	0.0%	164,348,668	18.42%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

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

2. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2012, expenditures exceed appropriations for the following individual fund:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
Facilities Acquisition and Construction	$ 289,901.83	$ 731,895.24	$ (441,993.41)

3. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2011, unfunded actuarial accrued liability of $30,265,874 was significantly higher than the January 1, 2009, liability of $21,396,657 as a result of changes in liabilities and costs as discussed below:

- The number of enrolled retirees receiving postemployment health benefits increased to 216 from 179 in the previous valuation. By contrast, the number of active employees eligible for future postemployment benefits decreased to 3,977 from 4,219 from the previous valuation. These changes in population increased the cost and the liability overall.
- In the previous valuation, the cost of coverage was expected to increase from $694 to $900 per employee per month; however, the cost increased only to $869 per employee per month for the 2009-10 fiscal year, slightly decreasing the liability.
- In the previous valuation, it was assumed that 25 percent of retiring employees under the age of 65 would elect to continue medical coverage through the District's plan. However, in the current valuation, it was determine that more retirees have been choosing to continue with the District's plan, so this assumption was raised to 35 percent, increasing the cost and liability.
- The assumed annual healthcare cost trend for medical and prescription costs was revised. In the initial valuation, the initial healthcare cost trend was assumed to be 19 percent for the first year, followed by 9 percent for 2011 and 8.5 percent for 2012, with subsequent trend rates decreasing 0.5 percent each year thereafter to an ultimate rate of 5 percent. This assumption has been revised to an 8.5 percent increase for the years 2012 and 2013, followed by a decrease of .5 percent each year to an ultimate rate of 5 percent, slightly increasing the costs and liabilities.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 1,313,154.16	$
National School Lunch Program	10.555	300, 350	4,483,831.39	
Summer Food Service Program for Children	10.559	323	86,954.63	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	1,832,017.35	
National School Lunch Program	10.555 (2)	300,350	6,776,023.68	
Summer Food Service Program for Children	10.559	323	81,134.55	
Total Child Nutrition Cluster			14,573,115.76	
Florida Department of Education:				
Child and Adult Care Food Program	10.558	302	72,549.60	
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	19,793.00	
Fresh Fruit and Vegetable Program	10.582	330	105,633.70	
Florida Department of Agriculture and Consumer Services:				
Child and Adult Care Food Program	10.558	302	113,999.24	
Fresh Fruit and Vegetable Program	10.582	330	71,361.88	
Total United States Department of Agriculture			14,956,453.18	
United States Department of Education:				
Direct				
Impact Aid	84.041	N/A	2,072.36	
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	11,401,488.13	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	582,846.30	
Total Title I, Part A Cluster			11,984,334.43	
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	9,527,291.11	50,780.33
Special Education - Preschool Grants	84.173	266, 267	336,424.26	4,455.73
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	590,134.23	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	102,394.60	
Total Special Education Cluster			10,556,244.20	55,236.06
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	58,610.17	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	521.74	
Total Education for Homeless Children and Youth Cluster			59,131.91	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	4,665.48	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	930.00	
Total Educational Technology State Grants Cluster			5,595.48	
Florida Department of Education:				
Migrant Education - State Grant Program	84.011	217	199,653.90	
Career and Technical Education - Basic Grants to States	84.048	151	461,400.46	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	2,074.43	
Twenty-First Century Community Learning Centers	84.287	243, 244	1,018,124.28	
English Language Acquisition Grants	84.365	102	398,767.19	
Improving Teacher Quality State Grants	84.367	224	1,593,258.19	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	636,621.08	77,553.73
Education Jobs Fund	84.410	541	111,065.00	
Council for Economic Education:				
Fund for the Improvement of Education	84.215	None	9,394.56	
Center for Civic Education:				
Civic Education - We the People and the Cooperative Education Exchange Program	84.304	None	1,205.14	
Total Indirect			27,036,870.25	132,789.79
Total United States Department of Education			27,038,942.61	132,789.79

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
Corporation for National and Community Service:				
Direct:				
Retired and Senior Volunteer Program	94.004	N/A	$ 27,424.28	$
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Hazard Mitigation Grant	97.039	None	481,586.04	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	321,629.10	
Total Expenditures of Federal Awards			$ 42,826,035.21	$ 132,789.79

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

(2) Noncash Assistance - National School Lunch Program: Includes $692,483.76 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

AUDITOR GENERAL
STATE OF FLORIDA

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 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 St. Lucie County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the St. Lucie County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

AUDITOR GENERAL
STATE OF FLORIDA

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

Management's response to the 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 the response.

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	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 is not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); Improving Teacher Quality State Grants (CFDA No. 84.367); and ARRA - Race-to-the-Top Incentive Grants, Rcovery Act (CFDA No. 84.395 – ARRA).
Dollar threshold used to distinguish between Type A and Type B programs:	$1,284,781
Auditee qualified as low-risk auditee?	Yes

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Preparation of fund financial statements pursuant to generally accepted accounting principles (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. In addition, the Florida Department of Education (FDOE) requires major fund reporting of debt service and capital projects funded by the American Recovery and Reinvestment Act (ARRA) for principal and interest payments and construction, renovation, and remodeling activities. As such, major funds should be reported for ARRA debt service account balances and transactions in an ARRA - Qualified School Construction Bonds (ARRA - QSCB) Debt Service Fund and construction and renovation and remodeling account balances and transactions in an ARRA – QSCB Capital Projects Fund.

Our review of the District's 2011-12 fiscal year AFR, submitted to the FDOE and presented for audit, disclosed that financial reporting procedures could be improved, as follows:

- Pursuant to Section 1011.14, Florida Statutes, the Board entered into a revenue anticipation note obligation for $12.5 million with a bank in May 2012, and the amount was due May 2013. The note provided for yearly extensions up to a total of five years from inception of the obligation, contingent upon approval by the bank. The District reported the $12.5 million obligation as long-term debt on its government-wide financial statements; however, as the extension was subject to annual approval by the bank, GAAP require that the obligation be reported as short-term debt in the Capital Projects – Revenue Anticipation Note (RAN) Fund financial statements. At June 30, 2012, the RAN Fund's liabilities totaled in excess of 10 percent of the total governmental fund amounts and the District did not report the account balances and transactions of the RAN Fund as a major fund, contrary to GAAP.

- The District did not separately identify and report as major funds account balances and transactions of the ARRA - QSCB Debt Service Fund with expenditures of $1.1 million and ARRA - QSCB Capital Projects Fund with expenditures of $6.9 million, contrary to FDOE guidance.

Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their account balances and transactions, and ensures compliance with GAAP and FDOE guidance. We extended our audit procedures to determine the adjustments necessary to properly report the accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

ADDITIONAL MATTERS

Finding No. 2: Electronic Fund Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities.

In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains titles of bank accounts subject to the agreements and the manual signatures of the employees authorized to initiate EFTs.

During the 2011-12 fiscal year, the District used EFTs to make vendor payments, health insurance payments, debt service payments, and direct deposit of employee pay and other payroll related activity, such as payroll taxes to the Internal Revenue Service and retirement contributions to the Florida Retirement System. According to District records, cash and cash equivalents totaling $8.8 million were available for electronic transfer at June 30, 2012; however, the District's bank agreement initially lacked the names and signatures of employees authorized to make EFTs. Subsequent to our inquiry, the Board approved, on June 26, 2012, the names and signatures of employees authorized to make EFTs and provided this information to the bank. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without bank agreements to identify the names and signatures of employees authorized to make EFTs, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should continue its efforts to ensure that EFT agreements contain the names and signatures of those authorized to make EFTs.

Finding No. 3: Purchasing Cards

To expedite the purchase of selected goods and services, the District implemented a purchasing card program. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and additional purchasing procedures. The District's purchasing procedures manual includes a one-page narrative that provided broad guidance for processing purchasing card charges, such as requiring principals and program managers to verify purchasing card statement accuracy and authorize charges for payment.

District personnel indicated that generally each cardholder and the purchasing card administrator sign an agreement that restricts use of the card to District purposes only; prohibits purchases such as alcohol, gift cards, and cash advances; and lists consequences, such as possible employee termination, if the cardholder does not follow the purchasing guidelines. Also, employees are required to submit receipts and supporting documentation for each charge, and supervisory personnel are responsible for review and approval of the documentation for payment. In addition, the purchasing card administrator is responsible for monitoring the purchasing card charges to ensure charges are within the employee's authorized credit limits.

During the 2011-12 fiscal year, the District had 76 employees with purchasing cards, and card expenditures totaled $431,313. Our review of purchasing card procedures and tests of 30 purchasing card expenditures totaling $90,800 made by 18 employees disclosed that controls over the program needed improvement, as follows:

- The District lacked complete, well-documented procedures to establish the controls over purchasing card processing and to establish responsibilities for processing charges for payment, resolving disputes, and cancelling cards of terminated or reassigned employees. In addition, such procedures should ensure timely training of District personnel.
- District records did not evidence employee signatures or other identifying marks on documentation supporting purchasing card charges tested to identify the employees who reviewed and approved the charges.
- District records did not initially include signed and dated purchasing card agreements for 3 employees. Subsequent to our tests, the District obtained signed and dated purchase card agreements for these 3 employees.
- Section 112.061, Florida Statutes, establishes the authority for incurring travel expenditures for public purposes, and requires properly prepared travel vouchers certified by the employee and approved by supervisory personnel. During the 2011-12 fiscal year, purchasing card charges totaling $1,765.77 for 23 overnight stays at a motel located 2 miles from the District's main office were made for an employee whose residence was out-of-county. District personnel indicated that the employee attended extended meetings that required the overnight stays; however, District records, such as travel vouchers prepared and approved pursuant to Section 112.061, Florida Statutes, were not maintained to establish and authorize the public purpose for the charges.

Without complete, well-documented procedures and effective monitoring of purchasing card transactions, there is an increased risk of errors or fraud without timely detection. A similar finding was noted in our report No. 2010-182.

Recommendation: The District should enhance the effectiveness of controls over purchasing card processes by developing and adopting complete and well-documented procedures. Such procedures should establish the duties and responsibilities of personnel for processing charges for payment, resolving disputes, cancelling cards of terminated or reassigned employees, and timely training of personnel to control purchasing card use.

Follow-up to Management's Response:

The District indicated in its response that it disagrees with this recommendation as the District has a purchasing procedures manual and user agreement that lists potential consequences of card misuse or abuse. However, the point of our finding is that procedures could be further enhanced to establish responsibilities for processing charges for payment, resolving disputes, cancelling cards of terminated or reassigned employees, and timely training of District personnel.

Finding No. 4: Background Screening Requirements

Sections 1012.465 and 1012.467, Florida Statutes, provide that noninstructional contractors who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background screenings at least every five years. Also, Section 1012.468, Florida Statutes, provides exceptions to background screenings if the noninstructional contractors are under the direct supervision of District personnel or the contractor has met the screening requirements.

To determine whether the required background screenings were conducted for noninstructional contractors, we tested 50 individuals who worked for 15 noninstructional contractors that provided behavior support services, were provided access to school grounds when students were present, and were not under the direct supervision of District employees. Our tests disclosed that District records did not initially evidence that the required background screenings

were performed for 15 individuals employed by 2 contractors. Subsequent to our inquiry, the District obtained from the 2 contractors evidence of current background screening records for 7 of the 15 individuals. For the remaining 8 individuals, 3 were identified as having current background screenings on the Florida Department of Law Enforcement Web site, 3 were screened subsequent to our inquiry, and 2 remained unscreened.

District personnel indicated that these exceptions occurred because of oversights. Without documented evidence of the required background screenings of noninstructional contractors, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students. Similar findings were noted in our audit report Nos. 2007-154 and 2010-182.

Recommendation: The District should enhance its procedures to ensure that required background screenings are performed for noninstructional contractors.

Finding No. 5: Sales Surtax Proceeds

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

During the 2011-12 fiscal year, the District received $12.6 million of the sales surtax and used $10.2 million of the proceeds to pay debt service principal and interest expenditures of the Sales Tax Revenue Bonds, Series 2006. The proceeds of the bond issue were mainly for the construction of two schools. In addition to funding these debt service expenditures, the District transferred sales surtax proceeds of $3.3 million from the Sales Surtax subfund to the General Fund as reimbursement for information technology (IT)-related activities as the District reported General Fund administrative technology functional expenditures of $3.8 million. However, the District did not maintain records of what comprised the $3.3 million of IT-related activities reimbursed by the Sales Surtax subfund or that the activities were for nonoperational purposes pursuant to Section 212.055(6), Florida Statutes.

General Fund administrative technology functional expenditures included costs of salaries and benefits of IT Department personnel; applications for finance, payroll, and human resources; network infrastructure to support network computers, peripherals, and audio visual systems at schools and various departments, and other costs. The IT personnel included computer operators, programmers, data processing user support, and secretaries. Examples of job descriptions for IT Department personnel included preparing and monitoring IT Department budgets and related expenditures; preparing and inputting IT Department payroll information; maintaining IT equipment (computers, printers, and servers) and network; monitoring internet activities, wide area network, wireless network servers, and network infrastructure; and other duties.

While a significant amount of IT Department personnel time may have been spent on activities for retrofitting and technology implementation, absent District records showing the extent of such time actually spent on these activities, the District had not documented the extent to which the $3.3 million funded by sales surtax proceeds were allowable expenditures of the sales surtax. As such, the $3.3 million transfer represents questioned costs of sales surtax proceeds.

Recommendation: The District should maintain personnel activity reports, or other appropriate records, to evidence time spent on allowable activities paid from sales surtax proceeds. In addition, the District should consult with the FDOE regarding what portion of the $3.3 million should be restored to the Sales Surtax subfund of the Capital Projects - Other Fund.

Finding No. 6: Terminal Leave Payments

Section 1012.61(2)(a)4., Florida Statutes, governs terminal pay for accumulated sick leave to instructional staff and educational support employees and provides that the Board may establish policies to provide for terminal pay for accumulated sick leave. Board policy provides that all full-time employees, with less than 13 years of continuous service with the District, receive payment for a percentage of the employee's accumulated sick leave upon termination. The percentage of accumulated sick leave eligible for payment ranged from 35 percent to 50 percent, depending on the number of years of continuous service with the District.

During the 2011-12 fiscal year, the District made payments totaling $112,133.34 for accumulated sick leave to 17 employees who had less than 13 years of continuous service. However, our review of District records disclosed errors in 13 of the payments, ranging from one underpayment of $364.10 to 12 overpayments totaling $48,811, of which the largest overpayment was $12,571. These errors occurred because District personnel inadvertently used wrong percentages of accumulated sick leave eligible for payment in calculating the sick leave payments. Also, supervisory review procedures were not in place to promptly detect and correct the overpayments. Without proper controls to ensure the accuracy of terminal payments for accumulated sick leave, the risk is increased that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure the accuracy of terminal pay for accumulated sick leave, including supervisory review and approval of terminal pay calculations prior to payment. In addition, the District should take action, as appropriate, to remedy the underpayment and overpayments.

Finding No. 7: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that, on or after July 1, 2011, a unit of government that renews or renegotiates an existing employment agreement, that contains a provision for severance pay with an officer or employee must include a provision limiting severance pay to an amount not greater than 20 weeks of compensation.

In October 2009, the Board entered an employment agreement with the Superintendent. The agreement provided that, at a public meeting on or about September 1 of each year, the Board could either take action to extend the term of the agreement for an additional year beyond its then-current term, take action declining to extend the agreement or, if the Board took no employment action, the agreement would automatically extend for one additional year. In September 2011, the Board provided a favorable annual evaluation of the Superintendent and took no employment action concerning the Superintendent, thereby extending the employment agreement for another year. Section 20 of the employment agreement provides that in the event that the Board terminates the Superintendent's employment, the Superintendent would continue to receive his monthly base salary and his insurance benefits for a period of 18 months (i.e., 78 weeks) from the date of termination or for the remaining term on the agreement, whichever period of time is less. This provision is contrary to Section 215.425(4)(a), Florida Statutes, in that it allows for the Superintendent to potentially receive severance pay that exceeds 20 weeks of salary.

Recommendation: The District should ensure that future employment agreements contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes. The District should also take appropriate action to amend the Superintendent's employment agreement to comply with Section 215.425(4)(a), Florida Statutes.

Follow-up to Management's Response:

The District indicated in its response that it disagrees that the favorable employment evaluation of the Superintendent in September 2011, constitutes an amendment or extension of his employment agreement. However, as noted in the finding, the extension of the Superintendent's employment agreement occurred from no employment action, which was one of the options allowed to extend the term of the agreement.

The District also indicated in its response that Section 215.425, Florida Statutes, did not apply in this instance; however, any amendment to an employment agreement constitutes a renegotiation, which brings the employment agreement within the purview of Section 215.425(4)(a), Florida Statutes. Accordingly, we remain of the opinion that the severance pay provision in the Superintendent's employment agreement is not consistent with existing law. In determining its actions to resolve this audit finding, the District should seek a legal opinion from the Florida Attorney General regarding its interpretation of the law.

Finding No. 8: Facilities Management

The facilities and maintenance department is responsible for managing construction and renovation and repair projects. The department is also responsible for ensuring facilities are safe and suitable for their intended use. The department performed heating, ventilating, and air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the department employed 85 full-time employees, including construction and energy management personnel, and operated at a cost of $6.5 million. Also, during this fiscal year, the District had expenditures totaling $60 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 25, 2012, the District planned to spend an additional $277 million on construction and renovation projects over the next five fiscal years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was $986 million and, as shown on the FDOE's Florida Inventory of School House data, the average age of District facilities was 19 years.

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

- **Construction Planning**. The District communicates information regarding long-range planning and the status of the facilities program through Board-approved educational plant surveys, which are completed every five years and FDOE-required Five-Year and Twenty-Year Facilities and Work Plans, which are updated each year. In addition, stakeholders are involved in the development of long range priorities through the planning process, interlocal agreements with affected municipalities, and mandatory public hearings. However, the District has not established formal committees to consider stakeholder input, comprised of District personnel, parents, real estate

and construction professionals, county long-range planning personnel, and other community stakeholders, with the responsibility of developing long-range construction priorities. District personnel indicated that they rely on the Board to determine construction priorities; however, the use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the construction manager at risk method. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine for each major construction project or significant maintenance-related job which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. District personnel indicated that the department had established goals, such as the timely completion of construction projects and significant maintenance-related job techniques; however, District records did not evidence written goals to address accountability for the department. For example, the District could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because an aspect of a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities and maintenance departments are operating as effectively and cost-efficiently as possible.

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance department to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 9: Information Technology – Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties.

The District had not performed a comprehensive review of user access privileges since the implementation of the finance and human resources (HR) applications during the 2009-10 fiscal year because, according to District management, significant changes to user profiles had not been made. Our test of selected access privileges to the

District's network, applications, and operating systems disclosed some access privileges that were unnecessary or that permitted employees and contractors to perform incompatible functions. Specifically:

- Twenty-eight accounts, including employee, contractor, and service accounts, had administrator access privileges. Administrator access privileges are typically limited to employees or contractors who are responsible for performing network administration duties or services that require complete access to network resources. Limiting the number of network accounts with administrator privileges increases the District's ability to restrict and manage the use of administrator privileges, reducing the risk of compromise and unauthorized network hardware, software, or configuration changes. An additional 26 network accounts, including those assigned to employees, contractors, and service accounts, had administrator privileges to the operating systems hosting the finance and HR applications, database, and Web portal. Administrator access privileges to the operating system provided the IT employees and contractors full control over the applications and database files and the Web portal.

- Sixteen IT employees were assigned user profiles that allowed update access privileges to all critical functions within the finance and HR application, contrary to an appropriate separation of IT and application end-user duties.

To compensate, in part, for the above deficiencies, the District had certain controls, such as independent bank account reconciliations, independently verified supporting voucher documentation, and monitoring of department budgets. However, the existence of the inappropriate or unnecessary access privileges described above indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to our inquiry, District management indicated that they would begin conducting periodic reviews of user profiles. A similar finding was noted in our report No. 2010-182.

Recommendation: The District should review access privileges, including administrator privileges within the network, operating system, and application, and remove or adjust any inappropriate or unnecessary access detected.

Finding No. 10: Information Technology – Timely Deactivation of Access Privileges

Effective management of IT access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned or terminated. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

Our test of ten employees who had terminated employment during the period July 1, 2011, through February 14, 2012, disclosed that the network access privileges of one former employee were used three days after the date of termination and remained active as of October 5, 2012. In response to our inquiry, District personnel indicated that, while former employees' network accounts are deactivated upon the dates of termination, former employees may request through the District's help desk to have their network accounts reactivated for a short period of time to access only their pay records. However, District personnel were unable to provide a record of an access reactivation request by the former employee and unable to determine what system actions the former employee had performed using the network account. Without adequately documenting, monitoring, and limiting the time that restricted access privileges are granted to reassigned or former employees, the risk is increased that the access privileges may be misused by former employees or others. A similar finding was noted in our report No. 2010-182.

Recommendation: The District should improve its procedures for documenting, monitoring, and deactivating reassigned or former employees network access.

Finding No. 11: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Database Activity

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, data loss prevention, and monitoring of database activity 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 related to user authentication, data loss prevention, and monitoring of database activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding user authentication was noted in our report No. 2010-182.

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

Finding No. 12: Information Technology – Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for a team trained in incident response, and notification to affected parties.

Although the District's *Telecommunications Acceptable Use Agreement* requires employees to notify a system administrator if a security problem is identified, the District had not developed a written security incident response plan. Additionally, the District did not have provisions for a team trained in incident response. Subsequent to our inquiry, District management indicated that they were in the process of developing a formal security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan, as well as provisions for a team trained in incident response, to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of the District's data and IT resources.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 - ARRA)
Finding Type: Noncompliance and Significant deficiency
Questioned Costs: $267,432

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as the departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

District records did not evidence that the District monitored the maintenance of effort requirements. Using the most favorable calculation measure (per capita calculation methodology), we determined that the District's local fiscal effort for exceptional student education decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of $267,432 as shown in the table below:

Source	Fiscal Years 2010-11	Fiscal Years 2011-12	Difference	Amount
State and Local Expenditures for Special Education Services	$ 10,990,957	$ 10,432,782	$ (558,175)	
Full-Time Enrollment (FTE) in Special Education	6,243	6,078	(165)	
Average Expenditures per Capita (FTE)	$ 1,761	$ 1,717	(44)	
Deficiency in Expenditures of State and Local Resources (2011-12 Fiscal Year 1,717 Average Expenditures per Capital Decrease times 6,078 FTE)				$ 267,432

In addition, District records did not evidence that the District met a qualified exemption from the maintenance of effort requirement. Consequently, the deficiency in maintenance of effort from State and local funds totaling $267,432 represent questioned costs subject to disallowance by the grantor. Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with these requirements or restore $267,432 to the Special Education programs.

District Contact Person: Camille Hooper, CPA, Director of Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in the previous audit reports. The following table provides information on recurring District audit findings:

	Financial and Federal Single Audit		Financial, Operational, and Federal Single Audit	
Current Fiscal Year Finding Numbers	**2010-11 Fiscal Year Audit Report and Finding Numbers**	**2009-10 Fiscal Year Audit Report and Finding Numbers**	**2008-09 Fiscal Year Audit Report and Finding Numbers**	**2005-06 Fiscal Year Audit Report and Finding Numbers**
3	NA	NA	Audit Report No. 2010-182, Finding No. 2	NA
4	NA	NA	Audit Report No. 2010-182, Finding No. 3	Audit Report No. 2007-154, Finding No. 6
9	NA	NA	Audit Report No. 2010-182, Finding No. 5	NA
10	NA	NA	Audit Report No. 2010-182, Finding No. 6	NA
11	NA	NA	Audit Report No. 2010-182, Finding No. 8	NA

NA – Not Applicable.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

ST. LUCIE COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Cherry, Bekaert, & Holland, LLP		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

St. Lucie
PUBLIC SCHOOLS

Each Child, Every Day

4204 Okeechobee Road • Fort Pierce, FL 34947
772.429.3600 • www.stlucieschools.org

Board Members
Debbie Hawley, Chairman
Dr. Donna Mills, Vice Chairman
Kathryn Hensley
Carol A. Hilson
Troy Ingersoll
Superintendent
Michael J. Lannon

March 27, 2013

David W. Martin, CPA
Auditor General
Claude Pepper Building
111 W. Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

We have reviewed the preliminary and tentative audit findings and recommendations which may be included in a report on the financial, operational, and Federal audit of the St. Lucie County District School Board for the fiscal year ended June 30, 2012.

We acknowledge the findings and recommendations presented in the report, and present our responses in the attached document.

We thank the audit team for their assistance during the review.

Sincerely,

Genelle Z. Yost
Deputy Superintendent

GY/tch

Cc: Michael Lannon
Tim Bargeron
Camille Hooper
Sue Ranew
Terence O'Leary
Bill Tomlinson
Marty Sanders

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FLORIDA DEPARTMENT OF EDUCATION SEAL OF BEST FINANCIAL MANAGEMENT PRACTICES

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 1: Financial Reporting. Preparation of fund financial statements pursuant to generally accepted accounting principles (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. In addition, the Florida Department Of Education requires major fund reporting of debt service and capital projects funded by the American Recovery and Reinvestment Act (ARRA) for principal and interest payments and construction, renovation, and remodeling activities. As such, major funds should be reported for ARRA debt service account balances and transactions in an ARRA - Qualified School Construction Bonds (ARRA - QSCB) Debt Service Fund and construction and renovation and remodeling account balances and transactions in an ARRA – QSCB Capital Projects Fund.

Our review of the District's 2011-12 fiscal year AFR, submitted to the FDOE and presented for audit, disclosed that financial reporting procedures could be improved, as follows:

- Pursuant to Section 1011.14, Florida Statutes, the Board entered into a revenue anticipation note obligation for $12.5 million with a bank in May 2012, and the amount was due May 2013. The note provided for yearly extensions up to a total of five years from inception of the obligation, contingent upon approval by the bank. The District reported the $12.5 million obligation as long-term debt on its government-wide financial statements; however, as the extension was subject to annual approval by the bank, GAAP require that the obligation be reported as short-term debt in the Capital Projects – Revenue Anticipation Note (RAN) Fund financial statements. At June 30, 2012, the RAN Fund's liabilities totaled in excess of 10 percent of the total governmental fund amounts and the District did not report the account balances and transactions of the RAN Fund as a major fund, contrary to GAAP.

- The District did not separately identify and report as major funds account balances and transactions of the ARRA - QSCB Debt Service Fund with expenditures of $1.1 million and ARRA - QSCB Capital Projects Fund with expenditures of $6.9 million, contrary to FDOE guidance.

Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their account balances and transactions, and ensures compliance with GAAP and FDOE guidance. We extended our audit procedures to determine the adjustments necessary to properly report the accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

District Response: The account balances and transactions of the Capital Projects – Revenue Anticipation Note, ARRA – QSCB Debt Service Fund, and ARRA – Capital Projects Fund, were included in the District's financial statements; however, as noted, they were not reported as separately identified major funds.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

During preparation of the AFR, the proper reporting of the RAN liability was discussed with various staff members and other districts. Due to the infrequent nature of the RAN revenue source, proper reporting was debated. We noted that other school boards which had issued RANs in recent years had differing treatments for the notes. The District last issued a note of this type in 2001, under Section 237.161, Florida Statutes (statute since renumbered as Section 1011.14), and recorded the 2012 RAN in the same manner.

The Auditor General's office has indicated, "It has always been something of a judgment call regarding a note with a renewal provision that is expected to be renewed for a certain number of years versus a one-year standalone note. This year, FDOE weighed in on the SLDSB RAN by indicating that it considered the renewable RAN to be a short-term note. Since we normally defer to the FDOE [Florida Department of Education] regarding GAAP/Redbook issues…FDOE's determination settled the issue."

The Qualified School Construction Bonds (QSCBs) were issued in 2010. These issues were not separately identified as major funds in 2010, 2011, or 2012. Our Revenue Anticipation Note and Qualified School Construction Bond (QSCB) issues were included in the government-wide financial statements and fully disclosed in the Notes to Financial Statements which are included as part of the Annual Financial Report, and is submitted to the FDOE for their review.

District staff will continue to monitor changes in GAAP interpretations and FDOE guidance to ensure proper reporting of RAN and/or ARRA funds.

Note – These classification changes do not have any actual financial effect on District resources.

Finding No. 2: Electronic Fund Transfers. Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities.

In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains titles of bank accounts subject to the agreements and the manual signatures of the employees authorized to initiate EFTs.

During the 2011-12 fiscal year, the District used EFTs to make vendor payments, health insurance payments, debt service payments, and direct deposit of employee pay and other payroll related activity, such as payroll taxes to the Internal Revenue Service and retirement contributions to the Florida Retirement System. According to District records, cash and cash equivalents totaling $8.8 million were available for electronic transfer at June 30, 2012; however, the District's bank agreement initially lacked the names and signatures of employees authorized to make EFTs. Subsequent to our inquiry, the Board

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

approved, on June 26, 2012, the names and signatures of employees authorized to make EFTs and provided this information to the bank. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without bank agreements to identify the names and signatures of employees authorized to make EFTs, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should continue its efforts to ensure that EFT agreements contain the names and signatures of those authorized to make EFTs.

District Response: St. Lucie County School Board Policy 2.00 states "The School Board has plans, manuals, handbooks and codes which outline procedures to be followed relative to stated topics. The plans, manuals, handbooks and codes listed below shall be adopted by reference as part of these rules when required by other Board rules, Florida Statutes, or other controlling requirements," and the list includes the "Business Services Procedures Manual." Management believes that this policy is in compliance with the requirements stated in the finding.

Note - SBE Rule 6A-1.0012, FAC was promulgated in 1979, long before email and electronic communications became prevalent and widely available. We encourage the Auditor General to propose work with the State Board of Administration to update this rule to reflect the current-day banking environment.

Finding No. 3: Purchasing Cards. To expedite the purchase of selected goods and services, the District implemented a purchasing card program. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and additional purchasing procedures. The District's purchasing procedures manual includes a one-page narrative that provided broad guidance for processing purchasing card charges, such as requiring principals and program managers to verify purchasing card statement accuracy and authorize charges for payment.

District personnel indicated that generally each cardholder and the purchasing card administrator sign an agreement that restricts use of the card to District purposes only; prohibits purchases such as alcohol, gift cards, and cash advances; and lists consequences, such as possible employee termination, if the cardholder does not follow the purchasing guidelines. Also, employees are required to submit receipts and supporting documentation for each charge, and supervisory personnel are responsible for review and approval of the documentation for payment. In addition, the purchasing card administrator is responsible for monitoring the purchasing card charges to ensure charges are within the employee's authorized credit limits.

During the 2011-12 fiscal year, the District had 76 employees with purchasing cards, and card expenditures totaled $431,313. Our review of purchasing card procedures and tests of 30 purchasing card expenditures totaling $90,800 made by 18 employees disclosed that controls over the program needed improvement, as follows:

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

- The District lacked complete, well-documented procedures to establish the controls over purchasing card processing and to establish responsibilities for processing charges for payment, resolving disputes, and cancelling cards of terminated or reassigned employees. In addition, such procedures should ensure timely training of District personnel.
- District records did not evidence employee signatures or other identifying marks on documentation supporting purchasing card charges tested to identify the employees who reviewed and approved the charges.
- District records did not initially include signed and dated purchasing card agreements for 3 employees. Subsequent to our tests, the District obtained signed and dated purchase card agreements for these 3 employees.
- Section 112.061, Florida Statutes, establishes the authority for incurring travel expenditures for public purposes, and requires properly prepared travel vouchers certified by the employee and approved by supervisory personnel. During the 2011-12 fiscal year, purchasing card charges totaling $1,765.77 for 23 overnight stays at a motel located 2 miles from the District's main office were made for an employee whose residence was out-of-county. District personnel indicated that the employee attended extended meetings that required the overnight stays; however, District records, such as travel vouchers prepared and approved pursuant to Section 112.061, Florida Statutes, were not maintained to establish and authorize the public purpose for the charges.

Without complete, well-documented procedures and effective monitoring of purchasing card transactions, there is an increased risk of errors or fraud without timely detection. A similar finding was noted in our report No. 2010-182.

Recommendation: The District should enhance the effectiveness of controls over purchasing card processes by developing and adopting complete and well-documented procedures. Such procedures should establish the duties and responsibilities of personnel for processing charges for payment, resolving disputes, cancelling cards of terminated or reassigned employees, and timely training of personnel to control purchasing card use.

District Response: District management disagrees with this finding and recommendation, as PCard controls are in place and have proven to be effective. This position is based on the following:

- **The District does have purchasing card procedures that are included in the District's Purchasing Procedures Manual, as well as the required Purchasing Card User Agreement that lists potential consequences of card misuse or abuse.**
- **We require cardholders to submit supporting documentation for every charge made to a purchasing card, and we examine and retain these documents. Individual cardholders are held individually and personally responsible for charges made on their cards. If a cardholder fails to adequately document a charge or if a charge is not allowable within the terms of the Purchasing Card User Agreement, the cardholder is subject to the consequences listed in the agreement.**
- **We acknowledge that one employee incurred purchasing card charges for overnight stays; this employee resided in Broward County and these infrequent stays were authorized by the Superintendent in order for him to devote additional time to extended meetings rather than**

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

to travel. We will ensure that such approved expenditures are further documented should they occur in the future.

Finding No. 4: Background Screening Requirements. Sections 1012.465 and 1012.467, Florida Statutes, provide that noninstructional contractors who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background screenings at least every five years. Also, Section 1012.468, Florida Statutes, provides exceptions to background screenings if the noninstructional contractors are under the direct supervision of District personnel or the contractor has met the screening requirements.

To determine whether the required background screenings were conducted for noninstructional contractors, we tested 50 individuals who worked for 15 noninstructional contractors that provided behavior support services, were provided access to school grounds when students were present, and were not under the direct supervision of District employees. Our tests disclosed that District records did not initially evidence that the required background screenings were performed for 15 individuals employed by 2 contractors. Subsequent to our inquiry, the District obtained from the 2 contractors evidence of current background screening records for 7 of the 15 individuals. For the remaining 8 individuals, 3 were identified as having current background screenings on the Florida Department of Law Enforcement Web site, 3 were screened subsequent to our inquiry, and 2 remained unscreened.

District personnel indicated that these exceptions occurred because of oversights. Without documented evidence of the required background screenings of noninstructional contractors, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students. Similar findings were noted in our audit report Nos. 2007-154 and 2010-182.

Recommendation: The District should enhance its procedures to ensure that required background screenings are performed for noninstructional contractors.

District Response: We have obtained the required screenings for the individuals identified in the finding. Additionally, the District has strengthened its procedures for background screening of contracted employees, including the following:

- **enhanced communication with schools and departments to determine the existence of new contractors**
- **checking approval of new contractors against fingerprinting records by a Fingerprint Specialist in the Human Resources department to ensure that all approved contractors are fingerprinted**
- **maintaining lists of contractors**
- **routine reviews, by a Fingerprint Specialist, of contractor lists to ensure up-to-date background screenings.**

Finding No. 5: Sales Surtax Proceeds. The District receives a discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and accounts for these proceeds in a Sales Surtax subfund subfund of the Capital Projects - Other Fund. Proceeds from the discretionary sales surtax can be used for

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

various purposes, such as construction, improvement of school facilities that have a useful life expectancy of five or more years, and retrofitting and providing for technology implementation, including hardware and software. Section 212.055(6), Florida Statutes, further provides that neither the proceeds of the surtax nor any interest accrued may be used for operational purposes.

During the 2011-12 fiscal year, the District received $12.6 million of the sales surtax and used $10.2 million of the proceeds to pay debt service principal and interest expenditures of the Sales Tax Revenue Bonds, Series 2006. The proceeds of the bond issue were mainly for the construction of two schools. In addition to funding these debt service expenditures, the District transferred sales surtax proceeds of $3.3 million from the Sales Surtax Subfund to the General Fund as reimbursement for information technology (IT)-related activities as the District reported General Fund administrative technology functional expenditures of $3.8 million. However, the District did not maintain records of what comprised the $3.3 million of IT-related activities reimbursed by the Sales Surtax subfund or that the activities were for nonoperational purposes pursuant to Section 212.055(6), Florida Statutes.

General Fund administrative technology functional expenditures included costs of salaries and benefits of IT Department personnel; applications for finance, payroll, and human resources; network infrastructure to support network computers, peripherals, and audio visual systems at schools and various departments, and other costs. The IT personnel included computer operators, programmers, data processing user support, and secretaries. Examples of job descriptions for IT Department personnel included preparing and monitoring IT Department budgets and related expenditures; preparing and inputting IT Department payroll information; maintaining IT equipment (computers, printers, and servers) and network; monitoring internet activities, wide area network, wireless network servers, and network infrastructure; and other duties.

While a significant amount of IT Department personnel time may have been spent on activities for retrofitting and technology implementation, absent District records showing the extent of such time actually spent on these activities, the District had not documented the extent to which the $3.3 million funded by sales surtax proceeds were allowable expenditures of the sales surtax. As such, the $3.3 million transfer represents questioned costs of sales surtax proceeds.

Recommendation: The District should maintain personnel activity reports, or other appropriate records, to evidence time spent on allowable activities paid from sales surtax proceeds. In addition, the District should consult with the FDOE regarding what portion of the $3.3 million should be restored to the Sales Surtax subfund of the Capital Projects – Other Fund.

District Response: As was indicated to the audit team, the District's transfer of funds was intended to help offset the General Fund for costs related to the Administrative Technology, in order to provide for technology implementation at the District's various schools sites, as permitted under Section 212.055(6), Florida Statutes. However, since the District uses FDOE's "chart of accounts" to track and report expenditures, and since this chart of accounts does not provide a sub-function to account for "technology implementation," the ability to directly report this sub-function did not exist for FY 2011-

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

12. District staff believes that sufficient evidence exists to support the amount of the transfer; however, to avoid any questions regarding eligibility, this transfer will be reversed and funded with Capital Improvement Section 1011.71(2) funds.

Note – This change in fund source has zero net effect on the District's Capital Projects Funds.

Finding No. 6: Terminal Leave Payments. Section 1012.61(2)(a)4., Florida Statutes, governs terminal pay for accumulated sick leave to instructional staff and educational support employees and provides that the Board may establish policies to provide for terminal pay for accumulated sick leave. Board policy provides that all full-time employees, with less than 13 years of continuous service with the District, receive payment for a percentage of the employee's accumulated sick leave upon termination. The percentage of accumulated sick leave eligible for payment ranged from 35 percent to 50 percent, depending on the number of years of continuous service with the District.

During the 2011-12 fiscal year, the District made payments totaling $112,133.34 for accumulated sick leave to 17 employees who had less than 13 years of continuous service. However, our review of District records disclosed errors in 13 of the payments, ranging from one underpayment of $364.10 to 12 overpayments totaling $48,811, of which the largest overpayment was $12,571. These errors occurred because District personnel inadvertently used wrong percentages of accumulated sick leave eligible for payment in calculating the sick leave payments. Also, supervisory review procedures were not in place to promptly detect and correct the overpayments. Without proper controls to ensure the accuracy of terminal payments for accumulated sick leave, the risk is increased that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure the accuracy of terminal pay for accumulated sick leave, including supervisory review and approval of terminal pay calculations prior to payment. In addition, the District should take action, as appropriate, to remedy the underpayment and overpayments.

District Response: To ensure the accuracy of terminal pay for accumulated sick leave, future payouts will not be processed until review and verification by multiple staff, including the Assistant Superintendent for Human Resources and the Assistant Superintendent for Business Services. Additionally, written procedures have been refined to eliminate any confusion in staffs' determination of terminal payout percentages and/or eligibility.

Regarding specific overpayments, the District has initiated recovery efforts, and has already recovered approximately $21,700 of the overpayments. Recovery efforts continue for remaining overpayments.

Finding No. 7: Severance Pay. Section 215.425(4)(a), Florida Statutes, provides that, on or after July 1, 2011, a unit of government that renews or renegotiates an existing employment agreement, that contains a provision for severance pay with an officer or employee must include a provision limiting severance pay to an amount not greater than 20 weeks of compensation.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

In October 2009, the Board entered an employment agreement with the Superintendent. The agreement provided that, at a public meeting on or about September 1 of each year, the Board could either take action to extend the term of the agreement for an additional year beyond its then-current term, take action declining to extend the agreement or, if the Board took no employment action, the agreement would automatically extend for one additional year. In September 2011, the Board provided a favorable annual evaluation of the Superintendent and took no employment action concerning the Superintendent, thereby extending the employment agreement for another year. Section 20 of the employment agreement provides that in the event that the Board terminates the Superintendent's employment, the Superintendent would continue to receive his monthly base salary and his insurance benefits for a period of 18 months (i.e., 78 weeks) from the date of termination or for the remaining term on the agreement, whichever period of time is less. This provision is contrary to Section 215.425(4)(a), Florida Statutes, in that it allows for the Superintendent to potentially receive severance pay that exceeds 20 weeks of salary.

Recommendation: The District should ensure that future employment agreements contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes. The District should also take appropriate action to amend the Superintendent's employment agreement to comply with Section 215.425(4)(a), Florida Statutes.

District Response: We respectfully disagree that the favorable employment evaluation of the Superintendent in September 2011 constitutes an amendment or extension of his contract. Section 215.425(4)(a), Florida Statutes, simply does not apply in this instance. Additionally, the contract provision mentioned in this finding would apply only if the Board were to terminate the superintendent's employment. Our current superintendent has announced his intention to retire effective June 30, 2013. We will take steps to ensure compliance with the provisions of Section 215.425(4)(a), Florida Statutes, in all future employment agreements entered into by the District.

Finding No. 8: Facilities Management. The facilities and maintenance department is responsible for managing construction and renovation and repair projects. The department is also responsible for ensuring facilities are safe and suitable for their intended use. The department performed heating, ventilating, and air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the department employed 85 full-time employees, including construction and energy management personnel, and operated at a cost of $6.5 million. Also, during this fiscal year, the District had expenditures totaling $60 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 25, 2012, the District planned to spend an additional $277 million on construction and renovation projects over the next five fiscal years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was $986 million and, as shown on the FDOE's Florida Inventory of School House data, the average age of District facilities was 19 years.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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

- **Construction Planning**. The District communicates information regarding long-range planning and the status of the facilities program through Board-approved educational plant surveys, which are completed every five years and FDOE-required Five-Year and Twenty-Year Facilities and Work Plans, which are updated each year. In addition, stakeholders are involved in the development of long range priorities through the planning process, interlocal agreements with affected municipalities, and mandatory public hearings. However, the District has not established formal committees to consider stakeholder input, comprised of District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders, with the responsibility of developing long-range construction priorities. District personnel indicated that they rely on the Board to determine construction priorities; however, the use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the construction manager at risk method. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine for each major construction project or significant maintenance-related job which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. District personnel indicated that the department had established goals, such as the timely completion of construction projects and significant maintenance-related job techniques; however, District records did not evidence written goals to address accountability for the department. For example, the District could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because an aspect of a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job

EXHIBIT A (CONTINUED)
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completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities and maintenance departments are operating as effectively and cost-efficiently as possible.

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance department to identify efficiency or cost-effectiveness outcomes for department personnel.

District Response: District staff will investigate the possibility of establishing a long-range facilities planning committee as suggested. Additionally, staff will review internal decision-making processes and will consider adding and/or documenting procedures to address the following:

- **alternative facilities construction methods and maintenance related job techniques, and**
- **goals and objectives for the facilities and maintenance departments, including periodic review of performance of those objectives.**

Finding No. 9: Information Technology – Access Privileges. Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties.

The District had not performed a comprehensive review of user access privileges since the implementation of the finance and human resources (HR) applications during the in the 2009-10 fiscal year because, according to District management, significant changes to user profiles had not been made. Our test of selected access privileges to the District's network, applications, and operating systems disclosed some access privileges that were unnecessary or that permitted employees and contractors to perform incompatible functions. Specifically:

- Twenty-eight accounts, including employee, contractor, and service accounts, had administrator access privileges. Administrator access privileges are typically limited to employees or contractors who are responsible for performing network administration duties or services that require complete access to network resources. Limiting the number of network accounts with administrator privileges increases the District's ability to restrict and manage the use of administrator privileges, reducing the risk of compromise and unauthorized network hardware, software, or configuration changes. An additional 26 network accounts, including those assigned to employees, contractors, and service accounts, had administrator privileges to the operating systems hosting the finance and

EXHIBIT A (CONTINUED)
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HR applications, database, and Web portal. Administrator access privileges to the operating system provided the IT employees and contractors full control over the applications and database files and the Web portal.

- Sixteen IT employees were assigned user profiles that allowed update access privileges to all critical functions within the finance and HR application, contrary to an appropriate separation of IT and application end-user duties.

To compensate, in part, for the above deficiencies, the District had certain controls, such as independent bank account reconciliations, independently verified supporting voucher documentation, and monitoring of department budgets. However, the existence of the inappropriate or unnecessary access privileges described above indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to our inquiry, District management indicated that they would begin conducting periodic reviews of user profiles. A similar finding was noted in our report No. 2010-182.

Recommendation: The District should review access privileges, including administrator privileges within the network, operating system, and application, and remove or adjust any inappropriate or unnecessary access detected.

District Response: District staff reviewed active administrator-level accounts and reduced the number of these accounts from 26 to 18. We believe this is the minimum number of these accounts necessary in order to properly maintain applications and network environment. Staff also reduced the number of employees with update access privileges to critical finance and HR functions from sixteen to five. We believe that these must remain in order to maintain necessary business processes.

Finding No. 10: Information Technology – Timely Deactivation of Access Privileges. Effective management of IT access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned or terminated. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

Our test of ten employees who had terminated employment during the period July 1, 2011, through February 14, 2012, disclosed that the network access privileges of one former employee were used three days after the date of termination and remained active as of October 5, 2012. In response to our inquiry, District personnel indicated that, while former employees' network accounts are deactivated upon the dates of termination, former employees may request through the District's help desk to have their network accounts reactivated for a short period of time to access only their pay records. However, District personnel were unable to provide a record of an access reactivation request by the former employee and unable to determine what system actions the former employee had performed using the network account. Without adequately documenting, monitoring, and limiting the time that restricted access privileges are granted to reassigned or former employees, the risk is increased that the access privileges may be misused by former employees or others. A similar finding was noted in our report No. 2010-182.

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Recommendation: The District should improve its procedures for documenting, monitoring, and deactivating reassigned or former employees network access.

District Response: The District does have defined business practices to accommodate former employees who require system access after termination. This practice requires a "work ticket" to document such a request. We believe that the instance noted in your finding is an exception to that practice. ITS staff will strengthen internal procedures to ensure that the appropriate procedures are followed with future network-access requests.

Finding No. 11: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Database Activity. 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, data loss prevention, and monitoring of database activity 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 related to user authentication, data loss prevention, and monitoring of database activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding user authentication was noted in our report No. 2010-182.

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

District Response: Policies and procedures are in place to address this finding. ITS staff and administration will work to further strengthen and clarify our existing policy and procedures by publishing additional guidelines.

Finding No. 12: Information Technology – Security Incident Response Plan. Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for a team trained in incident response, and notification to affected parties.

Although the District's *Telecommunications Acceptable Use Agreement* requires employees to notify a system administrator if a security problem is identified, the District had not developed a written security incident response plan. Additionally, the District did not have provisions for a team trained in incident response. Subsequent to our inquiry, District management indicated that they were in the process of developing a formal security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security

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incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan, as well as provisions for a team trained in incident response, to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of the District's data and IT resources.

District Response: Policies and procedures are in place to address this finding. ITS staff and administration will work to further strengthen and clarify our existing policy and procedures by publishing additional guidelines.

FEDERAL AWARDS FINDING

Federal Awards Finding No. 1: The District's local fiscal effort for the Special Education Program services decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of $267,432.

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as the departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

District records did not evidence that the District monitored the maintenance of effort requirements. Using the most favorable calculation measure (per capita calculation methodology), we determined that the District's local fiscal effort for exceptional student education decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of $267,432 as shown in the table below:

Source	Fiscal Years 2010-11	2011-12	Difference	Amount
State and Local Expenditures for Special Education Services	$ 10,990,957	$ 10,432,782	$ (558,175)	
Full-Time Enrollment (FTE) in Special Education	6,243	6,078	(165)	
Average Expenditures per Capita (FTE)	$ 1,761	$ 1,717	(44)	
Deficiency in Expenditures of State and Local Resources (2011-12 Fiscal Year 1,717 Average Expenditures per Capital Decrease times 6,078 FTE)				$ 267,432

In addition, District records did not evidence that the District met a qualified exemption from the maintenance of effort requirement. Consequently, the deficiency in maintenance of effort from State and local funds totaling $267,432 represent questioned costs subject to disallowance by the grantor.

EXHIBIT A (CONTINUED)
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Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with these requirements or restore $267,432 to the Special Education programs.

District Response: In prior years, the Florida Department of Education has monitored the District's compliance with the Maintenance of Effort (MOE) requirements via a calculation based on the Program Cost Report. District staff prepared the MOE calculation using the Program Cost Report for the 2011 and 2012 fiscal years and provided it to the audit team. Based on this MOE calculation, we believe the District met the MOE requirement.