

**FLAGLER COUNTY EDUCATION  
DIRECT-SUPPORT ORGANIZATION, INC.  
BUNNELL, FLORIDA**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2016 AND 2015**

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 FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.  
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***Independent Auditors' Report***

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Flagler County Education Direct-Support Organization, Inc.  
Bunnell, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Flagler County Education Direct-Support Organization, Inc. (the "Organization"), a component unit of Flagler County District School Board, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors  
Flagler County Education  
Direct-Support Organization, Inc.  
Page 2 of 2

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 be presented to supplement the basic financial statements. Such information, although not a 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September \_\_, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

September \_\_, 2016



## *Management's Discussion and Analysis*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As financial management of the Flagler County Education Direct-Support Organization, Inc. (hereinafter referred to as the "Organization"), we offer the readers of these basic financial statements this narrative overview and analysis of the Organization's financial activities for the fiscal years that ended on June 30, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Organization's financial statements, which follow this information.

### Financial Highlights

- The Organization's overall combined assets totaled \$2,514,410 at the close of 2016, compared to \$2,383,841 at the close of 2015. Total assets exceeded liabilities by \$2,510,751 (*combined net position*) compared with \$2,383,841 at the close of 2015.
- During 2016, the Organization's combined net position increased by \$126,910, compared to an increase of \$89,922 in 2015. The increase experienced in 2016 was primarily the result of a combined increase in investment income of \$88,237 on accumulated scholarship endowment funds totaling approximately \$1.5 million at the end of the year and from increased community, corporate and private foundation support. The increase in 2015 was primarily as a result of a \$65,000 supplement to an unanticipated one-time scholarship endowment contribution of \$1,252,243 received in 2014. The portions of net position restricted by donors totaled \$2,162,421, which was an increase of \$127,102 over the \$2,035,318 reported in the prior year. The unrestricted portion of net position (\$348,330 in 2016 and \$348,523 in 2015) represents unrestricted amounts that may be used to meet the Organization's ongoing obligations for its program activities.
- The Organization's operating revenues from contributions, donations and public support totaled \$153,045, compared to \$150,415 reported for fiscal 2015 (an overall increase of \$2,630). The increase in 2016 was primarily the result of a goal of improving ongoing direct support efforts.
- Revenues collected from various state grant funding and other state assistance totaled \$106,824, compared to \$99,746 one year earlier, an increase of \$7,078. In the current year, funding from the Take Stock in Children grant program increased by \$3,732 while grants received from the Consortium of Florida Education Foundations increased by \$3,095.
- The Organization's fundraising activities increased in 2016 and produced \$138,554 from six fundraising events, compared to \$114,230 raised from five events in 2015. The Jim Guines lunch fundraising event was added in 2016.
- Operating expenses for the Organization's various program services totaled \$261,205 in 2016, compared to \$227,676 incurred one year earlier, an increase of \$33,529. The Organization's expenses for administrative support services totaled \$65,949 in 2016, compared to \$84,747 in 2015, or a decrease of \$18,798.
- The Organization's scholarship funding and amortization of prepaid college scholarships remained relatively stable in 2016 and 2015. The Organization has been able to continue in its funding of prepaid college tuition scholarships from the Florida Prepaid College Foundation with the acquisition of ten contracts totaling \$39,655 in 2016 and twenty contracts totaling \$77,864 in 2015.

## Overview of the Financial Statements

The Organization presents its financial statements for the fiscal year ended June 30, 2016, which include for comparative purposes the fiscal year ended June 30, 2015, certain accounts of which have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The Organization is a direct support organization and a component unit of the Flagler County District School Board (a governmental agency). It also possesses the necessary characteristics of a governmental organization since the potential for unilateral dissolution with the reversion of its net position to the School District exists pursuant to Section 1001.453(1)(a)(1), Florida Statutes. The Organization accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board (GASB). The Organization is considered a Business-Type Activity under the provisions of GASB 34 and 35.

The Organization's financial statements are comprised of two parts: 1) management's discussion and analysis, and 2) the basic financial statements, including notes to the financial statements.

The objective of the Management's Discussion and Analysis is to focus on current activities, resulting changes and currently known facts to provide the reader with an overall summary of the accompanying financial statements. It should be read in conjunction with the basic financial statements and the accompanying notes.

The financial statements include the following:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

The financial statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Organization's overall financial position, including its business-type activities. These statements report information about the Organization using full accrual accounting method and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Organization's assets and liabilities, both financial and capital, and short-term and long-term debt (when applicable) are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Organization's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

### Statement of Net Position

**Net Position.** As noted previously, net position is the sum of assets (both financial and tangible) minus all current liabilities and short and long-term debt obligations. Net position is a valuable measure of creditworthiness and financial health since the calculation includes both financial obligations and the capacity to service those obligations. This year, the Organization's combined total assets exceeded liabilities (net position) by \$2,510,751 at the end of 2016, compared to \$2,383,841 at the end of 2015. The net position of the Organization at June 30, 2016 and 2015 is summarized on the following page:

**Net Position**  
June 30, 2016 and 2015

|                               | <u>2016</u>         | <u>2015</u>         | <u>Increase<br/>(Decrease)</u> | <u>Percent<br/>Change</u> |
|-------------------------------|---------------------|---------------------|--------------------------------|---------------------------|
| <b>Assets:</b>                |                     |                     |                                |                           |
| Current and other assets..... | \$ 118,623          | \$ 147,830          | \$ (29,207)                    | -19.76%                   |
| Restricted assets.....        | 35,149              | 29,952              | 5,197                          | 17.35%                    |
| Noncurrent assets.....        | <u>2,360,638</u>    | <u>2,206,059</u>    | <u>154,579</u>                 | 7.01%                     |
| Total assets.....             | <u>2,514,410</u>    | <u>2,383,841</u>    | <u>130,569</u>                 | 5.48%                     |
| <b>Liabilities:</b>           |                     |                     |                                |                           |
| Current liabilities.....      | 3,659               | -                   | 3,659                          | 100.00%                   |
| Noncurrent liabilities.....   | <u>-</u>            | <u>-</u>            | <u>-</u>                       | 0.00%                     |
| Total liabilities.....        | <u>3,659</u>        | <u>-</u>            | <u>3,659</u>                   | 100.00%                   |
| <b>Net Position:</b>          |                     |                     |                                |                           |
| Restricted-nonexpendable..... | 1,519,559           | 1,517,243           | 2,316                          | 0.15%                     |
| Restricted-expendable.....    | 642,862             | 518,075             | 124,787                        | 24.09%                    |
| Unrestricted.....             | <u>348,330</u>      | <u>348,523</u>      | <u>(193)</u>                   | -0.06%                    |
| Total net position.....       | <u>\$ 2,510,751</u> | <u>\$ 2,383,841</u> | <u>\$ 126,910</u>              | 5.32%                     |

At the end of 2016, the Organization's total assets increased by \$130,569, or 5.48%, compared to a recognized increase of \$59,161, or 2.54%, at the end of 2015. Total assets consist primarily of cash and cash equivalents (\$131,031), time deposits (\$437,767), municipal bonds (\$244,315), mutual fund and other endowment investments (\$1,215,045), which make up approximately 81% of total assets (80% last year), and prepaid scholarships held by the Florida College Prepaid Scholarship Foundation (\$463,511) which make up 18% of total assets (18% last year). These amounts reflect the two primary activities of the Organization in the areas of scholarships and program enhancement.

At June 30, 2016, the Organization's total liabilities consisted of current accounts payable in the amount of \$3,659, compared to prior year accounts payable of \$-0-.

Restricted net position of the Organization totaled \$2,162,421 at the end of 2016, compared to \$2,035,318 at the end of 2015. These funds held at the end of 2016 are composed of nonexpendable endowment contributions of \$1,519,559 and restricted, but expendable, donor contributions totaling \$179,351, and \$463,511 in prepaid scholarships, all of which may only be expended for donor pre-designated uses.

### **Statement of Revenues, Expenses and Changes in Net position**

**Changes in Net position.** While the statement of net position shows a snapshot of the Organization's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and sources of those changes.

During 2016, the Organization's operating revenues remained strong and totaled \$401,212, compared to \$367,008 in the prior year, an increase of \$34,204. Revenues received from private, public, corporate and government support, contributions and grants increased by \$9,708 during 2016, primarily the result of a focus on direct donor marketing, as well as increased state grant and other state financial assistance programs. Revenues collected from fundraising activities increased by 25% in 2016 and totaled \$138,554, compared to \$114,230 one year earlier. Fundraising activities (receipts) included the Annual Golf Tournament (\$19,975), Mardi Gras Event (\$26,775), Tommy Tant Surf Festival (\$38,081), Picnic in the Park (\$6,377), Josh Crews Gala Event (\$41,581), and the Jim Guines Luncheon Event (\$5,765). In 2016, the Organization reported capital additions of \$2,317 representing a permanent scholarship endowment award, the earnings from which are restricted for future scholarships.

The Organization's operating expenses totaled \$393,240 in 2016, which is \$22,770, or 6.1% greater than the \$370,470 incurred in 2015. Program service expenses were varied in 2016 and included \$60,592 in student scholarship awards and tuition credits, \$75,986 for administration of the Take Stock in Children program, \$76,266 for providing teacher/school mini-grants, and \$48,361 to administer the Organization's Dolly Parton Imagination Library Program, STUFF Bus Program, Stem Learning Program, and other employee assistance and recognition programs.

The costs of the Organization's fundraising activities remained stable in 2016 and totaled \$66,086, compared to \$58,047 in 2015. Amounts expended on acquiring prepaid student tuition scholarships totaled \$39,655 in 2016 compared to \$77,864 one year earlier. In 2015, the Organization acquired ten 60-hour tuition contracts. In 2015, the Organization acquired twenty 60-hour tuition contracts.

The Organization's other general and administrative costs decreased in 2016 and totaled \$65,949, compared to \$84,747 in 2015. This was primarily the result of the Organization's extended efforts to improve its cost allocations attributable to its various program service offerings. Administrative costs totaling \$67,991 in 2016 (\$64,462 in 2015) were financed through appropriated state funds in the Take Stock in Children grant program. This important financial assistance is used to reduce the Organization's dependence on the School District to support our administrative activities.

The following is a summary of changes in net position for the fiscal year:

### Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2016 and 2015

|  | <u>2016</u>         | <u>2015</u>         | <u>Increase<br/>(Decrease)</u> | <u>Percent<br/>Change</u> |
|--|---------------------|---------------------|--------------------------------|---------------------------|
| Operating Revenues:                                  |                     |                     |                                |                           |
| Contributions, donations and corporate support.....  | \$ 153,045          | \$ 150,415          | \$ 2,630                       | 1.75%                     |
| State grants.....                                    | 106,824             | 99,746              | 7,078                          | 7.10%                     |
| Fundraising.....                                     | 138,554             | 114,230             | 24,324                         | 21.29%                    |
| Other revenues.....                                  | <u>2,789</u>        | <u>2,617</u>        | <u>172</u>                     | 6.57%                     |
| Total operating revenues.....                        | <u>401,212</u>      | <u>367,008</u>      | <u>34,204</u>                  | 9.32%                     |
| Operating Expenses:                                  |                     |                     |                                |                           |
| Program services.....                                | 261,205             | 227,676             | 33,529                         | 14.73%                    |
| Support services.....                                | <u>132,035</u>      | <u>142,794</u>      | <u>(10,759)</u>                | -7.53%                    |
| Total operating expenses.....                        | <u>393,240</u>      | <u>370,470</u>      | <u>22,770</u>                  | 6.15%                     |
| Operating income.....                                | 7,972               | (3,462)             | 11,434                         | -330.27%                  |
| Nonoperating Revenues:                               |                     |                     |                                |                           |
| Investment income.....                               | <u>116,621</u>      | <u>28,384</u>       | <u>88,237</u>                  | 310.87%                   |
| Income before additions to permanent endowments..... | 124,593             | 24,922              | 99,671                         | 399.93%                   |
| Additions to permanent endowments.....               | <u>2,317</u>        | <u>65,000</u>       | <u>(62,683)</u>                | -96.44%                   |
| Increase in position.....                            | 126,910             | 89,922              | 36,988                         | 41.13%                    |
| Net position-beginning of year.....                  | <u>2,383,841</u>    | <u>2,293,919</u>    | <u>89,922</u>                  | 3.92%                     |
| Net position-end of year.....                        | <u>\$ 2,510,751</u> | <u>\$ 2,383,841</u> | <u>\$ 126,910</u>              | 5.32%                     |

## **Statement of Cash Flows**

Net cash provided by operating activities increased by \$34,518 in 2016 and included \$12,873 for the past year, compared to net cash (used in) operating activities of (\$21,645) in the previous year. The increase in 2016 was primarily related to the increase in cash from fundraising activities and grant revenue collections (totaling \$34,868). Net cash expended for administrative and program costs remained relatively unchanged in 2016.

Net cash provided by noncapital investing activities in 2016 totaled \$2,317, which was attributed to a nonexpendable endowment of \$2,317, the proceeds of which are permanently restricted for future Kiwanis scholarships. Investment earnings on the Organization's permanent endowments can be used at the discretion of the Board for spending on scholarship awards and program expenses.

Net cash flows used in investing activities this past year totaled \$41,843. These uses typically include amounts paid from the Organization's funds to the Florida Prepaid College Foundation for prepaid student tuition contracts (\$39,655). In 2016, these amounts also include the net costs of investment trades experienced from the reinvestment of permanent endowment funds received during the year. Virtually all of the Organization's investment earnings collected are reinvested in the endowment accounts.

The Organization invests a portion of its surplus cash and restricted cash funds in pooled money market accounts. Amounts invested have remained relatively stable during each of the past three years and totaled \$124,617 at year end. Interest rates on invested funds remained extremely low throughout the year and averaged 0.25%.

## **Economic Factors that will Affect the Future**

Charitable giving continues to be significantly affected by many factors including the general state of the economy, the health of the stock market and prospective donors' perception of the benefiting organization. Toward this latter factor, the Organization has historically enjoyed a very positive reputation in the communities it serves. While economic factors do ultimately affect charitable giving in general, the Organization has developed a history of steady growth regardless of changes in these factors.

Some of the major factors considered by the Organization in the process of predicting future economic factors are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Flagler County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide Civilian Labor Force of 44,673 at the end of June 2016, compared with 42,245 at the end of June 2015. The number of unemployed workers dropped from 2,741 (or 6.3%) at the end of June 2015, to 2,428 (or 5.4%) at the end of June 2016.
- Inflationary trends for Flagler County compare favorably with those trends experienced at the state and national levels.

## **Requests for Information**

This financial report is designed to provide our donors, grantors, recipients, and creditors with a general overview of the Organization's finances and to demonstrate the Organization's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Executive Director, Flagler County Education Direct-Support Organization, Inc., P. O. Box 354117, Palm Coast, Florida 32135.

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## *Financial Statements*

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**STATEMENTS OF NET POSITION**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

|   | 2016                | 2015             |
|---|---------------------|------------------|
| Assets:                                       |                     |                  |
| Current Assets:                               |                     |                  |
| Unrestricted:                                 |                     |                  |
| Cash and cash equivalents.....                | \$ 117,221          | 146,525          |
| Prepaid expenses.....                         | 1,402               | 1,305            |
| Restricted:                                   |                     |                  |
| Cash and cash equivalents.....                | 13,810              | 11,159           |
| Accounts receivable.....                      | <u>21,339</u>       | <u>18,793</u>    |
| Total current assets .....                    | <u>153,772</u>      | <u>177,782</u>   |
| Noncurrent Assets:                            |                     |                  |
| Unrestricted:                                 |                     |                  |
| Investments.....                              | 233,366             | 230,114          |
| Restricted:                                   |                     |                  |
| Florida prepaid scholarships.....             | 463,511             | 427,741          |
| Investments.....                              | <u>1,663,761</u>    | <u>1,548,204</u> |
| Total noncurrent assets .....                 | <u>2,360,638</u>    | <u>2,206,059</u> |
| Total assets .....                            | <u>\$ 2,514,410</u> | <u>2,383,841</u> |
| Liabilities and Net Position:                 |                     |                  |
| Current Liabilities:                          |                     |                  |
| Accounts payable and accrued liabilities..... | \$ 3,659            | -                |
| Total current liabilities .....               | <u>3,659</u>        | <u>-</u>         |
| Net Position:                                 |                     |                  |
| Restricted:                                   |                     |                  |
| Nonexpendable.....                            | 1,519,559           | 1,517,243        |
| Expendable.....                               | 642,862             | 518,075          |
| Unrestricted.....                             | <u>348,330</u>      | <u>348,523</u>   |
| Total net position.....                       | <u>2,510,751</u>    | <u>2,383,841</u> |
| Total liabilities and net position.....       | <u>\$ 2,514,410</u> | <u>2,383,841</u> |

The accompanying notes are an integral part of the financial statements.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Years Ended June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC

Bunnell, Florida

|  | 2016                | 2015             |
|--|---------------------|------------------|
| Operating Revenues:                                  |                     |                  |
| Contributions, donations and support.....            | \$ 153,045          | 150,415          |
| State grants.....                                    | 106,824             | 99,746           |
| Fundraising.....                                     | 138,554             | 114,230          |
| License and tag revenues.....                        | <u>2,789</u>        | <u>2,617</u>     |
| Total operating revenues.....                        | <u>401,212</u>      | <u>367,008</u>   |
| Operating Expenses:                                  |                     |                  |
| Program Services:                                    |                     |                  |
| District grants.....                                 | 76,266              | 70,216           |
| Scholarships and tuition reimbursements.....         | 136,578             | 109,226          |
| Other programs.....                                  | <u>48,361</u>       | <u>48,234</u>    |
| Total program services.....                          | <u>261,205</u>      | <u>227,676</u>   |
| Support Services:                                    |                     |                  |
| General and administrative.....                      | 65,949              | 84,747           |
| Fundraising.....                                     | <u>66,086</u>       | <u>58,047</u>    |
| Total support services.....                          | <u>132,035</u>      | <u>142,794</u>   |
| Total operating expenses.....                        | <u>393,240</u>      | <u>370,470</u>   |
| Operating income.....                                | 7,972               | (3,462)          |
| Nonoperating Revenues:                               |                     |                  |
| Investment income.....                               | <u>116,621</u>      | <u>28,384</u>    |
| Income before additions to permanent endowments..... | 124,593             | 24,922           |
| Additions to permanent endowments.....               | <u>2,317</u>        | <u>65,000</u>    |
| Increase in net position.....                        | 126,910             | 89,922           |
| Net Position, beginning of year.....                 | <u>2,383,841</u>    | <u>2,293,919</u> |
| Net Position - end of year.....                      | <u>\$ 2,510,751</u> | <u>2,383,841</u> |

The accompanying notes are an integral part of the financial statements.

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

|  | 2016              | 2015             |
|--|-------------------|------------------|
| <b>Cash Flows From Operating Activities:</b>                 |                   |                  |
| Cash received from contributions and donations.....          | \$ 151,834        | 153,032          |
| Cash received from fundraising.....                          | 138,554           | 114,230          |
| Cash received from grants.....                               | 108,278           | 96,536           |
| Cash paid for scholarship and mini-grant awards.....         | (141,178)         | (85,738)         |
| Cash paid for salary reimbursements.....                     | (78,765)          | (102,323)        |
| Cash paid for other program expenses.....                    | (33,815)          | (52,194)         |
| Cash paid for fundraising expenses.....                      | (66,086)          | (58,500)         |
| Cash paid for administrative costs.....                      | (65,949)          | (86,688)         |
| Net cash provided by operating activities.....               | <u>12,873</u>     | <u>(21,645)</u>  |
| <b>Cash Flows From Noncapital Investing Activities:</b>      |                   |                  |
| Cash received from private gifts for endowment purposes..... | <u>2,317</u>      | <u>65,000</u>    |
| <b>Cash Flows From Investing Activities:</b>                 |                   |                  |
| Purchase of prepaid scholarships.....                        | (39,655)          | (78,864)         |
| Acquisition of investments.....                              | (42,406)          | (149,636)        |
| Proceeds from sale of investments.....                       | -                 | 81,153           |
| Interest and dividends received.....                         | <u>40,218</u>     | <u>2,959</u>     |
| Net cash used in investing activities.....                   | <u>(41,843)</u>   | <u>(144,388)</u> |
| Net increase (decrease) in cash and cash equivalents.....    | (26,653)          | (101,033)        |
| Cash and Cash Equivalents - Beginning of Year.....           | <u>157,684</u>    | <u>258,717</u>   |
| Cash and Cash Equivalents - End of Year.....                 | <u>\$ 131,031</u> | <u>157,684</u>   |
| <b>Presented as:</b>   |                   |                  |
| Cash and cash equivalents-unrestricted.....                  | \$ 117,221        | 146,525          |
| Cash and cash equivalents-restricted.....                    | <u>13,810</u>     | <u>11,159</u>    |
| Total cash and cash equivalents - end of year.....           | <u>\$ 131,031</u> | <u>157,684</u>   |
| <b>Reconciliation of Increase in Net Assets To Net</b>       |                   |                  |
| <b>Cash Provided By Operating Activities:</b>                |                   |                  |
| Operating income (loss).....                                 | \$ 7,972          | (3,462)          |
| <b>Adjustments to Reconcile Changes in Net Assets to</b>     |                   |                  |
| <b>Net Cash Provided by Operating Activities:</b>            |                   |                  |
| Amortization of prepaid tuition contracts.....               | 3,885             | 16,241           |
| <b>Changes in Assets - (Increase) Decrease In:</b>           |                   |                  |
| Accounts receivable.....                                     | (2,546)           | (3,210)          |
| Prepaid expenses.....  | (97)              | (453)            |
| <b>Changes in Liabilities - Increase (Decrease) In:</b>      |                   |                  |
| Accounts payable.....  | <u>3,659</u>      | <u>(30,761)</u>  |
| Net cash provided by operating activities.....               | <u>\$ 12,873</u>  | <u>(21,645)</u>  |

The accompanying notes are an integral part of the financial statements.

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*Notes to the Financial Statements*

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**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - Flagler County Education Direct-Support Organization, Inc. (the “Organization”) is a direct support organization (as defined in Section 1001.453, Florida Statutes), and is considered a component unit of the Flagler County District School Board (the “School District”) for financial reporting purposes. The Organization was formed as an I.R.C. Section 501(c)(3) nonprofit corporation on February 26, 1990, whose objective is to develop a partnership between the community and its schools for the enhancement and support of public education in Flagler County, Florida. It also possesses the necessary characteristics of a governmental organization since the potential for unilateral dissolution with the reversion of its net position to the School District exists pursuant to Section 1001.453(1)(a)(1), Florida Statutes.

**Basis of Presentation** – As a component unit of the School District, the financial statements of the Organization have been prepared in accordance with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (the “GASB”) is the standard setting body for governmental accounting and financial reporting. The Organization has followed the financial presentation model of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*.

**Basis of Accounting and Financial Reporting** – For financial reporting purposes, the Organization is considered a special-purpose government entity engaged exclusively in business-type activities. Accordingly, the Organization’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

**Financial Statement Classification** – The basic financial statements required for proprietary funds by GASB 34 are: a statement of net position or a balance sheet; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the Organization's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

**Fund Accounting** – To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. All of the Organization's financial activity is accounted for in a single business-type fund, which contains restricted and unrestricted components. The Organization’s cash and cash equivalents include unrestricted and restricted resources, representing the portion of expendable and nonexpendable funds that are available for support of operations and funds available for use in accordance with specific restrictions, respectively.

**Classification of Revenues** - The Organization's principal operating activity is education program support programs and student scholarships. Operating revenues include private contributions, donations, community support, and grant income and expenses and all fiscal transactions related to education

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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support, Organization management, and fundraising. Non-operating revenues include investment income and earnings and contributions restricted for capital additions or endowments.

**Donor Restricted Accounts** – Restricted net position is cash, certificates of deposit and other investments that have been received through fundraising events, community support and grant funds that are designated for specific program funding, endowment funds, and prepaid college scholarships that have not yet been awarded or fully utilized. Investment income, including unrealized appreciation and depreciation, is allocated to restricted accounts on a pro rata basis based on the nonexpendable account balance. In accordance with state law, these funds are then available for expenditure when the specific restrictive donor criteria are met.

**Cash and Cash Equivalents** - Cash and cash equivalents represent both restricted and unrestricted cash in checking and money market accounts and include all highly liquid investments with initial maturities of three months or less. Cash deposits of the Organization are held by banks qualified as public depositories under Florida Statute Chapter 280. All such deposits are insured by Federal depository insurance.

**Investments** - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net position. Investment income and gains restricted by a donor are reported as increases in unrestricted net position if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Accounts and Pledges Receivable** - The Organization's accounts receivable mainly consists of amounts receivable from grant funding for programs administered by the Organization. The Organization considers its receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required. The Organization does not recognize any pledges for future amounts receivable from various entities and individuals for scholarships until such amounts are considered earned.

**Capital Assets** – The Organization has not acquired any capital assets of its own; the Organization's operations are maintained at facilities owned and operated by the School District at no cost to the Organization. When applicable, capital asset acquisitions intended for direct contribution to the School District are recorded as expenditures in the Organization's accounting records. Similarly, the costs of ongoing construction and/or rehabilitation projects related to capital assets of the School District are accumulated until completion of construction, at which time the aggregate costs are recognized as a direct contribution to the School District in the Organization's accounting records.

**Net Position** - The Organization's net position are classified as follows:

- Restricted Net Position – Expendable - includes resources the Organization is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Restricted Net Position – Nonexpendable - consists of endowment and similar type funds in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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- Unrestricted - represents net position that is not restricted for any purpose and available for current operations.

**Fair Value of Financial Instruments** - The Organization did not hold any derivative instruments for trading purposes at June 30, 2016 and 2015, and does not invest in derivative instruments. The carrying amount of cash, investments, receivables and payables approximates fair value.

**Donated Property, Materials and Services** – When applicable, donated property used to further the purposes of the Organization is recorded at estimated fair value at the time of donation. However, the Organization does not recognize the value of donated materials and services used to further the purposes of the Organization in its financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the allocation of salary costs to different program services and support services.

**Revenue Recognition** – An exchange or exchange-like transaction is one in which each party receives and sacrifices something of approximate equal value. Amounts received from exchange transactions are recognized as revenue when the exchange transaction takes place.

A non-exchange transaction is one in which one party receives something of value without directly giving value in exchange. Non-exchange transactions may include, but are not limited to:

- Gifts/donations - Assets are recognized when all eligibility requirements are met or funds are received; whichever is first. Revenue is recognized when all eligibility requirements have been met. If gift is received prior to meeting eligibility requirements, it is recorded as deferred revenue. Eligibility requirements are conditions specified by a donor that must be met, such as time requirements, matching requirements. Purpose restrictions are not eligibility requirements and do not affect revenue recognition. Gifts received with purpose restrictions are reported as restricted until used for designated purpose or until restriction expires.

Some gifts are received with the stipulation that the resources cannot be sold, disbursed, or consumed until a specified number of years have passed or a specific event has occurred, such as endowments, term endowments, works of art and historical treasures. For these gifts, revenues are recognized when the resources are received, provided that all eligibility requirements are met. Resulting net position is reported as restricted for as long as the restrictions or time requirements remain in effect.

- Certain grants, entitlements - Assets are recognized when all eligibility requirements are met or funds are received; whichever is first. Revenue is recognized when all eligibility requirements have been met. If grant funds are received prior to meeting eligibility requirements, they are recorded as deferred revenue. Eligibility requirements are conditions specified by the grantor that must be met, such as an eligible recipient, time requirements, matching requirements, etc.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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Purpose restrictions are not eligibility requirements and do not affect revenue recognition. Grants received with purpose restrictions are reported as restricted.

- Promises to give (pledges) – Amounts must be promised by a non-governmental entity – individual, business, or organization. Asset (receivable) and revenue are recognized when all eligibility requirements are met and amount is verifiable, measurable, and collection is probable (likely to occur). Endowment pledges are generally not recognized until received since the promise to not sell, disburse, or consume the asset cannot be honored until the asset has been received.

Contributions received are recorded as unrestricted or restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Investment earnings with donor restrictions are recorded in restricted net position based on the nature of the restrictions.

**Employee Salaries and Benefits** – Generally, all administration and management functions of the Organization are performed by individuals whose salaries, wages and related employee benefits are paid by the School District. On an annual basis, the Organization reimburses the School District for a pre-determined portion of the actual salaries, wages and benefits incurred, most of which is recovered through education grant program activities. Accordingly, the Organization does not recognize any pro-rata portion of the liabilities for employment related benefits (i.e., employee insurance premiums, pension obligations, and other post-employment benefit obligations) of the School District.

**Income Taxes** - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code; accordingly, no provision for Federal and state income taxes has been made in the accompanying financial statements.

The Organization has adopted the standard for accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

The Organization’s tax returns (Form 990 and attachments) are subject to review and examination by the Federal and State authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise taxes. The tax returns for the fiscal years ending 2013 to 2016 are open to examination by Federal and state authorities.

**Reclassifications** – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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**New Accounting Standards** – The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 72, "*Fair Value Measurement and Application.*" The provisions of this statement were effective for financial statements for reporting periods beginning after June 15, 2015. The implementation of this statement had no significant effect on the financial statements.

The following Governmental Accounting Standards Board (GASB) Statements will be implemented in future financial statements, as applicable:

Statement No. 73, "*Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68.*" The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans.*" The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" The provisions of this statement are effective for reporting periods beginning after June 15, 2015.

Statement No. 77, "*Tax Abatement Disclosures.*" The provisions of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*" The provisions of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 79, "*Certain External Investment Pools and Pool Participants.*" The provisions of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, "*Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.*" The provision of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 81, "*Irrevocable Split-Interest Agreements.*" The provisions of this Statement are effective for periods beginning after December 15, 2016.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

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Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2016 or 2017, based on the requirement of paragraph 7.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits.** The carrying amount of the Organization’s cash deposits, including certificates of deposit totaling \$437,767, at June 30, 2016 was \$568,797, and the related bank balances were \$586,981. The carrying amount of the Organization’s cash deposits, including certificates of deposit totaling \$431,484, at June 30, 2015 was \$589,168, and the related bank balances were \$630,773. At June 30, 2016, the Organization’s cash deposits and certificates of deposit were invested in a single Florida Qualified Public Depository (QPD). Amounts invested were \$336,981 in excess of the federally insured limit of \$250,000. Petty cash and change drawer funds of \$800 and \$800 are also included in the reported balances at June 30, 2016 and 2015, respectively.

**Investments.** The Organization has cash funds and investments that are maintained in an institutional brokerage account that is not fully insured by the Federal Depository Insurance Corporation. The total amounts invested at June 30, 2016 and 2015 were \$1,459,360 and \$1,346,834, respectively.

The composition of the investments and their maturities at June 30, 2016 and 2015 are as follows:

|                              | Investment Maturities (Years) |                  |                |                |               |
|------------------------------|-------------------------------|------------------|----------------|----------------|---------------|
|                              | Fair Value                    | Less Than 1      | From 1 to 5    | From 6-10      | Over 10       |
| At June 30, 2016:            |                               |                  |                |                |               |
| Unrestricted:                |                               |                  |                |                |               |
| Certificates of deposit with |                               |                  |                |                |               |
| QBD banks.....               | \$ 233,315                    | -                | 233,315        | -              | -             |
| Money market.....            | <u>51</u>                     | <u>51</u>        | <u>-</u>       | <u>-</u>       | <u>-</u>      |
|                              | <u>233,366</u>                | <u>51</u>        | <u>233,315</u> | <u>-</u>       | <u>-</u>      |
| Restricted:                  |                               |                  |                |                |               |
| Certificates of deposit with |                               |                  |                |                |               |
| QBD banks.....               | 204,452                       | -                | 204,452        | -              | -             |
| Money market.....            | 60,318                        | 60,318           | -              | -              | -             |
| Municipal bonds.....         | 244,315                       | -                | 27,931         | 136,505        | 79,879        |
| Mutual funds.....            | <u>1,154,676</u>              | <u>1,154,676</u> | <u>-</u>       | <u>-</u>       | <u>-</u>      |
|                              | <u>1,663,761</u>              | <u>1,214,994</u> | <u>232,383</u> | <u>136,505</u> | <u>79,879</u> |
| Totals.....                  | <u>\$ 1,897,127</u>           | <u>1,215,045</u> | <u>465,698</u> | <u>136,505</u> | <u>79,879</u> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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At June 30, 2015:

Unrestricted:

Certificates of deposit with

|                   |                |           |                |          |          |
|-------------------|----------------|-----------|----------------|----------|----------|
| QBD banks.....    | \$ 230,063     | -         | 230,063        | -        | -        |
| Money market..... | <u>51</u>      | <u>51</u> | <u>-</u>       | <u>-</u> | <u>-</u> |
|                   | <u>230,114</u> | <u>51</u> | <u>230,063</u> | <u>-</u> | <u>-</u> |

Restricted:

Certificates of deposit with

|                      |                  |                  |                |               |                |
|----------------------|------------------|------------------|----------------|---------------|----------------|
| QBD banks.....       | 201,422          | -                | 201,422        | -             | -              |
| Money market.....    | 17,912           | 17,912           | -              | -             | -              |
| Municipal bonds..... | 232,510          | -                | -              | 92,329        | 140,181        |
| Mutual funds.....    | <u>1,096,360</u> | <u>1,096,360</u> | <u>-</u>       | <u>-</u>      | <u>-</u>       |
|                      | <u>1,548,204</u> | <u>1,114,272</u> | <u>201,422</u> | <u>92,329</u> | <u>140,181</u> |

|             |                     |                  |                |               |                |
|-------------|---------------------|------------------|----------------|---------------|----------------|
| Totals..... | <u>\$ 1,778,318</u> | <u>1,114,323</u> | <u>431,485</u> | <u>92,329</u> | <u>140,181</u> |
|-------------|---------------------|------------------|----------------|---------------|----------------|

*Restrictions.* Certain cash deposits are classified as restricted assets because their use is restricted by applicable donor covenants.

*Interest Rate Risk.* Generally, the Organization limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with long-term maturities. At June 30, 2016, the Organization had \$437,767 invested in bank certificates of deposit with an average yield of 1.37%, with weighted average maturities of 1.97 years, and \$244,315 invested in municipal bonds with an average coupon yield of 5.69%, with weighted average maturities of 9.08 years. The investments in certificates of deposit are mitigated for interest rate risk with the inclusion of provisions for optional redemption without penalty. The investments in fixed income municipal bond investments include a diversified mix of municipal debt obligations that are generally made to produce scheduled cash flows. Their fair values are inversely sensitive to changes in interest rates.

Substantially all of the Organization's other surplus and donor restricted endowment funds are invested in money market funds and mutual funds managed by an investment broker/dealer. Equity based mutual fund investments typically include a diversified mix of domestic capital and growth stocks that are sensitive to stock market index fluctuations. Fixed income based mutual fund investments include a diversified mix of U.S. Treasury and investment grade corporate debt obligations that are generally made to produce scheduled cash flows. Their fair values are inversely sensitive to changes in interest rates.

*Credit Risk* – The provisions of Section 218.415, Florida Statutes, require that the investment activity of the Organization be conducted in accordance with a written investment plan adopted by the governing board. Under that plan, the Organization's funds may be invested only in fully negotiable fixed income, equity and cash equivalent securities. Fixed income securities must be selected from investment obligations with an initial par value at issuance of greater than \$100 million, must be rated "A" or higher by Standard & Poor's or Moody's Investor Services, and no single maturity may be longer than 30 years, with the average maturity not exceeding 10 years. Fixed income securities should ideally represent 30% to 60% of the investment portfolio. Allowable equity securities must meet minimum market capitalization requirements of at least \$500 million, with a minimum of 25 million shares outstanding in entities with annual revenues exceeding \$500 million. Equity securities should ideally represent 10% to 40% of the

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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investment portfolio. However, investment in any one company may not exceed 10% of the equity or equity-related assets of the portfolio. Investments in individual industries may not exceed 25% of the equity or equity-related assets of the portfolio. While it is expected that most equities will be income producing, use of non-income producing equities will be permitted as long as the overall income level of the portfolio meets the requirements established in the Investment Goals. Mutual funds or exchange traded funds will be permitted, especially to provide diversification. Mutual funds and exchange traded funds may be either equity, equity-related, or fixed income investments.

*Custodial Credit Risk-Deposits.* Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. At June 30, 2016, the total amount of the Organization's cash deposits and certificates of deposit was invested in a single Florida Qualified Public Depository, which was \$336,981 in excess of the federally insured deposit limit of \$250,000. By state statutes, all of this custodial credit risk can be mitigated. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from qualifying depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer. As of June 30, 2016, the Organization had successfully met these supplemental collateral management requirements.

*Custodial Credit Risk-Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Organization maintains a security account with a brokerage firm which includes an investment portfolio with a market value of \$1,459,360 at June 30, 2016, which is insured up to \$500,000 by the Securities Investor Protection Corporation in the event of the brokerage firms' liquidation. This coverage does not protect against market fluctuations.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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**NOTE 3 – FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available. Observable inputs (when applicable) are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs (when applicable) reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments are not applied to Level 1 investments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these investments does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for investments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization’s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Organization uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified to a lower level within the fair value hierarchy.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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The following table sets forth by level, within the fair value hierarchy, certain Organization assets measured at fair value as of June 30, 2016 and 2015:

|   | Fair Value          | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|---------------------|---|---|--|
| June 30, 2016:                            |                     |   |   |  |
| Equity securities- mutual fund shares.... | \$ 1,154,676        | 1,154,676   | -   | -  |
| Unrestricted.....                         | \$ -                |   |   |  |
| Restricted.....                           | 1,154,676           |   |   |  |
| Total .....                               | <u>\$ 1,154,676</u> |   |   |  |
| June 30, 2015:                            |                     |   |   |  |
| Equity securities- mutual fund shares.... | \$ 1,096,360        | \$ 1,096,360  | -   | -  |
| Unrestricted.....                         | \$ -                |   |   |  |
| Restricted.....                           | 1,096,360           |   |   |  |
| Total .....                               | <u>\$ 1,096,360</u> |   |   |  |

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016 and 2015 consisted exclusively of amounts due from state and other grantor agencies totaling \$21,339 and \$18,793, respectively.

**NOTE 4 – PREPAID TUITION CONTRACTS**

Individual student scholarship contracts have been purchased from the Florida Prepaid College Foundation, Inc. (the “Foundation”) to be assigned to eligible students within the School District who meet standards specified in the Organization’s scholarship program pursuant to the provisions of Memorandums of Understanding between the Organization and the Foundation. Under the Memorandums, the Foundation sells prepaid student tuition scholarships to the Organization at approximately one-half (50%) their normal cost. The Organization recognizes all prepaid tuition scholarship contract acquisitions as assets of the Organization until such time students satisfy the requirements set forth in the scholarships. Scholarship amounts are recorded at cost, which is equivalent to the refund value. Upon purchasing the scholarships, the Organization records an asset in the form of beneficial interest in assets held by others. As scholarships are awarded, the Organization maintains an accounting for the credit hours earned by participating students. The Organization recognizes an expense

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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based on the credit hours earned. For example, if a student is awarded a scholarship worth 120 credit hours and earns 40 credit hours, the Organization would recognize one-third of the amount paid for the scholarship in the period earned. For the years ended June 30, 2016 and 2015, contributions of \$39,655 and \$78,864, respectively, were made by the Organization to acquire contracts from the Foundation.

The balance of prepaid student tuition contracts as of June 30, 2016 consists of the following:

|   |    |                |
|---|----|----------------|
| Total prepaid scholarships as of June 30, 2015..... | \$ | 427,741        |
| Scholarships acquired during the year:              |    |                |
| Contracts purchased.....                            |    | 39,655         |
| Scholarship credits used by students.....           |    | <u>(3,885)</u> |
| Total prepaid scholarships as of June 30, 2016..... | \$ | <u>463,511</u> |

The balance of prepaid student tuition contracts as of June 30, 2015 consists of the following:

|   |    |                 |
|---|----|-----------------|
| Total prepaid scholarships as of June 30, 2014..... | \$ | 365,118         |
| Scholarships acquired during the year:              |    |                 |
| Contracts purchased.....                            |    | 78,864          |
| Scholarship credits used by students.....           |    | <u>(16,241)</u> |
| Total prepaid scholarships as of June 30, 2015..... | \$ | <u>427,741</u>  |

**NOTE 5 – RESTRICTIONS ON NET POSITION**

**Restricted – Nonexpendable** - Net position that includes permanent, nonexpendable donor-imposed corpus restrictions and endowments consisted of the following at June 30, 2016 and 2015:

|  | <u>2016</u>         | <u>2015</u>      |
|--|---------------------|------------------|
| Bernard L. Axelrod Endowment Fund.....               | \$ 200,000          | 200,000          |
| Robert Osner Kiwanis Scholarship Endowment Fund..... | <u>1,319,559</u>    | <u>1,317,243</u> |
| Total net position restricted-nonexpendable.....     | <u>\$ 1,519,559</u> | <u>1,517,243</u> |

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

**Restricted - Expendable** - Net Position that includes restricted, but expendable donor-imposed restrictions consisted of the following at June 30, 2016 and 2015:

|  | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|
| Florida Prepaid College Foundation schoarships.....  | \$ 463,511        | \$ 427,741        |
| Robert Osner Kiwanis Scholarship Endowment Fund..... | 139,750           | 29,691            |
| Stuff Bus project.....                               | 22,101            | 18,190            |
| Flagship schools.....                                | 6,588             | 10,600            |
| Bernard L. Axelrod Endowment Fund.....               | 4,452             | 1,422             |
| Employee Assistance Program.....                     | 2,710             | 1,968             |
| Josh Crews writing project.....                      | 2,250             | 1,580             |
| Teacher of the Year program.....                     | 1,500             | -                 |
| Dell Trayer Memorial Scholarship Fund.....           | -                 | 4,130             |
| Dolly Parton Imagination Library.....                | -                 | 11,287            |
| Tommy Tant Memorial Scholarship Fund.....            | -                 | 11,466            |
|  | <u>        </u>   | <u>        </u>   |
| Total net position restricted-expendable.....        | <u>\$ 642,862</u> | <u>\$ 518,075</u> |

**NOTE 6 - SUMMARY OF GRANT FUNDING**

During the years ended June 30, 2016 and 2015, the Organization earned the following restricted grant funds from government sources:

|  | <u>2016</u>       | <u>2015</u>     |
|--|-------------------|-----------------|
| Take Stock in Children, Inc.....                 | \$ 67,991         | 64,259          |
| Consortium of Florida Education Foundations..... | 38,583            | 35,487          |
| Other grants.....                                | <u>250</u>        | <u>-</u>        |
|  | <u>        </u>   | <u>        </u> |
| Total.....                                       | <u>\$ 106,824</u> | <u>99,746</u>   |

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Organization is a legally established direct-support organization and component unit of the Flagler County District School Board, whose objective is to develop a partnership between the community and its schools for the enhancement and support of public education in Flagler County, Florida. To meet this objective, the Organization is permitted to use certain property, facilities, and personal services of the School District, provided the rules of the School Board are followed. As a result, various administrative and internal service functions are provided to the Organization throughout the year by the School District without remuneration. The Organization has elected to not include the value of these donated materials and services, which are significant to the operations of the Organization, in the accompanying financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

June 30, 2016 and 2015

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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Amounts recognized by the Organization and due to the School District in the form of reimbursements for personal services and other related general and administrative expenses during the fiscal years ended June 30, 2016 and 2015, totaled \$79,521 and \$97,862, respectively. Amounts due to the District totaled \$756 at June 30, 2016.

**State Retirement Program and Other Postemployment Benefits** - The School District administers a single employer defined benefit healthcare plan, under which the Organization's employees are covered. The Organization's employees are also covered by the Florida Retirement System (FRS) Pension Plan, which is a single retirement system consisting of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. The Organization's liability for these plans continues to be rolled into the liability reported under the School District for the most current reporting period and were not separately calculated for the Organization for disclosure in the financial statements of the Organization. Due to the multiple variables that go into developing these numbers and the disclosure of employees in the actuarial reports reflecting total employees under the School District rather than by agency, the Organization was unable to determine costs directly allocable to organization employees.

**NOTE 8 - COMMITMENTS**

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural causes for which the Organization carries commercial insurance. The Organization has incurred no losses in excess of coverage in the last three years.

**NOTE 9 – SUBSEQUENT EVENTS**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September \_\_, 2016, the date the financial statements were available to be issued.

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## ***Compliance Reports***

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

To the Board of Directors  
Flagler County Education Direct-Support Organization, Inc.  
Bunnell, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Flagler County Education Direct-Support Organization, Inc. (a nonprofit organization hereinafter referred to as the “Organization”), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September \_\_, 2016.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Board of Directors  
Flagler County Education Direct-Support Organization, Inc.  
Bunnell, Florida  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-1.

### **Organization's Response to Finding**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September \_\_, 2016

**SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended June 30, 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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There were no prior year findings and responses included in the prior year's Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards* in fiscal year 2015 that require a summary of status or corrective actions.

**Internal Control Over Financial Reporting****2016-1 "On-Behalf" Payments of Salaries and Benefits**

During the current and previous years, Flagler County Education Direct-Support Organization, Inc. (Organization) has not recognized approximately fifteen percent of the expenses for on-behalf payments for salaries and fringe benefits made by the Flagler County District School Board (School Board) for shared personal services rendered to the Organization. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity) to a third-party recipient for the employees of another, legally separate entity (the employer entity). They include payments made by governmental entities on behalf of nongovernmental entities. Employer governments are required to recognize revenue and expenditures or expenses for on-behalf salary or benefit payments. For employer governments that are not legally responsible for the payments, expenditures or expenses should equal the amounts recognized as revenue.

During each of the last two years, the Organization reimbursed the School Board for approximately eighty-five percent of the combined on-behalf payments for salaries and fringe benefits of two School Board employees who are employed exclusively to operate and manage the Organization as a direct-support organization of the School Board. As a result, the remainder portion of salaries and fringe benefits attributable to the Organization activities have not been calculated or recognized by the Organization.

**Recommendation:** We recommend that the Organization should obtain verification of the total of all salaries and related fringe benefits for each School Board employee and appropriately recognize the residual pro-rata value of the payments as expenses, which should also equal the amounts recognized as revenue, in the Organization's financial statements.

**Auditee Response:** *The Organization has historically reimbursed the School Board for 80% and 100% of the on-behalf salary and benefit payments made for the Executive Director and one assistant, respectively, who have Organization responsibilities. We will meet with the School Board's financial management team to determine the additional amounts, if any, that need to be recognized by the Organization in its annual financial statements.*

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