

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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.

Opinions

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, 2017 and 2016, 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 Matters

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 7, 2017, 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 7, 2017

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017 and 2016. 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 \$2,558,523 at the close of 2017, compared to \$2,514,410 and \$2,383,841 at the close of 2016 and 2015, respectively. Total assets exceeded liabilities by \$2,557,473 (*combined net position*) compared with \$2,510,751 and \$2,383,841 at the close of 2016 and 2015.
- The Organization's combined net position increased by \$46,722 in 2017, compared to increases of \$126,910 and \$89,922 in 2016 and 2015, respectively. The increases experienced in 2017 and 2016 were primarily the result of increases in investment income on accumulated scholarship endowment funds 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 \$2,326,485, \$2,162,421, and \$2,035,318 at the end of 2017, 2016, and 2015 respectively. The unrestricted portion of net position (\$230,988 in 2017, \$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 \$202,996 in 2017, compared to \$153,045 and \$150,415 reported for fiscal 2016 and 2015. The increase in 2017 was primarily the result of a goal of improving ongoing direct support efforts.
- Revenues collected from various state grant funding and other state assistance remained stable and totaled \$103,974, compared to \$106,824 and \$99,746 in 2016 and 2015. In the current year, funding from the Take Stock in Children grant program and Consortium of Florida Education Foundations decreased overall by \$5,100. In the same period, local grants increased by \$2,250.
- Proceeds from the Organization's fundraising activities decreased by \$49,840 and totaled \$88,714 from five events in 2017, compared to \$138,554 from six fundraising events in 2016, and \$114,230 from five events in 2015. The Tommy Tant Surf Festival (which produced revenues of \$38,081 in 2016) was discontinued in 2017.
- Operating expenses for the Organization's various program services totaled \$292,389 in 2017, compared to \$261,205 in 2016 and \$227,676 in 2015. The increase of \$31,184 was primarily the result of an increase (of \$28,810) in the Organization's reimbursement to the School District for salaries and benefits in 2017. The Organization's expenses for administrative support services remained stable and totaled \$66,175, compared to \$65,949 in 2016 and \$84,747 in 2015.
- The Organization has continued in its funding of prepaid college tuition scholarships from the Florida Prepaid College Foundation with the acquisition of thirty-two new contracts in 2017, compared to ten contracts in 2016 and twenty contracts 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.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the Organization's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Organization's financial activities, which are operated like commercial enterprises. These statements report information about the Organization using full accrual accounting methods 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 are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported.

The basic financial statements of the Organization include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements, which are described as follows:

- The statement of net position (formerly the balance sheet) presents the financial position of the Organization on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations at year-end.
- The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Organization's various programs, cost centers and administrative activities.
- The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets, when applicable.
- The notes to the financial statements 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.

Entity-Wide Financial Analysis

The Organization's entity-wide financial statements report its net position and how they have changed over the reporting period. Net position (the difference between assets and liabilities) may serve as a useful indicator of the Organization's financial position. Over time, increases or decreases in net position are a useful indicator of whether the Organization's financial health is improving or deteriorating, respectively. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation must be considered to adequately assess its overall health.

The material portion of the Organization's net position (79%) reflects its investment in surplus cash funds and investments, the material portion of which represents endowment funds that are permanently restricted by the donors. The Organization's investment in prepaid student scholarship awards represents approximately 20% of its net position at year end. The Organization's assets do not include any physical real or personal property, all of which is owned exclusively by the School District.

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 \$2,557,473, compared to \$2,510,751 at the end of 2016, and \$2,383,841 at the end of 2015.

The net position of the Organization at June 30, is summarized as follows:

Net Position June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current and other assets.....	\$ 232,038	\$ 118,623	\$ 147,830
Restricted assets.....	83,807	35,149	29,952
Noncurrent assets.....	<u>2,242,678</u>	<u>2,360,638</u>	<u>2,206,059</u>
Total assets.....	<u>2,558,523</u>	<u>2,514,410</u>	<u>2,383,841</u>
Liabilities:			
Current liabilities.....	1,050	3,659	-
Noncurrent liabilities.....	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities.....	<u>1,050</u>	<u>3,659</u>	<u>-</u>
Net Position:			
Restricted-nonexpendable.....	1,519,559	1,519,559	1,517,243
Restricted-expendable.....	806,926	642,862	518,075
Unrestricted.....	<u>230,988</u>	<u>348,330</u>	<u>348,523</u>
Total net position.....	<u>\$ 2,557,473</u>	<u>\$ 2,510,751</u>	<u>\$ 2,383,841</u>

The Organization's total assets increased by \$44,113, or 1.75% in 2017, compared to an increase of \$130,569, or 5.48%, at the end of 2016 and an increase of \$59,161, or 2.54%, at the end of 2015. At the end of June 2017, the Organization's total assets consisted primarily of cash and cash equivalents (\$299,701), time deposits (\$236,604), municipal bonds (\$231,967), mutual fund and other endowment investments (\$1,259,886), which make up approximately 79% of total assets (81% and 80% at the end of June 2016 and 2015, respectively). Amounts invested in prepaid tuition scholarships held by the Florida College Prepaid Scholarship Foundation increased \$50,709 in 2017 and totaled \$514,220, or 20% of total

assets (18% and 18% at the end of June 2016 and 2015, respectively). These amounts reflect the two primary activities of the Organization in the areas of scholarships and program enhancement.

The Organization's total liabilities consist of trade accounts payable for current period operating activities of \$1,050 at the end of 2017, compared to \$3,659 and \$-0- at the end of 2016 and 2015, respectively.

Amounts temporarily restricted for donor designated uses increased by \$164,064 during the year and totaled \$806,926 at June 30, 2017, compared to \$642,862 and 518,075 at the end of 2016 and 2015, respectively. The significant portion (71%) of these restricted funds is represented by the Organization's program funds which are held for, or currently invested in, prepaid tuition scholarships held by the Florida College Prepaid Scholarship Foundation (\$574,684 at the end of 2017). Temporarily restricted endowment funds (\$172,243), Stuff Bus project funds (\$32,623), and other restricted project funds (\$27,376) represent the remaining 29% of restricted funds at the end of 2017.

Amounts permanently restricted at the end of the year totaling \$1,519,559 are composed of nonexpendable endowment contributions, all of which may only be expended for donor pre-designated uses. These amounts totaled \$1,519,559 and \$1,517,243 at the end of 2016 and 2015, respectively.

Unrestricted net position totaled \$230,988 at the end of 2017, compared to \$348,330 and \$348,523 at the end of 2016 and 2015, respectively.

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 fiscal 2017, the Organization's operating revenues remained strong and totaled \$395,684, compared to \$401,212 and \$367,008 in the two immediate prior years. Revenues received from private, public, corporate and government support, contributions and grants increased by \$44,312 (or 17%) during 2017, primarily the result of a focus on direct donor marketing, as well as continued state grant and other state financial assistance programs.

Revenues collected from fundraising activities decreased by 36% in 2017 and totaled \$88,714, compare to \$138,554 and \$114,230 at the end of 2016 and 2015, respectively. The reduction in 2017 was primarily the result of not continuing the Tommy Tant Surf Festival in 2017. Fundraising activities (receipts) in 2017 (compared to 2016) included the Annual Golf Tournament (\$24,865 and \$19,975), Mardi Gras Event (\$23,635 and \$26,775), Tommy Tant Surf Festival (\$-0- and \$38,081), Picnic in the Park (\$5,821 and \$6,377), Josh Crews Gala Event (\$31,317 and \$41,581), and the Jim Guines Luncheon Event (\$-0- and \$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 following is a summary of changes in net position for the fiscal years:

Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Contributions, donations and corporate support.....	\$ 202,996	\$ 155,834	\$ 153,032
State grants.....	103,974	106,824	99,746
Fundraising.....	<u>88,714</u>	<u>138,554</u>	<u>114,230</u>
Total operating revenues.....	<u>395,684</u>	<u>401,212</u>	<u>367,008</u>
Operating Expenses:			
Program services.....	292,389	261,205	227,676
Support services.....	<u>102,736</u>	<u>132,035</u>	<u>142,794</u>
Total operating expenses.....	<u>395,125</u>	<u>393,240</u>	<u>370,470</u>
Operating income.....	559	7,972	(3,462)
Nonoperating Revenues:			
Investment income.....	<u>46,163</u>	<u>116,621</u>	<u>28,384</u>
Income before additions to permanent endowments.....	46,722	124,593	24,922
Additions to permanent endowments.....	<u>-</u>	<u>2,317</u>	<u>65,000</u>
Increase in position.....	46,722	126,910	89,922
Net position-beginning of year.....	<u>2,510,751</u>	<u>2,383,841</u>	<u>2,293,919</u>
Net position-end of year.....	<u>\$ 2,557,473</u>	<u>\$ 2,510,751</u>	<u>\$ 2,383,841</u>

The Organization's primary program service expenses were varied in 2017 and 2016. Overall program service expenses increased from \$261,205 in 2016 to a total of \$292,389 in 2017. This increase was primarily the result of the Organization's requirement to participate in a greater portion of the cost of salaries and benefits previously borne by the School District. Quarterly reimbursements to the School District for salaries and benefits increased by 36% in 2017 and totaled \$108,361, compared to \$79,521 incurred in 2016. This increase was directly related to the administration of the Organization's program services, the costs of which were allocated to the respective programs responsible for the personnel expenses allocated.

The costs of the Organization's fundraising activities decreased by \$29,525 during 2017 and totaled \$36,561, compared to \$66,086 one year earlier. As was noted above, this reduction in 2017 was primarily the result of not continuing the Tommy Tant Surf Festival in 2017 which incurred fundraising expenses of \$24,572 in 2017.

Overall, the Organization's operating expenses totaled \$395,125 in 2017, which is 0.5% greater than the \$393,240 in 2016, and the \$370,470 incurred in 2015.

The Organization's spending on program services for each of the past three years is summarized as follows:

Operating Expenses
For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program Services:			
District Grants:			
Josh Crews Writing Project.....	\$ 10,615	\$ 6,443	\$ 6,033
Innovation mini grants.....	55,368	15,565	16,160
Flagship schools.....	62,293	43,758	41,523
STEM Learning program.....	<u>9,000</u>	<u>10,500</u>	<u>6,500</u>
	<u>137,276</u>	<u>76,266</u>	<u>70,216</u>
Scholarship and Tuition Reimbursements:			
Take Stock in Children.....	110,937	75,986	81,526
Community scholarships.....	<u>20,200</u>	<u>60,592</u>	<u>27,700</u>
	<u>131,137</u>	<u>136,578</u>	<u>109,226</u>
Other Programs:			
District Initiatives.....	5,305	10,470	4,255
Community Literacy.....	-	16,747	-
Dolly Parton Imagination Library.....	-	-	21,351
Stuff Bus.....	<u>18,671</u>	<u>21,144</u>	<u>22,628</u>
	<u>23,976</u>	<u>48,361</u>	<u>48,234</u>
Total program services.....	<u>292,389</u>	<u>261,205</u>	<u>227,676</u>
Support Services:			
General and administrative.....	66,175	65,949	84,747
Fundraising:			
Golf Tournament.....	12,858	12,442	8,279
Mardi Gras.....	10,597	11,158	9,360
Josh Crews Gala.....	8,412	8,468	7,005
Picnic in the Park.....	2,726	2,370	2,170
Tommy Tant Surf Festival.....	-	24,572	31,233
Other.....	<u>1,968</u>	<u>7,076</u>	<u>-</u>
Total support services.....	<u>102,736</u>	<u>132,035</u>	<u>142,794</u>
Total operating expenses.....	<u>\$ 395,125</u>	<u>\$ 393,240</u>	<u>\$ 370,470</u>

Amounts expended on acquiring prepaid student tuition scholarships totaled \$88,795 in 2017, compared to \$39,655 in 2016 and \$77,864 one year earlier. In 2017, the Organization was able to restructure and use the unused portions of twenty-one previously acquired prepaid student tuition contracts that remained unused for over ten years. In addition, the Organization was able to modify four of its existing 120-hour tuition contracts for eight 60-hour contracts to expand its tuition offerings to more students. As a net result of the successful modification of these contracts, including current year acquisitions, the Organization was able to add thirty-two 60-hour tuition contracts in 2017. In 2016, the Organization acquired ten 60-hour tuition contracts and in 2015, the Organization acquired twenty 60-hour tuition contracts.

The Organization's other general and administrative costs remained stable in 2017 and totaled \$66,175, compared to \$65,949 and \$84,747 in 2016 and 2015, respectively. The reduction in 2016 was primarily the result of the Organization's extended efforts to improve its cost allocations attributable to its various program service offerings.

Cash Flows

Net cash provided by operating activities increased by \$29,760 in 2017 and totaled \$42,633, compared to \$12,873 in 2016, compared to net cash (used in) operating activities of (\$21,645) in 2015. The increase in 2016 was primarily related to the increase in cash from contributions, donations and other support.

Net cash provided by noncapital investing activities was limited to amounts collected in 2016 totaling \$2,317. This was attributed to the receipt of 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 from investing activities produced cash of \$126,037 in 2017, compared to amounts used in investing activities in the prior year totaling \$41,843. The increase in 2017 was attributed to the retirement of a \$200,000 certificate of deposit which was not immediately reinvested. The Organization's uses typically include amounts paid to the Florida Prepaid College Foundation for prepaid student tuition contracts (\$88,795 in 2017, \$39,655 in 2016, and \$78,864 in 2015). Amounts also include the net costs of investment trades experienced from the reinvestment of permanent endowment funds received in prior years. Virtually all of the Organization's investment earnings collected are reinvested in the endowment accounts.

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 3.2% increase in the countywide Civilian Labor Force of 46,097 at the end of June 2017, compared with 44,673 at the end of June 2016. The number of unemployed workers dropped from 2,428 (or 5.4%) at the end of June 2016, to 2,196 (or 4.8%) at the end of June 2017.
- 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, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

	2017	2016
Assets:		
Current Assets:		
Unrestricted:		
Cash and cash equivalents.....	\$ 232,038	117,221
Prepaid expenses.....	-	1,402
Restricted:		
Cash and cash equivalents.....	67,663	13,810
Accounts receivable.....	<u>16,144</u>	<u>21,339</u>
Total current assets	<u>315,845</u>	<u>153,772</u>
Noncurrent Assets:		
Unrestricted:		
Investments.....	-	233,366
Restricted:		
Florida prepaid scholarships.....	514,220	463,511
Investments.....	<u>1,728,458</u>	<u>1,663,761</u>
Total noncurrent assets	<u>2,242,678</u>	<u>2,360,638</u>
Total assets	<u>\$ 2,558,523</u>	<u>2,514,410</u>
Liabilities and Net Position:		
Current Liabilities:		
Accounts payable and accrued liabilities.....	<u>\$ 1,050</u>	<u>3,659</u>
Total current liabilities	<u>1,050</u>	<u>3,659</u>
Net Position:		
Restricted:		
Nonexpendable.....	1,519,559	1,519,559
Expendable.....	806,926	642,862
Unrestricted.....	<u>230,988</u>	<u>348,330</u>
Total net position.....	<u>2,557,473</u>	<u>2,510,751</u>
Total liabilities and net position.....	<u>\$ 2,558,523</u>	<u>2,514,410</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, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC

Bunnell, Florida

	2017	2016
Operating Revenues:		
Contributions, donations and support.....	\$ 202,996	155,834
State grants.....	103,974	106,824
Fundraising.....	<u>88,714</u>	<u>138,554</u>
Total operating revenues.....	<u>395,684</u>	<u>401,212</u>
Operating Expenses:		
Program Services:		
District grants.....	137,276	76,266
Scholarships and tuition reimbursements.....	131,137	136,578
Other programs.....	<u>23,976</u>	<u>48,361</u>
Total program services.....	<u>292,389</u>	<u>261,205</u>
Support Services:		
General and administrative.....	66,175	65,949
Fundraising.....	<u>36,561</u>	<u>66,086</u>
Total support services.....	<u>102,736</u>	<u>132,035</u>
Total operating expenses.....	<u>395,125</u>	<u>393,240</u>
Operating income.....	559	7,972
Nonoperating Revenues:		
Investment income.....	<u>46,163</u>	<u>116,621</u>
Income before additions to permanent endowments.....	46,722	124,593
Additions to permanent endowments.....	<u>-</u>	<u>2,317</u>
Increase in net position.....	46,722	126,910
Net Position, beginning of year.....	<u>2,510,751</u>	<u>2,383,841</u>
Net Position - end of year.....	<u>\$ 2,557,473</u>	<u>2,510,751</u>

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

	2017	2016
Cash Flows From Operating Activities:		
Cash received from contributions and donations.....	\$ 202,996	151,834
Cash received from fundraising.....	88,714	138,554
Cash received from grants.....	109,169	108,278
Cash paid for scholarship and mini-grant awards.....	(138,492)	(141,178)
Cash paid to School District for salary reimbursements.....	(108,361)	(78,765)
Cash paid for other program expenses.....	(25,183)	(33,815)
Cash paid for fundraising expenses.....	(36,561)	(66,086)
Cash paid for administrative costs.....	(49,649)	(65,949)
Net cash provided by operating activities.....	<u>42,633</u>	<u>12,873</u>
Cash Flows From Noncapital Investing Activities:		
Cash received from private gifts for endowment purposes.....	-	<u>2,317</u>
Cash Flows From Investing Activities:		
Purchase of prepaid scholarships.....	(88,795)	(39,655)
Acquisition of investments.....	(150,302)	(42,406)
Proceeds from sale of investments.....	327,794	-
Interest and dividends received.....	<u>37,340</u>	<u>40,218</u>
Net cash used in investing activities.....	<u>126,037</u>	<u>(41,843)</u>
Net increase (decrease) in cash and cash equivalents.....	168,670	(26,653)
Cash and Cash Equivalents - Beginning of Year.....	<u>131,031</u>	<u>157,684</u>
Cash and Cash Equivalents - End of Year.....	<u>\$ 299,701</u>	<u>131,031</u>
Presented as:		
Cash and cash equivalents-unrestricted.....	\$ 232,038	117,221
Cash and cash equivalents-restricted.....	<u>67,663</u>	<u>13,810</u>
Total cash and cash equivalents - end of year.....	<u>\$ 299,701</u>	<u>131,031</u>
Reconciliation of Increase in Net Assets To Net		
Cash Provided By Operating Activities:		
Operating income (loss).....	\$ 559	7,972
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided by Operating Activities:		
Amortization of prepaid tuition contracts.....	38,086	3,885
Changes in Assets - (Increase) Decrease In:		
Accounts receivable.....	5,195	(2,546)
Prepaid expenses.....	1,402	(97)
Changes in Liabilities - Increase (Decrease) In:		
Accounts payable.....	<u>(2,609)</u>	<u>3,659</u>
Net cash provided by operating activities.....	<u>\$ 42,633</u>	<u>12,873</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, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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 providing education program support, mini-grants, and student scholarships. Operating revenues include private contributions, donations, community support, operating grants, and all fiscal transactions related to education support,

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

- 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, 2017 and 2016, and does not invest in derivative instruments. The carrying amount of cash, investments, receivables and payables approximates fair value.

Donated Property, Materials and Services – Donated marketable securities and other noncash donations used to further the purposes of the Organization are recorded at estimated fair value at the time of donation, when applicable.

In-kind Contributions - In-kind contributions represent the fair market values for goods and services provided for the Organization. Contributions of services are recognized only if services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing these skills, and would typically be purchased if not provided by donations. These contributions are included in the Statement of Activities under the caption labeled "in-kind contributions", when applicable.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

- 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. 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 a quarterly 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 2014 to 2017 are open to examination by Federal and state authorities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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.

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

- 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.*" Statement No. 73 establishes accounting and financial reporting requirements to defined benefit pension plans not subject to GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions.*" There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans.*" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" The objective of this Statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 77, "*Tax Abatement Disclosures.*" Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. There was no impact to the Organization's financial statements as a result of this guidance.

- Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*" The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 79, "*Certain External Investment Pools and Pool Participants.*" This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 80, "*Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.*" The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. There was no impact to the Organization's financial statements as a result of this guidance.
- Statement No. 81, "*Irrevocable Split-Interest Agreements.*" The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Organization is not a party to any such agreements. The implementation of this statement did not materially change the financial statement presentation.
- Statement 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73.*" The objective of this Statement is to address certain issues that have been raised with respect to

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

GASB. 67, *Financial Reporting for Pension Plans*, GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an actuarial Standard Practice for Financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no impact to the Organization's financial statements as a result of this guidance.

The Organization is currently evaluating the effects that the following Governmental Accounting Standards Board (GASB) Statements, which will be implemented in future financial statements, will have on its financial statements for subsequent fiscal years.

- Statement 83, "*Certain Asset Retirement Obligations*." The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement is currently under review to evaluate the impact it may have on the Organization's financial statement presentation. The provisions of this statement are effective for fiscal years beginning June 15, 2018.
- Statement 84, "*Fiduciary Activities*." The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is currently under review to evaluate the impact it may have on the Organization's financial statement presentation. The provisions of this statement are effective for fiscal years beginning December 15, 2018.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Deposits. The carrying amount of the Organization's cash deposits, including certificates of deposit totaling \$236,604, at June 30, 2017 was \$536,305, and the related bank balances were \$592,165. 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. At June 30, 2017, the Organization's cash deposits and certificates of deposit were invested in a single Florida Qualified Public Depository (QPD). Amounts invested were \$342,165 in excess of the federally insured limit of \$250,000. Petty cash and change drawer funds of \$-0- and \$800 are also included in the reported balances at June 30, 2017 and 2016, respectively.

Investments. The Organization has cash funds and investments that are maintained in an institutional brokerage account that are not fully insured by the Federal Depository Insurance Corporation. The total amounts invested at June 30, 2017 and 2016 were \$1,491,854 and \$1,459,360, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

The composition of the investments and their maturities at June 30, 2017 and 2016 are as follows:

	Investment Maturities (Years)				
	Fair Value	Less Than 1	Over 1 to 5	Over 6 to 10	Over 10 to 15
At June 30, 2017:					
Restricted:					
Certificates of deposit with					
QBD banks.....	236,604	-	236,604	-	-
Broker account:					
Money market.....	60,404	60,404	-	-	-
Municipal bonds.....	231,967	-	43,235	130,164	58,568
Mutual funds.....	1,199,483	1,199,483	-	-	-
	<u>1,491,854</u>	<u>1,259,887</u>	<u>43,235</u>	<u>130,164</u>	<u>58,568</u>
Totals.....	<u>\$ 1,728,458</u>	<u>1,259,887</u>	<u>279,839</u>	<u>130,164</u>	<u>58,568</u>
At June 30, 2016:					
Unrestricted:					
Certificates of deposit with					
QBD banks.....	\$ 233,315	-	233,315	-	-
Money market.....	51	51	-	-	-
	<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.....	1,154,676	1,154,676	-	-	-
	<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>

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 \$236,604 invested in bank certificates of deposit with an average yield of 1.37%, with weighted average maturities of 1.17 years, and \$231,967 invested in municipal bonds with an average coupon yield of 5.20%, with weighted average maturities of 8.16 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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 Organization. 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 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, 2017, the total amount of the Organization's cash deposits and certificates of deposit was invested in a single Florida Qualified Public Depository, which was \$342,165 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, 2017, the Organization had successfully met these supplemental collateral management requirements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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 \$1,491,854 at June 30, 2017, 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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.

The following table sets forth by level, within the fair value hierarchy, certain Organization assets measured at fair value as of June 30, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017:				
Municipal bonds.....	\$ 231,967	231,967	-	-
Equity securities- mutual fund shares....	<u>1,199,483</u>	<u>1,199,483</u>	-	-
Equity securities- mutual fund shares....	<u>\$ 1,431,450</u>	<u>1,431,450</u>	-	-
Unrestricted.....	\$ -			
Restricted.....	<u>1,431,450</u>			
Total	<u>\$ 1,431,450</u>			
June 30, 2016:				
Municipal bonds.....	\$ 244,315	244,315	-	-
Equity securities- mutual fund shares....	<u>1,154,676</u>	<u>1,154,676</u>	-	-
Equity securities- mutual fund shares....	<u>\$ 1,398,991</u>	<u>1,398,991</u>	-	-
Unrestricted.....	\$ -			
Restricted.....	<u>1,398,991</u>			
Total	<u>\$ 1,398,991</u>			

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

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NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 and 2016 consisted exclusively of amounts due from state and other grantor agencies totaling \$16,144 and \$21,339, 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 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, 2017 and 2016, contributions of \$88,795 and \$39,655, respectively, were made by the Organization to acquire contracts from the Foundation.

The balance of prepaid student tuition contracts as of June 30, 2017 consists of the following:

Total prepaid scholarships as of June 30, 2016.....	\$ 463,511
Scholarships acquired during the year:	
Contracts purchased.....	88,795
Scholarship credits used by students.....	<u>(38,086)</u>
Total prepaid scholarships as of June 30, 2017.....	<u>\$ 514,220</u>

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>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Bernard L. Axelrod Endowment Fund.....	\$ 200,000	200,000
Robert Osner Kiwanis Scholarship Endowment Fund.....	<u>1,319,559</u>	<u>1,319,559</u>
Total net position restricted-nonexpendable.....	<u>\$ 1,519,559</u>	<u>1,519,559</u>

Restricted - Expendable - Net Position that includes restricted, but expendable donor-imposed restrictions consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Florida Prepaid College Foundation schoarships.....	\$ 574,684	\$ 463,511
Robert Osner Kiwanis Scholarship Endowment Fund.....	172,243	139,750
Stuff Bus project.....	32,623	22,101
Community Outreach project.....	10,000	-
Josh Crews writing project.....	7,989	2,250
Bernard L. Axelrod Endowment Fund.....	6,317	4,452
Employee Assistance Program.....	2,339	2,710
Teacher of the Year program.....	731	1,500
Flagship schools.....	<u>-</u>	<u>6,588</u>
Total net position restricted-expendable.....	<u>\$ 806,926</u>	<u>\$ 642,862</u>

NOTE 6 - SUMMARY OF GRANT FUNDING

During the years ended June 30, 2017 and 2016, the Organization earned the following restricted grant funds from government sources:

	<u>2017</u>	<u>2016</u>
Take Stock in Children, Inc.....	\$ 66,909	67,991
Consortium of Florida Education Foundations.....	34,565	38,583
Other grants.....	<u>2,500</u>	<u>250</u>
Total.....	<u>\$ 103,974</u>	<u>106,824</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Bunnell, Florida

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.

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, 2017 and 2016, totaled \$108,331 and \$79,521, respectively. Amounts due to the District totaled \$-0- and \$756 at June 30, 2017 and 2016, respectively.

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 7, 2017, the date the financial statements were available to be issued.

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, 2017, 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 7, 2017.

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 2017-1.

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 7, 2017

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2017

FLAGLER COUNTY EDUCATION DIRECT-SUPPORT ORGANIZATION, INC.

Prior Year Findings

There was one finding and response 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 2016 that requires a summary of status or corrective actions.

Internal Control Over Financial Reporting

2016-1 "On-Behalf" Payments of Salaries and Benefits

Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Current Year Findings

We offer the following recommendations to improve financial management:

Internal Control Over Financial Reporting

2017-1 Annual Closing Procedures

The Organization's year-end closing procedures are vital to the success and organization of its business affairs. One of the most important parts of your year-end procedures is closing out the books. The Organization needs to start each new year with a clean, fresh slate that is organized and correct which will set you up for success right from the start. As a part of this year's audit, we noted that the adjusting journal entries produced from the 2016 audit were not posted to the Organization's general ledger. As a result, the Organization's opening balances, as well as its ending balances, do not appropriately reflect these significant adjustments.

Recommendation: We recommend that the Organization should take the appropriate steps to ensure that all adjusting journal entries produced from the annual audit be posted to the Organization's general ledger on a timely basis to properly reflect its ending account balances.

Auditee Response: *The Organization recognizes that this oversight occurred. The financial management team will ensure that all approved audit adjusting entries will be properly recognized in the Organization's general ledger immediately subsequent to the delivery of the audited financial statements.*

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