

**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**

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Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended  
June 30, 2008



## BOARD MEMBERS AND SUPERINTENDENT

Hillsborough County District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

	<i>District</i>
	<u>No.</u>
<i>Susan L. Valdes</i>	<i>1</i>
<i>Candy Olson</i>	<i>2</i>
<i>Jack R. Lamb, Ed.D., Chair to 11-19-07</i>	<i>3</i>
<i>Jennifer Faliero, Vice-Chair to 11-19-07, Chair from 11-20-07</i>	<i>4</i>
<i>Doretha W. Edgecomb</i>	<i>5</i>
<i>April Griffin</i>	<i>6</i>
<i>Carol W. Kurdell, Vice-Chair from 11-20-07</i>	<i>At Large</i>

*MaryEllen Elia, Superintendent*

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Denis Jessen, CPA, and the audit was supervised by Janice Priolo, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

#### ADDITIONAL MATTERS

Finding No. 1: District procedures could be enhanced to ensure that the minutes of Board meetings are promptly recorded and approved, as required.

Finding No. 2: Improvements could be made in controls over management of construction contracts.

Finding No. 3: The District did not conduct a review and evaluation of reasons for the collection of social security numbers (SSNs), provide a written statement to certain individuals stating the purpose for collection of the numbers, or certify compliance with the new SSN requirements to the Legislature, contrary to Section 119.071(5)(a), Florida Statutes.

Finding No. 4: Improvements were needed in controls over the District's purchasing card program.

Finding No. 5: Controls over high school diploma processing could be enhanced.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster, Career and Technical Education, and Child Care and Development Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a compliance and internal control finding as summarized below.

Federal Awards Finding No. 1: Procedures could be enhanced to ensure that personnel activity reports are prepared, as required, to support charges to Federal programs.

### Audit Objectives and Scope

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

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

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2008. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements. The results of our information technology system audit of the District are included in our report No. 2008-183.

### Audit Methodology

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



David W. Martin, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 12 percent of the assets and 44 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Hillsborough County District School Board as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 10) and other required supplementary information (pages 68 through 70) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA

March 23, 2009



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The School District of Hillsborough County's (the "District") management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements (beginning on page 11). All amounts unless otherwise indicated, are expressed in thousands of dollars.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components:

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

This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to the corporate private sector. On these financial statements, governmental activities are consolidated for the primary government.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. This statement combines governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying obligation or event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The government-wide financial statements include not only the District but its component units as well. The Hillsborough School Board Leasing Corporation, although also legally separate, functions for all practical purposes,

as a department of the District, and therefore has been included as an integral part of the primary government. The Hillsborough Education Foundation, Inc., and several separate charter schools for which the District is financially accountable are included as discretely presented component units.

The government-wide financial statements can be found on pages 11 – 13 of this report.

### **Fund Financial Statements**

Traditional users of governmental financial statements may find the fund financial statements presentation more familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are established for various purposes and the fund financial statements allow the demonstration of sources and uses or budgetary compliance associated therewith (beginning on page 14). All funds of the District can be divided into three major categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds focus on the sources and uses of liquid resources and balances of spendable resources available at the end of the fiscal year.

This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Because the focus is narrower than that of government-wide financial statements, it is useful to compare it to the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Reconciliation between the government-wide and the governmental fund financial information is necessary because of the different measurement focus (current financial resources versus total economic resources); such reconciliation is reflected on the page following each statement (see pages 16 and 20). The flow of current financial resources reflects bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation eliminates these transactions and incorporates the capital assets and long-term obligations (bonds and others) into the governmental activities column in the government-wide statements.

The District maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue - Contracted Services Fund, Capital Projects - Local Capital Improvement Fund, Capital Projects - Certificates of Participation Fund and Capital Projects - Other Fund that are

considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for all of its governmental funds.

**Proprietary Funds:** The District maintains an internal service fund as its only proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its group health, workers compensation, and liability self-insurance activities. During the year ended June 30, 2008, the District adopted the provisions of *Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. Because these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

The basic proprietary fund statements can be found on pages 24 – 26.

**Fiduciary Funds:** The District is the trustee, or fiduciary, for its employee pension plans. It is also responsible for other assets that, because of a trust agreement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 - 67 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

(Amounts Expressed in Thousands)

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$1,854,346 at the end of the current fiscal year.

By far, the largest portion of the District's net assets (66 percent) reflects its investment in capital assets (e.g. land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

	<b>Net Assets, End of Year</b>	
	Governmental Activities	
	6-30-08	6-30-07
Current and Other Assets	\$ 1,161,054	\$ 1,169,653
Capital Assets	2,277,794	2,070,090
<b>Total Assets</b>	<b>3,438,848</b>	<b>3,239,743</b>
Long-Term Liabilities	1,440,102	1,386,885
Other Liabilities	144,400	161,508
<b>Total Liabilities</b>	<b>1,584,502</b>	<b>1,548,393</b>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	1,221,625	1,061,281
Restricted	352,028	405,590
Unrestricted	280,693	224,479
<b>Total Net Assets</b>	<b>\$ 1,854,346</b>	<b>\$ 1,691,350</b>

An additional portion of the District assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$280,693. Unrestricted net assets may be used to meet the Districts ongoing obligations to citizens and creditors.

The District’s net assets increased by \$162,996 during the current year, and the unrestricted net assets increased by \$56,214. The increase in net assets is due, in part, to the increase of capital assets.

The total increase in net assets was less than last years’ increase because the increase in expenses was not offset by an equal increase in revenues.

**Governmental Activities**

Governmental activities increased the District’s net assets by \$162,996. Key elements of this increase are as follows:

	<b>Operating Results for the Year</b>	
	Governmental Activities	
	6-30-08	6-30-07
Program Revenues:		
Charges for Services	\$ 53,891	\$ 53,230
Operating Grants and Contributions	88,182	86,845
Capital Grants and Contributions	70,559	189,809
General Revenues:		
Property Taxes, Levied for Operational Purposes	467,057	441,424
Property Taxes, Levied for Debt Service		2
Property Taxes, Levied for Capital Projects	169,121	151,610
Local Sales Tax	24,765	26,761
Grants and Contributions Not Restricted to Specific Programs	1,124,991	1,103,785
Unrestricted Investment Earnings	30,668	41,383
Miscellaneous	39,280	35,333
<b>Total Revenues</b>	<b>2,068,514</b>	<b>2,130,182</b>
Expenses:		
Instructional Services	1,015,155	922,111
Instructional Support Services	206,740	190,456
General Administration	44,061	45,191
School Administration	93,300	87,416
Non-Capitalizable Facilities Acquisition and Construction	120,088	109,174
Food Services	85,984	84,708
Pupil Transportation Services	67,755	64,586
Operation and Maintenance of Plant	135,825	127,681
Community Services and Other	76,885	76,637
Interest on Long-Term Debt	59,426	56,641
Unallocated Depreciation Expenses	299	240
<b>Total Expenses</b>	<b>1,905,518</b>	<b>1,764,841</b>
Increase in Net Assets	162,996	365,341
Net Assets Beginning of Year	1,691,350	1,326,009
<b>Net Assets End of Year</b>	<b>\$ 1,854,346</b>	<b>\$ 1,691,350</b>

Property taxes increased by \$43,142. This is due to the increase in the assessed value of property and the continued growth and construction in Hillsborough County.

Unrestricted grants and contributions revenue increased by \$21,206, mostly due to the increase of the Class Size Reduction Operating Program contributions. Capital grants and contributions decreased \$119,250 mainly due to the decrease in the Class Size Reduction Construction Program.

For the most part, the increase in expenses is due to the mandates of the State’s voter-approved Class Size Reduction programs, both in the capital and the operational programs, which requires additional schools, classrooms, teachers and support personnel to achieve these mandates.

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

(Amounts Expressed in Thousands)

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Major Governmental Funds**

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$950,278, a decrease of \$65,158 over the prior year. Of this amount, \$664,585 constitutes unreserved fund balance, which is available for spending to meet the District's needs in the corresponding fund types. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$158,864), 2) to pay debt service (\$91,147), 3) to complete State carryover programs (\$10,949), 4) to complete other committed projects (\$19,619) and 5) as reserved for inventory (\$5,114).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$338,048, while total fund balance was \$381,983. The fund balance of the District's General Fund increased by \$47,483 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 23.36 percent of total General Fund expenditures, while total fund balance represents 26.39 percent of that same amount. The increase in fund balance is mainly due to the increase in revenues from the Class Size Reduction Operating categorical and local property tax revenue.

The Special Revenue - Contracted Services Fund had a decrease in revenue due to the decrease in funding of several Federal ongoing grants.

The Capital Projects - Local Capital Improvement Fund fund balance increased by \$21,659 to a total of \$116,322. The increase is due to the increase in capital outlay property tax revenue.

The Capital Projects - Certificates of Participation Fund total fund balance decreased \$48,121 to a total of \$188,000.

The Capital Projects - Other Fund had a decrease of fund balance of \$96,331 to a total of \$110,672. The decreases to both were, in part, due to the expenditures incurred from opening four new schools in 2008 and the ongoing construction of three new schools scheduled to open in 2009. The Capital Projects - Other Fund fund balance decrease was also due to the decrease of the Class Size Reduction Construction Program from the 2006-07 to 2007-08 fiscal year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the District revised its budget and brought amendments to the Board on a monthly basis. These amendments were needed to adjust to actual revenues and direct resources where needed. The original budget was done on a conservative basis due to the State’s warning in the spring and summer of 2007 that there would be cuts for the fiscal 2008 year. Also, early June 2007 projection showed a reduction of students for Hillsborough County. The Board approved the final amendment to the budget after year-end.

Budgeted expenditures increased \$278.5 million from the original budget to the final amended budget. The increases were due, in part, to hiring new teachers and support personnel for the mandate to meet class size reduction, Board-approved salary raises and the opening of new schools. Also a factor in the increase is the increased cost of property and health insurance.

Actual expenditures were \$194.9 million below the final amended budget. Unexpended appropriations of \$194.9 million were composed of the following: (1) \$8.3 million in encumbrances, (2) \$10.9 million in State categorical funds, (3) \$19.6 million in other earmarked funds and (4) \$156.1 million in other unexpended budget items. The \$156.1 million reflects only 9.5 percent of the final budget appropriations. In the normal course of business, some of the budget is left unspent, primarily due to temporarily unfilled positions and designations for long-term financial planning.

**CAPITAL ASSETS AND LONG-TERM DEBT**

(Amounts Expressed in Thousands)

**Capital Assets**

The District’s investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$2,277,794 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, improvements other than buildings, buildings and systems, furniture, fixtures and equipment, motor vehicles, property under capital lease, audio visual materials, and computer software.

	Governmental Activities	
	6-30-08	6-30-07
Land	\$ 150,816	\$ 132,570
Land Improvements	59,331	52,899
Construction In Progress	257,182	142,238
Improvements Other Than Buildings	71,594	67,481
Buildings and Systems	1,646,532	1,581,533
Furniture, Fixtures, and Equipment	43,640	48,873
Motor Vehicles	43,934	38,243
Property Under Capital Lease	911	1,186
Audio Visual Materials	8	4
Computer Software	3,846	5,063
<b>Total Capital Assets, Net</b>	<b>\$ 2,277,794</b>	<b>\$ 2,070,090</b>

This year’s capital outlays of \$285,559 included the construction of four new schools which opened in fiscal year 2008, three schools which are to be opened in 2009 and several major expansion and renovation projects. See Notes 5 and 23 to financial statements for more information on the District’s capital assets.

**Long-Term Debt**

At the end of the current fiscal year, the District had total debt outstanding of \$1,275,703, which is net of unamortized bond premiums and unamortized loss on bond refunding of (\$3,064).

	<u>6-30-08</u>	<u>6-30-07</u>
Capital Leases	\$ 454	\$ 885
Bonds Payable	317,098	324,753
Certificates of Participation	<u>958,151</u>	<u>977,486</u>
Total Long Term Debt	<u>\$ 1,275,703</u>	<u>\$ 1,303,124</u>

The District’s total debt decreased by \$27,421 (net of new debt issuance proceeds and repayment of principal on outstanding debt) during the current fiscal year. The only increase in debt was the Series 2008A, State Board of Education bonds that the State issued on behalf of the District.

The District has been given the following bond ratings:

	<u>Sales Tax Revenue Bonds</u>	
	<u>Insured</u>	<u>Underlying</u>
Moody's	AA3	A1
Standard & Poors	AA	A+
Fitch IBCA		A+
	<u>Certificates of Participation</u>	
	<u>Insured</u>	<u>Underlying</u>
Moody's	AA2	Aa3
Standard & Poors	AA	AA-
Fitch IBCA		A+

See Notes 7 - 13 to financial statements for more information on the District’s long-term debt.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the School District of Hillsborough County’s finances for all those with an interest in the District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Accounting Department, 901 E. Kennedy Blvd. Tampa, Florida, 33602.



## BASIC FINANCIAL STATEMENTS

**EXHIBIT - A**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008**  
*(Amounts Expressed in Thousands)*

	Primary Government Governmental Activities	Component Units
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 200,217	\$ 4,724
Investments	721,113	4,871
Accounts Receivable, Net	5,189	1,358
Due from Other Governmental Agencies	215,876	597
Inventories	5,552	
Prepaid Items		3,736
	1,147,947	15,286
<b>Total Current Assets</b>		
Noncurrent Assets:		
Deferred Charges	13,107	964
Capital Assets:		
Nondepreciable Capital Assets	467,329	9,647
Depreciable Capital Assets, Net	1,810,465	22,259
	2,290,901	32,870
<b>Total Noncurrent Assets</b>		
<b>TOTAL ASSETS</b>	\$ 3,438,848	\$ 48,156
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 80,112	\$ 2,234
Construction Retainage Payable	13,561	
Salaries and Wages Payable	1,314	441
Accrued Payroll Taxes and Withholdings	4,210	178
Accrued Interest	24,363	
Due to Other Governmental Agencies	10,630	383
Deposits Payable	12	
Unearned Revenue	10,198	427
Long-Term Liabilities -- Portion Due Within One Year:		
Obligations Under Capital Lease	454	31
Certificates of Participation Payable	22,015	
Bonds Payable	13,007	305
Notes Payable		395
Estimated Insurance Claims Payable	6,863	
Compensated Absences Payable	14,600	
	201,339	4,394
<b>Total Current Liabilities</b>		
Noncurrent Liabilities:		
Long-Term Liabilities -- Portion Due After One Year:		
Arbitrage Payable	5,549	
Obligations Under Capital Lease		36
Certificates of Participation Payable	934,776	
Bonds Payable	302,387	16,707
Notes Payable		8,815
Estimated Insurance Claims Payable	10,008	
Postemployment Benefits Payable	10,394	
Compensated Absences Payable	120,049	
	1,383,163	25,558
<b>Total Noncurrent Liabilities</b>		
<b>Total Liabilities</b>	1,584,502	29,952
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,221,625	8,258
Restricted for:		
State Categorical Programs	10,949	
Debt Service	66,784	223
Capital Projects	254,624	41
Non-Categorical Carryover Programs	13,673	
Other Purposes	5,998	7,037
Unrestricted	280,693	2,645
	1,854,346	18,204
<b>Total Net Assets</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 3,438,848	\$ 48,156

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

**EXHIBIT - B**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF ACTIVITIES**  
*For the Fiscal Year Ended June 30, 2008*  
*(Amounts Expressed in Thousands)*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instructional Services	\$ 1,015,155	\$ 17,855	\$	\$
Instructional Support Services	206,740			
Pupil Transportation Services	67,755	3,410	35,832	
Operation and Maintenance of Plant	135,825			
Non-Capitalizable Facilities Acquisition and Construction	120,088			64,200
School Administration	93,300			
General Administration	44,061			
Food Services	85,984	32,626	52,350	
Community Services and Other	76,885			
Interest on Long-Term Debt	59,426			6,359
Unallocated Depreciation Expense	299			
<b>Total Governmental Activities</b>	<b>\$ 1,905,518</b>	<b>\$ 53,891</b>	<b>\$ 88,182</b>	<b>\$ 70,559</b>
<b>Component Units</b>				
Hillsborough Education Foundation, Inc.	\$ 5,366	\$	\$	\$
Charter Schools	41,349	2,139	1,114	596
<b>Total Component Units</b>	<b>\$ 46,715</b>	<b>\$ 2,139</b>	<b>\$ 1,114</b>	<b>\$ 596</b>

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

**Total General Revenues**

**Change in Net Assets**

Net Assets - July 1, 2007

**Net Assets - June 30, 2008**

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

EXHIBIT - B

Net (Expense) Revenue and Changes in Net Assets	
Primary Government Governmental Activities	Component Units
\$ (997,300)	\$
(206,740)	
(28,513)	
(135,825)	
(55,888)	
(93,300)	
(44,061)	
(1,008)	
(76,885)	
(53,067)	
(299)	
<u>\$ (1,692,886)</u>	
	(5,366)
	<u>(37,500)</u>
	(42,866)
467,057	
169,121	
24,765	
1,124,991	43,141
30,668	212
39,280	566
<u>1,855,882</u>	<u>43,919</u>
162,996	1,053
<u>1,691,350</u>	<u>17,151</u>
<u>\$ 1,854,346</u>	<u>\$ 18,204</u>

**EXHIBIT - C**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2008**  
*(Amounts Expressed in Thousands)*

	General Fund	Special Revenue - Contracted Services Fund	Capital Projects - Local Capital Improvement Fund
<b>ASSETS</b>			
Cash	\$ 95,147	\$ 3,907	\$ 52,213
Investments	274,805	131	55,922
Accounts Receivable, Net	2,396		
Due from Other Governmental Agencies	23,982	8,187	7,937
Due from Other Funds	21,557	74	6,188
Inventories	5,114		
<b>TOTAL ASSETS</b>	<b>\$ 423,001</b>	<b>\$ 12,299</b>	<b>\$ 122,260</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and Wages Payable	\$ 1,314	\$	\$ 4,659
Accounts Payable	23,701	5,183	
Payroll Taxes and Withholdings	4,210		
Due to Other Funds	503	4,700	1,279
Due to Other Governmental Agencies	10,615	15	
Deposits Payable	6		
Unearned Revenue	669	2,401	
<b>Total Liabilities</b>	<b>41,018</b>	<b>12,299</b>	<b>5,938</b>
Fund Balances:			
Reserved for:			
State Categorical Programs	10,949		
Encumbrances	8,253		32,941
Inventories	5,114		
Debt Service			
Other Purposes	19,619		
Unreserved, Reported in:			
General Fund	338,048		
Special Revenue Funds			
Capital Projects Funds			83,381
<b>Total Fund Balances</b>	<b>381,983</b>	<b></b>	<b>116,322</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 423,001</b>	<b>\$ 12,299</b>	<b>\$ 122,260</b>

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

EXHIBIT - C

Capital Projects - Certificates of Participation Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 46	\$ 8,645	\$ 21,349	\$ 181,307
200,642	20,603	79,008	631,111
2,568		166	5,130
	105,445	69,649	215,200
2,698	3,249	134	33,900
		438	5,552
<u>\$ 205,954</u>	<u>\$ 137,942</u>	<u>\$ 170,744</u>	<u>\$ 1,072,200</u>
\$ 11,178	\$ 14,962	\$ 8,533	\$ 1,314
			68,216
6,776	12,302	8,340	4,210
			33,900
	6		10,630
		570	12
			3,640
<u>17,954</u>	<u>27,270</u>	<u>17,443</u>	<u>121,922</u>
			10,949
76,556	19,439	21,675	158,864
			5,114
		91,147	91,147
			19,619
			338,048
		52	52
<u>111,444</u>	<u>91,233</u>	<u>40,427</u>	<u>326,485</u>
<u>188,000</u>	<u>110,672</u>	<u>153,301</u>	<u>950,278</u>
<u>\$ 205,954</u>	<u>\$ 137,942</u>	<u>\$ 170,744</u>	<u>\$ 1,072,200</u>

**EXHIBIT - D  
HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008  
(Amounts Expressed in Thousands)**

<b>Total Fund Balances - Governmental Funds</b>	\$	950,278
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		2,277,794
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		13,107
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		74,322
Accrued interest on long-term liabilities is not due and payable in the current period and therefore, is not reported in the funds.		(24,363)
Accrued retainage payable is not due and payable in the current period and therefore is not reported in the funds.		(13,561)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Obligations Under Capital Lease	\$	454
Bonds Payable		315,394
Postemployment Benefits Payable		10,394
Arbitrage Payable		5,549
Certificates of Participation Payable		956,791
Compensated Absences Payable		134,649
		(1,423,231)
<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b>1,854,346</b>

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

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**EXHIBIT - E**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2008**  
**(Amounts Expressed in Thousands)**

	General Fund	Special Revenue - Contracted Services Fund	Capital Projects - Local Capital Improvement Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 2,079	\$ 11,570	\$
Federal Through State	9,054	118,214	
Federal Through Local		57,678	
State	958,706	640	
Local:			
Ad Valorem Taxes	467,057		169,121
Sales Tax			
Food Services			
Miscellaneous	58,735	486	6,288
<b>Total Revenues</b>	1,495,631	188,588	175,409
<b>Expenditures</b>			
Current - Education:			
Instruction	926,745	77,843	
Pupil Personnel Services	62,405	14,306	
Instructional Media Services	22,022	2,028	
Instruction and Curriculum Development Services	21,938	24,143	
Instructional Staff Training Services	19,116	14,035	
Instruction Related Technology	22,892	1,044	
Board of Education	1,160		
General Administration	10,322	2,251	
School Administration	91,181	532	
Facilities Acquisition and Construction	994	110	33,878
Fiscal Services	8,300	694	
Food Services	544		
Central Services	17,757	821	
Pupil Transportation Services	64,277	1,093	
Operation of Plant	106,740	216	
Maintenance of Plant	29,272	8	
Administrative Technology Services	535		
Community Services	31,270	45,517	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	1,505	104	56,185
Other Capital Outlay	8,371	3,897	
Debt Service:			
Principal			
Interest and Fiscal Charges			
<b>Total Expenditures</b>	1,447,346	188,642	90,063
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	48,285	(54)	85,346
<b>Other Financing Sources (Uses)</b>			
Transfers In	2,822	54	16
Long Term Bonds Issued			
Premium on District Revenue Bonds			
Proceeds from Sale of Capital Assets			
Transfers Out	(3,624)		(63,703)
<b>Total Other Financing Sources (Uses)</b>	(802)	54	(63,687)
<b>Net Change in Fund Balances</b>	47,483		21,659
Fund Balances, July 1, 2007	334,500		94,663
<b>Fund Balances, June 30, 2008</b>	\$ 381,983	\$ 0.00	\$ 116,322

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



EXHIBIT - E

Capital Projects - Certificates of Participation Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		50,900	13,649
			178,168
	34,885	40,005	57,678
			1,034,236
			636,178
		24,765	24,765
		32,708	32,708
9,421	10,926	2,118	87,974
<u>9,421</u>	<u>45,811</u>	<u>150,496</u>	<u>2,065,356</u>
			1,004,588
			76,711
			24,050
			46,081
			33,151
			23,936
			1,160
			12,573
12,173	4,421	440	91,713
			52,016
			8,994
		86,006	86,550
			18,578
			65,370
			106,956
			29,280
			535
			76,787
45,120	136,415	33,882	273,211
		80	12,348
		32,075	32,075
		57,856	57,856
<u>57,293</u>	<u>140,836</u>	<u>210,339</u>	<u>2,134,519</u>
<u>(47,872)</u>	<u>(95,025)</u>	<u>(59,843)</u>	<u>(69,163)</u>
	28	69,079	71,999
		5,085	5,085
		184	184
	1,257		1,257
(249)	(2,591)	(4,353)	(74,520)
<u>(249)</u>	<u>(1,306)</u>	<u>69,995</u>	<u>4,005</u>
(48,121)	(96,331)	10,152	(65,158)
236,121	207,003	143,149	1,015,436
<u>\$ 188,000</u>	<u>\$ 110,672</u>	<u>\$ 153,301</u>	<u>\$ 950,278</u>

**EXHIBIT - F**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2008**  
**(Amounts Expressed in Thousands)**

<b>Net Change in Fund Balances - Governmental Funds</b>	\$	(65,158)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$285,559) exceeds depreciation expense (\$85,399) during the current period.		200,160
The statement of activities reflects only the gain/loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net assets differs by the cost of assets sold.		(4,033)
Donated capital assets increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental fund statements.		4,736
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal and capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments of bond principal (\$12,740), certificates of participation (\$19,335), and capital leases (\$431) exceeded proceeds (\$5,085) in the current year.		27,421
Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:		
Postemployment Benefits Payable		(10,394)
Interest Expense (Including Arbitrage Rebate)		(2,847)
Compensated Absences		(5,841)
Amortization of Bond Discount, Premium, and Issuance Costs		(750)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		19,702
<b>Change in Net Assets - Governmental Activities</b>	<b>\$</b>	<b>162,996</b>

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

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**EXHIBIT - G**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -**  
**GENERAL FUND AND MAJOR SPECIAL REVENUE FUND - CONTRACTED SERVICES**  
**For the Fiscal Year Ended June 30, 2008**  
**(Amounts Expressed in Thousands)**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 865	\$ 2,079	\$ 2,079	\$
Federal Through State	1,900	9,054	9,054	
Federal Through Local State	818,332	959,574	958,706	(868)
Local:				
Ad Valorem Taxes	461,896	467,057	467,057	
Miscellaneous	29,105	62,031	58,735	(3,296)
<b>Total Revenues</b>	<u>1,312,098</u>	<u>1,499,795</u>	<u>1,495,631</u>	<u>(4,164)</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	904,217	996,081	926,745	69,336
Pupil Personnel Services	82,927	64,159	62,405	1,754
Instructional Media Services	23,012	23,962	22,022	1,940
Instruction and Curriculum Development Services	19,175	25,326	21,938	3,388
Instructional Staff Training Services	12,965	24,300	19,116	5,184
Instruction Related Technology	16,678	30,250	22,892	7,358
Board of Education	1,026	1,316	1,160	156
General Administration	9,722	25,305	10,322	14,983
School Administration	82,047	99,228	91,181	8,047
Facilities Acquisition and Construction	2,048	6,770	994	5,776
Fiscal Services	6,794	24,978	8,300	16,678
Food Services		544	544	
Central Services	16,031	20,105	17,757	2,348
Pupil Transportation Services	51,807	68,993	64,277	4,716
Operation of Plant	84,166	149,359	106,740	42,619
Maintenance of Plant	25,893	36,450	29,272	7,178
Administrative Technology Services	491	542	535	7
Community Services	24,786	34,750	31,270	3,480
Fixed Capital Outlay:				
Facilities Acquisition and Construction		1,505	1,505	
Other Capital Outlay		8,371	8,371	
<b>Total Expenditures</b>	<u>1,363,785</u>	<u>1,642,294</u>	<u>1,447,346</u>	<u>194,948</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(51,687)</u>	<u>(142,499)</u>	<u>48,285</u>	<u>190,784</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	338	2,822	2,822	
Transfers Out	(2,640)	(3,626)	(3,624)	2
<b>Total Other Financing Sources (Uses)</b>	<u>(2,302)</u>	<u>(804)</u>	<u>(802)</u>	<u>2</u>
<b>Net Change in Fund Balances</b>	(53,989)	(143,303)	47,483	190,786
Fund Balances, July 1, 2007	334,500	334,500	334,500	
<b>Fund Balances, June 30, 2008</b>	<u>\$ 280,511</u>	<u>\$ 191,197</u>	<u>\$ 381,983</u>	<u>\$ 190,786</u>

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

EXHIBIT - G

Special Revenue - Contracted Services Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 20,438	\$ 22,971	\$ 11,570	\$ (11,401)
126,548	136,101	118,214	(17,887)
50,135	62,495	57,678	(4,817)
1,324	966	640	(326)
<u>479</u>	<u>661</u>	<u>486</u>	<u>(175)</u>
<u>198,924</u>	<u>223,194</u>	<u>188,588</u>	<u>(34,606)</u>
84,033	91,520	77,843	13,677
18,351	15,505	14,306	1,199
2,729	3,070	2,028	1,042
21,793	31,169	24,143	7,026
15,511	20,678	14,035	6,643
143	1,109	1,044	65
5,003	3,600	2,251	1,349
1,342	542	532	10
592	228	110	118
682	700	694	6
329	1,920	821	1,099
3,241	1,214	1,093	121
197	347	216	131
14	30	8	22
45,034	47,617	45,517	2,100
	104	104	
	<u>3,897</u>	<u>3,897</u>	
<u>198,994</u>	<u>223,250</u>	<u>188,642</u>	<u>34,608</u>
<u>(70)</u>	<u>(56)</u>	<u>(54)</u>	<u>2</u>
70	56	54	(2)
<u>70</u>	<u>56</u>	<u>54</u>	<u>(2)</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**EXHIBIT - H**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS -**  
**PROPRIETARY FUNDS**  
**June 30, 2008**  
**(Amounts Expressed in Thousands)**

		Governmental Activities - Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	18,910
Investments		90,002
Accounts Receivable		59
Due From Other Governmental Agencies		<u>676</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>109,647</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$	11,896
Deferred Revenue		6,558
Estimated Insurance Claims Payable		<u>6,863</u>
<b>Total Current Liabilities</b>		<u>25,317</u>
Noncurrent Liabilities:		
Estimated Liability for Claims		<u>10,008</u>
<b>Total Noncurrent Liabilities</b>		<u>10,008</u>
<b>Total Liabilities</b>		<u>35,325</u>
<b>NET ASSETS</b>		
Unrestricted		<u>74,322</u>
<b>Total Net Assets</b>		<u>74,322</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>109,647</u></b>

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

**EXHIBIT - I**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2008**  
**(Amounts Expressed in Thousands)**

		Governmental Activities - Internal Service Funds
		<u>                    </u>
<b>OPERATING REVENUES</b>		
Premium Revenue From Other Funds	\$	161,102
Other Revenue		1,918
		<u>                    </u>
<b>Total Operating Revenues</b>		<u>163,020</u>
<b>OPERATING EXPENSES</b>		
Salaries		644
Benefits		235
Purchased Services		668
Materials and Supplies		1
Claims, Premiums and Other		147,111
		<u>                    </u>
<b>Total Operating Expenses</b>		<u>148,659</u>
<b>Operating Income</b>		<u>14,361</u>
<b>NONOPERATING REVENUE</b>		
Interest		2,820
		<u>                    </u>
<b>Total Nonoperating Revenue</b>		<u>2,820</u>
<b>Income Before Transfers</b>		17,181
Transfers In		2,570
Transfers Out		(49)
		<u>                    </u>
<b>Change in Net Assets</b>		19,702
Total Net Assets, July 1, 2007		54,620
		<u>                    </u>
<b>Total Net Assets, June 30, 2008</b>	<b>\$</b>	<u><u>74,322</u></u>

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

**EXHIBIT - J**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2008**  
**(Amounts Expressed in Thousands)**

		Governmental Activities - Internal Service Funds
		Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Interfund Services Provided	\$	165,950
Cash Received from Other Operating Revenues		2,050
Cash Payments to Suppliers for Goods and Services		(148,929)
Cash Payments to Employees for Services		(878)
		18,193
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers From Other Funds		2,570
Transfers To Other Funds		(49)
		2,521
<b>Net Cash Provided by Noncapital Financing Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds From Sales and Maturities of Investments		4,140
Purchase of Investments		(9,059)
Interest and Dividends Earned on Investments		2,820
		(2,099)
<b>Net Cash Used by Investing Activities</b>		
<b>Net Increase in Cash and Cash Equivalents</b>		18,615
Cash and Cash Equivalents, Beginning		295
<b>Cash and Cash Equivalents, Ending</b>		\$ 18,910
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$	14,361
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		166
Increase in Due From Other Governmental Agencies		(611)
Increase in Accounts Payable		587
Increase in Deferred Revenue		4,750
Decrease in Estimated Liability for Long-term Claims		(1,060)
		3,832
<b>Total Adjustments</b>		3,832
<b>Net Cash Provided by Operating Activities</b>		\$ 18,193

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



**EXHIBIT - K**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY NET ASSETS -**  
**FIDUCIARY FUNDS**  
**June 30, 2008**  
**(Amounts Expressed in Thousands)**

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$	25,216
Investments	14,401		15,209
Accounts Receivable, Net	170		26
Inventory			313
	<u>          </u>		<u>          </u>
<b>TOTAL ASSETS</b>	<b>\$ 14,571</b>	<b>\$</b>	<b>40,764</b>
<b>LIABILITIES</b>			
Accounts Payable	\$	\$	1,253
Payroll Deductions and Withholdings			22,911
Due to Student Organizations			16,600
	<u>          </u>		<u>          </u>
<b>Total Liabilities</b>			<b>40,764</b>
<b>NET ASSETS</b>			
Assets Held in Trust for Pension Benefits	14,571		
Assets Held in Trust for Scholarships and Other Purposes			
	<u>          </u>		<u>          </u>
<b>Total Net Assets</b>	<b>14,571</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 14,571</b>	<b>\$</b>	<b>40,764</b>

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

**EXHIBIT - L  
HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
For the Fiscal Year Ended June 30, 2008  
(Amounts Expressed in Thousands)**

	Pension Trust Fund
<b>ADDITIONS</b>	
<b>Contributions:</b>	
Contributions Received From Employer	\$ 3,549
<b>Total Contributions</b>	<b>3,549</b>
<b>Investment Earnings:</b>	
Net Increase in Fair Value of Investments	318
Interest	712
<b>Total Investment Income</b>	1,030
Less Investment Expense	34
<b>Net Investment Income</b>	<b>996</b>
<b>Total Additions</b>	<b>4,545</b>
<b>DEDUCTIONS</b>	
Benefits Paid to Participants	1,856
Administrative Expenses	11
<b>Total Deductions</b>	<b>1,867</b>
<b>Change in Net Assets</b>	<b>2,678</b>
Net Assets, July 1, 2007	11,893
<b>Net Assets, June 30, 2008</b>	<b>\$ 14,571</b>

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

**EXHIBIT – M**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

The District School Board of Hillsborough County, Florida (School Board) has direct responsibility for operation, control, and supervision of the District schools and is considered a primary government for financial reporting purposes. The Hillsborough County School District is a part of the Florida system of public education. The governing body of the school district is the Hillsborough County District School Board that is composed of seven (7) elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Hillsborough County.

The accompanying financial statements present the activities of the School Board and its component units. Criteria for determining if other entities are potential component units, which should be reported within the School Board's financial statements, are identified and described in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The application of these criteria provide for identification of any entities for which the District School Board is financially accountable and other organizations for which the District School Board is financially accountable and other organizations for which the nature and significance of their relationship with the District School Board are such that exclusion would cause the Board's basic financial statements to be misleading or incomplete.

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

- **Blended Component Unit.** The Hillsborough School Board Leasing Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 8. Due to the substantive economic relationship between the Hillsborough County District School Board and the Corporation, the financial activities of the Corporation are included in the accompanying financial statements of the School Board in the Certificates of Participation Fund. Separate financial statements of the Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's other component units for the fiscal year ended June 30, 2008. These component units consist of the Hillsborough Education Foundation, Inc. (the Foundation), and the District's charter schools. Both the Foundation and the charter schools are reported in a separate column to emphasize that they are legally separate from the District School Board. While the District's officials are not financially accountable for the Foundation or the charter schools, it would be misleading to exclude them from the District's financial statements. None of the individual component units are considered to be major.

The Hillsborough Education Foundation, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to, or for, the benefit of the District.

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Complete financial statements of the Foundation can be obtained from their administrative office at:

Hillsborough Education Foundation  
 2010 E. Hillsborough Ave., Suite 212  
 Tampa, Florida 33610-8255

The charter schools are separate not-for-profit corporations organized under Section 1002.33, Florida Statutes to operate as public (as opposed to private) schools and are held responsible for prudent use of the public funds they receive. Each charter school is a separate component unit that operates under a charter approved by their sponsor, the School Board. There are twenty-five (25) charter schools operating in the School District of Hillsborough County that meet the criteria for presentation as a discretely presented component unit.

The individual charter schools are listed below. Further, complete audited financial statements of the individual component units can be obtained from their administrative offices. These schools include:

Anderson Academy Charter School  
 2708 N. Central Ave  
 Tampa, Fl 33602

Brooks DeBartolo Collegiate High School  
 11602 N. 15<sup>th</sup> Street  
 Tampa, Fl 33612

Carl Sagan Academy  
 4610 E. Hanna Ave  
 Tampa, FL 33610

Florida Autism Charter School of Excellence  
 6400 East Charles St.  
 Tampa, Fl 33610

Hope Preparatory Academy  
 3916 E. Hillsborough Ave.  
 Tampa, Fl 33610

Kid's Community School  
 10544 Lake St. Charles  
 Riverview, Fl 33549

Learning Gate Charter School  
 16215 Hanna Road  
 Lutz, Fl. 33549

Literacy/Leadership Technology Academy  
 6771 Madison Ave.  
 Tampa, Fl 33619

Mount Pleasant Charter School  
 2002 Rome Ave.  
 Tampa, Fl 33607

Pepin Charter School of Tampa  
 3916 E. Hillsborough Ave.  
 Tampa, Fl 33610

Prince Academy Charter School  
 1006 S. 50<sup>th</sup> St.  
 Tampa, Fl 33619

Quest Middle School  
 3916 E. Hillsborough  
 Tampa, Fl 33610

ReBirth Academy Charter School  
 1924 E. Comanche Ave.  
 Tampa, Fl 33610

Richardson Academy Charter School  
 68150 N. Rome Ave.  
 Tampa, Fl 33604

Shiloh Elementary Charter School  
 1104 West Cason St.  
 Plant City, Fl 33563

Tampa Bay Academy Charter School  
 12012 Boyette Road  
 Riverview, Fl 33569

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Tampa Charter School  
 5429 Beaumont Center  
 Tampa, Fl 33634

Tampa Transitional School  
 3916 E. Hillsborough Ave.  
 Tampa, Fl 33610

Terrace Community Charter School  
 4801 E. Fowler Ave.  
 Tampa, Fl 33617

Trinity Charter School  
 2402 W. Osborne Ave.  
 Tampa, Fl. 33603

Trinity Upper Charter School  
 4807 North Armenia  
 Tampa, Fl 33603

USF/Patel K-3  
 11801 Bull Run  
 Tampa, Fl 33617

USF/Patel 4-5  
 11801 Bull Run  
 Tampa, Fl 33617

The Village of Excellence Charter School  
 8718 North 46<sup>th</sup> St.  
 Temple Terrace, Fl 33617

Walton Academy Charter School  
 4817 N. Florida Ave.  
 Tampa, Fl 33603

Change in Reporting Entity

During fiscal year 2008, Prince Academy Charter School ceased operations as of June 30, 2008. The Charter School did not submit an audit of its operations for fiscal year 2008; therefore, no financial information has been reported for the entity. In addition, two charter schools ceased operations at fiscal year end, USF Patel K-3 and USF Patel 4-5. Both USF Patel charter schools have submitted audits of the operations and that information has been reported along with the activities of the other charter schools. The activities of these schools will be assumed by the District effective July 1, 2008.

Additionally, for fiscal year 2008, three new charter schools began operations; Brooks DeBartolo High School, Florida Autism Charter School of Excellence and Shiloh Elementary Charter School. Both Brooks DeBartolo High School and the Florida Autism Charter School of Excellence had beginning net assets deficits as a result of activities of the management companies overseeing their operations prior to the official charter effective date of July 1, 2007. Audits of the operations of all three new charter schools were performed and are included along with the activities of the other charter schools.

As a result of the ceasing of operations of Prince Academy Charter School and the creations of new charter schools, the net assets of the component units as a whole has been adjusted by (\$292) as follows:

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Net Assets – beginning, as previously reported	\$17,443
Adjustments for effect of change in reporting entity:	
Prince Academy Charter School	(87)
Brooks DeBartolo High School	230
Florida Autism Charter School of Excellence	<u>(435)</u>
Net Assets – beginning, adjusted	<u>\$17,151</u>

➤ **Basis of Presentation**

The basic financial statements include the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - Government-wide financial statements including a statement of net assets and a statement of activities that display information about the primary government (District School Board) and its component units. These financial statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal service fund activities. The effect of interfund activities has been eliminated in the statement of activities.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the District School Board's functions. The expense of individual functions is compared to the revenues generated by the function (for instance, through user charges or intergovernmental grants). Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipient of the goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other funds and to employees for workers' compensation and insurance. Operating expenses for the internal service funds include the cost of services and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Financial Statements – The fund financial statements provide information about the District School Board funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Because the focus of the governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue - Contracted Services Fund – to account for financial resources of certain Federal grant program resources.
- Capital Projects - Local Capital Improvement Fund – to account for, and report on, the revenues generated from the local capital outlay property taxes.
- Capital Projects - Certificates of Participation Fund – to account for, and report on, the revenues generated from the issuance of Certificates of Participation.
- Capital Projects – Other Fund – to account for, and report on, other miscellaneous capital outlay funds from various sources.

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

- Internal Service Funds – to account for the District's workers' compensation, general and automobile liability self-insurance programs and the employee health insurance program.
- Pension Trust Fund – to account for resources used to finance the early retirement program.
- Agency Funds – to account for resources held by the District as custodian for others primarily for the benefit of various schools and their activity funds.

➤ **Measurement Focus and Basis of Accounting**

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

Government-wide Statements – The government-wide statements are presented using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows have taken place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues, other than grant funds, reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Grant funds are considered available if collection is expected in the upcoming fiscal year. Property taxes, sales taxes, and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combinations of specific cost reimbursement grants, categorical program funds, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost reimbursement grant resources to such programs, followed by categorical program funds, and then by general revenues.

➤ **Cash**

Cash consists of petty cash funds and deposits held by banks qualified as public depositories under Florida law. All deposits are fully insured by Federal depository insurance and a multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The statement of cash flows for the Proprietary Funds considers cash as those accounts used as demand deposit accounts and considers as cash equivalents amounts invested with the State Board of Administration.

➤ **Investments**

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys, amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund Investment Pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund to also establish the Fund B Surplus Funds Trust Fund.

The District's investments in the Local Government Surplus Funds Trust Fund, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost. Investments in the early retirement program are reported at fair value.

Investments made locally consist of a money market account with Evergreen Institutional U.S. Government Money Market, certificates of deposit, investments in United States Government agencies and instrumentalities, and a guaranteed investment contract.

Types and amounts of investments held at year-end are described in a subsequent note on investments.



**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

➤ **Inventory**

Inventories consist of expendable supplies and equipment held for consumption in the course of District operations. Inventories at the central warehouse, maintenance, textbook depository and the bus garage are stated at cost based on a moving average. Food service inventories are stated at cost based on the first-in, first-out basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Health and Rehabilitation Services, Food Distribution Center. All other inventories are stated at cost on the last invoice price method, which approximates the first-in, first-out basis. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets purchased after July 1, 2004, are defined as those costing more than \$1,000; those purchased before July 1, 2004, are defined as those costing more than \$750 and having a useful life of more than one year. Donated assets are recorded at fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Interest costs incurred during construction are not capitalized as part of the cost of construction.

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

<u>Asset Class Description</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements Other than Buildings	10 - 25 years
Building Improvements	10 - 20 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 years

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported in the government-wide statement of net assets. Bond premiums, discounts and losses on refunding issuances, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

method. Bonds payable are reported net of the applicable bond premium or discount and losses on refunding issuances. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees, who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

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

➤ **State Revenue Sources**

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

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided. The money not expended or encumbered as of the close of the fiscal year is usually carried forward into the following year to be expended for the same programs. The Department requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved for the unencumbered balance of categorical educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay funds as deferred revenue until such time as an encumbrance authorization is received.

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

➤ **Property Taxes**

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

Property taxes consist of ad valorem taxes on real and personal property within the District. Property taxes are assessed by the Hillsborough County Property Appraiser and are collected by the Hillsborough County Tax Collector.

The School Board adopted the 2008 tax levy on September 6, 2007. Tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year with discounts of up to four percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements in the fiscal year for which the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Hillsborough County Tax Collector at fiscal year-end which have not yet been remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued.

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

➤ **Federal Revenue Sources**

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

➤ **Use of Estimates**

The preparation of the financial statements requires management of the District to make a number of assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**2. BUDGET COMPLIANCE AND ACCOUNTABILITY**

The School Board follows the procedures established by State statutes and State Board of Education rules in establishing final budget balances reported in the financial statements:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

State Board of Education rules. Original budgets are submitted to the State Commissioner of Education for approval.

- The budget is prepared by fund, function, object and department. Management may make transfers of appropriations between departments and object. The functional level is the legal level of budgetary control and may only be amended by resolution of the Board at any Board meeting prior to the due date for the Superintendent's Annual Financial Report (State Report). Budgetary disclosure in the accompanying financial statements reflects the original and final budget including all amendments approved for the fiscal year through September 4, 2008.
- Budgets are prepared using the same modified accrual basis as is used to account for actual transactions in the governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations as described in a subsequent note on reservations of fund balances.

All budget amounts presented in the basic statements reflect the original budget and the final amended budget (which has been adjusted for legally authorized revisions of the annual budget during the year).

At the governmental fund level, outstanding encumbrances are reflected as a reservation of fund balance to reflect the re-appropriation in the subsequent year. Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls.

### **3. CASH AND INVESTMENTS**

At June 30, 2008, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

**EXHIBIT - M (Continued)**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

As of June 30, 2008 the District has the following investments and maturities (amounts in thousands):

Investment	Maturities	Fair Value
State Board of Administration:		
Surplus Funds Trust Fund Investment Pool	20.22 Day Average	\$ 520,276
Fund B Surplus Funds Trust Fund	9.22 Year Average	33,690
Debt Service Accounts	6 Months	1,447
Evergreen Institutional U.S. Government Money Market	July 2008 - June 2009	101,110
Certificates of Deposits	January 2009 - December 2010	443
United States Treasuries	July 2008 - May 2011	3,316
United States Agencies	July 2008 - January 2016	12,550
Guaranteed Investment Contract	July 2014 - May 2035	77,891
Total Investments, Reporting Entity		<u>\$ 750,723</u>

Investments are reflected in the financial statements as follows (amounts in thousands):

Governmental Funds	\$ 631,111
Internal Service Funds	90,002
Fiduciary Funds:	
Pension Trust Fund	14,401
Agency Fund	15,209
	<u>\$ 750,723</u>

Interest Rate Risk

- The District has a formal investment policy that limits investments of idle funds (other than debt proceeds and pension trust funds) to the State Board of Administration’s Local Government Surplus Funds Trust Fund investment pool, created by Florida statute 218.405, or with an intergovernmental pool. On February 7, 2008, the District School Board approved the investing in AAA rated money market funds in order to diversify the District’s investment holdings. The District does not have a formal investment policy for debt proceeds and the pension trust fund that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- The District has \$1,359,081 in obligations of United States Agencies that include embedded options consisting of the option at the discretion of the issuer to call their obligation or pay a stated increase in the interest rate. These securities have various call dates, and mature December 2011.

Credit Risk

- Section 218.415(17), Florida Statutes, authorizes the District to invest or reinvest any surplus public funds in their control or possession in: (a) the State Board of Administration (SBA) Investment Pool, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal

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- Cooperation Act; (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; (c) interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; (d) direct obligations of the U.S. Treasury. The securities listed in (c) and (d) shall be invested to provide sufficient liquidity to pay obligations as they come due.
- The District's investments in the SBA consist of the Local Government Surplus Funds Trust Fund (LGIP) and Fund B Surplus Funds Trust Funds (Fund B). The LGIP is an external investment pool that is not registered with the Securities Exchange Commission (SEC), but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows funds to use amortized cost to maintain a constant net asset value (NAV) of \$1.00 per share. Accordingly, the District's investments in the LGIP are reported at the account balance which is considered fair value. The LGIP is rated AAAM by Standard & Poor's. As of June 30, 2008, withdrawals from the LGIP are restricted to 65 percent of a participant account balance at November 30, 2007; withdrawals in excess of this amount are subject to a 2 percent redemption fee by the SBA.
  - The Fund B is accounted for as a fluctuating NAV pool. With a fluctuating NAV pool, the fair value approximates market value. The SBA provides a fair value factor to use on the Fund B account balance to determine market value or fair value. As of June 30, 2008, the fair value factor was 92.33 percent. Fund B is not rated by a nationally recognized statistical rating agency. Currently participants are unable to withdraw funds from Fund B. Rather, as cash becomes available in Fund B from interest receipts, maturities, or sales, it is distributed to participant accounts in the LGIP according to each participant's pro rata share of Fund B. All such distributions from Fund B to LGIP will be 100 percent available for withdrawal upon transfer.
  - The District's investments in United States Agencies were rated either AAA or Aaa by Moody's Investors Service.
  - The District's investments in certificates of deposits were in qualified public depositories. The Evergreen Institutional U.S. Government Money Market is rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.
  - Investments in the State Board of Administration Debt Service Accounts totaling \$1,447,293, were to provide for debt service payments on bonded debt issued by the State Board of Administration for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less and are reported at fair value. The District has no formal policy for managing interest rate risk or credit risk for this account, but relies on policies developed by the State Board of Administration.

#### Custodial Credit Risk

- The District does not have a formal investment policy that addresses custodial credit risk. However, Florida Statute, Section 218.415(18) requires every security purchased under this section on behalf of the District to be properly earmarked and 1) if registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the District's interest in the security; 2) if in book entry form, must be held for the credit of the District by a depository chartered by the Federal Government, the state, or any other state or territory of the United States which has a branch or principal place of business in Florida as defined in Section 658.12, or by a national association

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organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in Florida, and must be kept by the depository in an account and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault.

- Of the District’s investments, \$3,316,000 of United States Treasuries and \$12,550,000 of United States Agencies and \$101,110,000 in the Evergreen U.S. Government Money Markets are not registered in the name of the District, are held by the counterparty’s trust department or agent and are not insured.

Concentration of Credit Risk

- The District places no limit on the amount the District may invest in any one issuer. The District had an investment of \$101,110,000 in the Evergreen Institutional U.S. Government Money Market, which makes up 13.5 percent of total investments.

Foreign Currency Risk

- The District has no investments which are exposed to foreign currency risk at June 30, 2008. The District does not have a formal investment policy that limits its investment in foreign currency.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

Amounts due from other governmental agencies as of June 30, 2008 as shown below (amount in thousands):

	General Fund	Special Revenue Contracted Services Fund	Capital Projects -		Nonmajor and Other Funds	Total
			Local Capital Improvement Fund	Other Funds		
Federal Government:						
Miscellaneous	\$ 321	\$ 767	\$	\$	\$	\$ 1,088
State Government:						
Food Reimbursement					6,236	6,236
Classrooms for Kids				97,902		97,902
Public Education Capital Outlay					55,880	55,880
Miscellaneous State	1,310	697			5,921	7,928
Local Government:						
Hillsborough County Board of County Commissioners	22,072	6,504	7,937	7,539	427	44,479
Miscellaneous	279	219		4	1,861	2,363
<b>Total</b>	<b>\$ 23,982</b>	<b>\$ 8,187</b>	<b>\$ 7,937</b>	<b>\$ 105,445</b>	<b>\$ 70,325</b>	<b>\$ 215,876</b>

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**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows (amounts in thousands):

	Balance 7-1-07	Additions	Deletions	Balance 6-30-08
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 132,570	\$ 18,590	\$ 344	\$ 150,816
Land Improvements - Nondepreciable	52,899	6,432		59,331
Construction in Progress	142,238	251,051	136,107	257,182
Total Capital Assets Not Being Depreciated	<u>327,707</u>	<u>276,073</u>	<u>136,451</u>	<u>467,329</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	156,066	9,717	165	165,618
Buildings and Systems	1,988,918	120,051	16,832	2,092,137
Furniture, Fixtures, and Equipment	169,766	11,685	17,933	163,518
Motor Vehicles	91,563	13,211	5,911	98,863
Property Under Capital Lease	1,343			1,343
Audio Visual Materials	155	16	37	134
Computer Software	27,166	2,497	960	28,703
Total Capital Assets Being Depreciated	<u>2,434,977</u>	<u>157,177</u>	<u>41,838</u>	<u>2,550,316</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	88,585	5,587	148	94,024
Buildings and Systems	407,385	53,917	15,697	445,605
Furniture, Fixtures, and Equipment	120,893	14,838	15,853	119,878
Motor Vehicles	53,320	7,302	5,693	54,929
Property Under Capital Lease	157	275		432
Audio Visual Materials	151	6	31	126
Computer Software	22,103	3,474	720	24,857
Total Accumulated Depreciation	<u>692,594</u>	<u>85,399</u>	<u>38,142</u>	<u>739,851</u>
Total Capital Assets Being Depreciated, Net	<u>1,742,383</u>	<u>71,778</u>	<u>3,696</u>	<u>1,810,465</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,070,090</u>	<u>\$ 347,851</u>	<u>\$ 140,147</u>	<u>\$ 2,277,794</u>



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Depreciation expense was charged to governmental functions as follows (amounts in thousands):

Function	Amount
Instructional Services	\$ 7,700
Instructional Support Services	2,434
Pupil Transportation Services	4,190
Operation and Maintenance of Plant	1,276
Facilities Acquisition and Construction	68,144
School Administration	395
General Administration	505
Food Services	319
Community Services and Other	137
Unallocated Depreciation	299
 Total Depreciation Expense	 \$ 85,399

**6. REVOLVING LINE OF CREDIT**

Pursuant to the provisions of Section 1011.13, Florida Statutes, the Board approved a revolving line-of-credit tax anticipation note on June 10, 2008 that matures May 30, 2009, in the amount of \$80,000,000 with Wachovia National Bank of Florida. The outstanding principal amount of the note shall bear interest at one month London Interbank Offered Rate (LIBOR) plus 50 basis points adjusted monthly. This line-of-credit allows the Board to borrow funds if established revenues (cash) are lagging behind expenditures such as weekly payrolls and weekly vendor payments. The note is secured by a pledge of anticipated ad valorem tax proceeds. This revolving note may be made and repaid from time to time. The principal of this note may be partly or wholly paid and readvanced provided that the outstanding principal balance shall not exceed \$80,000,000 at any time outstanding. For the year ended June 30, 2008, no funds had been borrowed or utilized under this line-of-credit.

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**7. OBLIGATIONS UNDER CAPITAL LEASE**

The following is the class and amount of property being acquired under capital leases at acquisition cost (amount in thousands):

	<u>Asset Balance</u>
IBM Server	\$ 1,343
Less: Accumulated depreciation	432
Total	\$ 911

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008 were as follows (amounts in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 467	\$ 454	\$ 13
Total Minimum Lease Payments	\$ 467	\$ 454	\$ 13

**8. CERTIFICATES OF PARTICIPATION PAYABLE**

The District entered into various financing arrangements each of which was characterized as a lease-purchase agreement, with the Hillsborough School Board Leasing Corporation (Corporation), whereby the District secured financing of various educational facilities through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the School District.

As a condition of the financing arrangement, the District has given ground leases on District property to the Hillsborough School Board Leasing Corporation, with a rental fee of \$10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements to the Trustee for the benefit of the securers of the Certificates to the end of the ground lease term.

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Certificates of Participation that are still part of the District's debt obligation are as follows (amounts in thousands):

Certificates	Date of Certificates	Original Amount of Certificates	Ground Lease Term
Series 1998 Project	March 1, 1998	\$ 336,930	June 30, 2017
Series 1999 Project	October 1, 1999	111,700	June 30, 2025
Series 2000 QZAB Project	March 9, 2000	10,628	May 31, 2012
Series 2000 Project	November 1, 2000	48,860	June 30, 2026
Series 2001A Project	January 15, 2001	103,770	June 30, 2025
Series 2001B Project	July 1, 2001	69,265	June 30, 2026
Series 2001 QZAB Project	November 6, 2001	9,600	November 6, 2015
Series 2002 Project	September 15, 2002	64,010	June 30, 2028
Series 2003B Project	September 1, 2003	72,065	June 30, 2029
Series 2004A Project	February 19, 2004	27,305	June 30, 2017
Series 2004B Project	February 19, 2004	56,715	June 30, 2026
Series 2004 QZAB Project	June 8, 2004	6,131	June 30, 2020
Series 2004C Project	November 4, 2004	89,750	June 30, 2030
Series 2005A Project	February 25, 2005	48,915	June 30, 2026
Series 2005 QZAB Project	December 20, 2005	3,002	December 20, 2020
Series 2006A Project	January 31, 2006	86,435	June 30, 2031
Series 2006B Project	January 26, 2007	77,900	June 30, 2026
Series 2007 Project	April 24, 2007	84,685	June 30, 2031

The Series 1998 Certificates of Participation were also issued, in part, in order to provide the funds necessary to advance refund the Series 1994 and the Series 1995 Certificates of Participation and refinance the Series 1994 and Series 1995 facilities which the School Board has acquired, constructed and installed from the proceeds of the Series 1994 and Series 1995. The Series 2001A Certificates of Participation were issued in order to provide funds necessary to partially advance refund the Series 1999 Certificates of Participation and refinance the Series 1999 facilities that the School Board has acquired, constructed and installed from the proceeds of the Series 1999. The Series 2004A Certificates of Participation were issued in order to provide funds necessary to advance refund the Series 1996 Certificates of Participation and refinance the Series 1996 facilities that the School Board has acquired, constructed and installed from the proceeds of the Series 2000. The Series 2005A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 2000 Certificates of Participation and refinance the Series 2000 facilities that the School Board has acquired, constructed and installed from the proceeds of the Series 2000. The Series 2006B Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 1998B and 2001B Certificates of Participation and refinance the Series 1998B and 2001B facilities that the School Board has acquired, constructed and installed from the proceeds of the Series 1998B and 2000B. On

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May 23, 2008, the District remarketed the Series 2004C Certificates of Participation in order to change the auction interest rate to a daily adjustable rate.

Due to the economic substance of the issuances of the Certificates of Participation as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to Certificate holders. During the year ended June 30, 2008, \$57,293,000 was expended for capital outlay in the Certificates of Participation Capital Projects Funds.

The lease payments for the Series 1998, Series 1999, Series 2000, Series 2001A, Series 2001B, Series 2002, Series 2003B, Series 2004A, Series 2004B, Series 2005A, Series 2006A, Series 2006B and Series 2007 Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates, of 3.60 to 5.50 percent, 3.65 to 6.00 percent, 4.20 to 5.55 percent, 3.00 to 5.00 percent, 3.00 to 5.25 percent, 2.00 to 4.625 percent, 5.00 percent, 5.25 percent, 2.00 percent to 5.09 percent, 2.375 to 5.00 percent, 3.50 to 5.00, 3.50 to 5.00 percent and 3.60 to 4.57 percent, respectively. The lease payments for the Series 2004C Certificates are payable by the District semiannually on July 1 and January 1. The interest is paid monthly based on a daily rate set by the remarketing agent that is expected to approximate the Securities Industry and Financial Markets Associations (SIFMA) Municipal Swap index over the life of the Bonds. The lease payments for the Series 2000-QZAB, 2001-QZAB, 2004-QZAB and 2005 QZAB Certificates are due April 10, 2012, November 1, 2015, June 3, 2020, and December 20, 2020, respectively. There is no interest to be paid on the QZABs, as the certificate holders receive Federal Tax Credits in lieu of interest payments. The District is required to reserve a portion of the lease payments each year. The following is a schedule by years of future minimum lease payments under the lease agreements as of June 30 (amounts in thousands):

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<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 64,676	\$ 22,015	\$ 42,661
2010	64,632	22,940	41,692
2011	64,675	24,025	40,650
2012	75,216	35,658	39,558
2013	64,585	26,195	38,390
2014-2018	337,455	165,875	171,580
2019-2023	339,369	210,453	128,916
2024-2028	326,680	252,770	73,910
2029-2032	212,377	198,220	14,157
Total Minimum Lease Payments	<u>\$ 1,549,665</u>	<u>\$ 958,151</u>	<u>\$ 591,514</u>

## 9. INTEREST RATE SWAP

**Swaption:** The District entered into a swaption contract that provided the District an up-front payment of \$5,006,500. This payment was subsequently reduced by a premium refund of \$1,800,000 paid by the District to the counterparty on May 26, 2005. Such premium refund was paid to reflect a reduction in the notional amount from \$177,195,000 to \$109,830,000 pursuant to an amendment to the interest rate swaption dated April 19, 2005. As a synthetic refunding of its Series 1998A Certificates of Participation, this payment represents the risk-adjusted, present-value savings of a refunding as of July 1, 2008 without issuing refunding bonds at February 2003. The swaption gave the counterparty the option to make the District enter into a pay-fixed, receive-variable interest rate swap. If the option is exercised, the District would then expect to issue variable-rate refunding certificates. The original fixed swap rate of 5.06 percent is in accordance with the adjustment in the notional amount and reduced premium.

The swaption was entered into on February 19, 2003. The \$3,206,500 net payment was based on a notional amount of \$109,830,000. The counterparty has the option to exercise the agreement on July 1, 2008, the District's Series 1998A Certificates of Participation's first call date. The counterparty also has the option to exercise the agreement on January 1, 2009, July 1, 2009, January 1, 2010, and July 1, 2010. If the swap is exercised, the swap will commence on the respective option date. The fixed swap rate (4.97 percent) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment would be based on the Bond Market Association (BMA) municipal swap index.

As of June 30, 2008, the fair value of the option on the swap was \$13,102,591, which was estimated based on the year-end market condition using the zero-coupon method. The contract's fair value reflects the

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aforementioned amendment to the interest rate swaption. The zero-coupon method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

If the option is exercised and refunding bonds are not issued, the Series 1998A Certificates of Participation would not be refunded, and the District would make net swap payments as required by the terms of the contract, making a fixed payment to the counterparty for the term of the swap at 4.97 percent and receiving a variable payment of the BMA Municipal Swap Index. If the option is exercised and the variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the Swap (BMA Municipal Swap Index).

**Floating-to-Fixed Interest Rate Swap:** In connection with the issuance on November 29, 2004 of \$89,750,000 variable rate Certificates of Participation Series 2004C, the District entered into a \$29,750,000 floating-to-fixed interest rate swap, effective through December 7, 2014 to hedge a portion of the Certificates maturing July 1, 2030, against future increases in interest rates. The swap effectively converts \$29,750,000 of the Certificates into 10-year synthetic fixed rate debt obligations at an interest rate of 3.736 percent. The Certificates and swap together create low-cost, long-term synthetic fixed rate debt for the District. At June 30, 2008, the swap had a positive fair market value of \$734,756 based on mid-market values as of the close of business.

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**10. BONDS PAYABLE**

Bonds payable at June 30, 2008, are as follows: (amounts expressed in thousands)

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 4,790	4.00 - 4.75	2019
Series 2000A	125	4.625 - 6.000	2020
Series 2002A	1,335	3.00 - 5.00	2022
Series 2003A	2,490	3.00 - 5.00	2023
Series 2004A	2,950	3.000 - 4.625	2024
Series 2005A	1,035	3.00 - 5.00	2025
Series 2005B	37,170	3.50 - 5.00	2020
Series 2006A	3,420	5.5	2026
Series 2008A	5,085	3.25 - 5.00	2028
District Revenue Bonds:			
Series 1998 Capital Improvement & Racetrack Revenue Refunding	2,428	3.50 - 5.35	2028
Series 2002 Sales Tax	28,345	2.250 - 5.375	2025
Series 2005 Sales Tax Refunding	127,425	2.25 - 5.00	2023
Series 2006 Sales Tax	52,985	4.00 - 4.25	2026
Series 2007 Sales Tax	47,515	3.50 - 5.00	2026
<b>Total Bonds Payable</b>	<b>\$ 317,098</b>		

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

➤ **State School Bonds**

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

➤ **District Revenue Bonds**

**Capital Improvement and Racetrack Revenue Refunding Bonds of 1998:** These bonds are authorized by Chapter 71-680, Laws of Florida, which authorized the District to pledge all of the portion of racetrack funds accruing annually to Hillsborough County, under the provisions of Chapter 550 and 551, Florida Statutes, as allocated to the District pursuant to law, and Chapter 132, Florida Statutes, which authorized the refunding of the District Revenue Bonds of 1985. As required

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by the bond resolution the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

**Sales Tax Revenue Bonds, Series 2002, 2005, 2006, and 2007:** These bonds are authorized by the Constitution and Laws of the State of Florida, including, particularly Chapter 1010, Florida Statutes, Chapter 212, Part I, Florida Statutes and other applicable provisions of law. The bonds are secured by a pledge of the proceeds received pursuant to the interlocal agreement from the levy and collections by the County of the one-half cent local infrastructure sales surtax.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows: (amounts expressed in thousands)

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2009	\$ 6,586	\$ 3,870	\$ 2,716
2010	6,672	4,060	2,612
2011	6,679	4,260	2,419
2012	6,682	4,465	2,217
2013	6,694	4,690	2,004
2014-2018	33,570	27,180	6,390
2019-2023	7,952	6,265	1,687
2024-2028	4,061	3,610	451
<b>Total State School Bonds</b>	<b>78,896</b>	<b>58,400</b>	<b>20,496</b>
<b>District Revenue Bonds:</b>			
2009	20,424	9,137	11,287
2010	20,408	9,460	10,948
2011	20,386	9,810	10,576
2012	20,375	10,209	10,166
2013	20,414	10,634	9,780
2014-2018	101,506	59,690	41,816
2019-2023	100,725	74,513	26,212
2024-2028	82,647	75,194	7,453
2029	260	51	209
<b>Total District Revenue Bonds</b>	<b>387,145</b>	<b>258,698</b>	<b>128,447</b>
<b>Total</b>	<b>\$ 466,041</b>	<b>\$ 317,098</b>	<b>\$ 148,943</b>



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**11. STATE BOARD OF EDUCATION BONDS**

On June 26, 2008, the State Board of Education issued Series 2008A in the amount of \$5,085,000 in Capital Outlay Bonds on behalf of the District in order to finance the cost of acquiring, building, construction, remodeling, improving, enlarging, furnishing, maintaining, renovating or repairing of projects. The net proceeds were placed in the Capital Outlay Bond Issue Fund.

**12. DEFEASED DEBT**

In prior years, the Board defeased in substance certain outstanding State Board of Education Capital Outlay Bonds (SBE Bonds), revenue bonds, and certificates of participation by placing the proceeds of each of the new bond issues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and the liability for the in-substance defeased bonds are not included in the Board's financial statements. At June 30, 2008, \$480,000 of SBE Bond Series 2000A, \$103,270,000 of Series 1994 Certificates of Participation, \$46,550,000 of Series 1995 Certificates of Participation, \$20,790,000 of Series 1998B Certificates of Participation, \$95,785,000 of Series 1999 Certificates of Participation, \$28,000,000 of the Series 1996 Certificates of Participation, \$45,625,000 of Series 2000 Certificates of Participation, \$54,885,000 of the Series 2001B Certificates of Participation and \$171,590,000 of Series 2002 Sales Tax Revenue Bonds outstanding are considered defeased.

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

The following is a summary of changes in long-term liabilities: (amounts expressed in thousands)

Description	Balance 7-1-07	Additions	Deductions	Balance 6-30-08	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Estimated Liability for Long-term Claims	\$ 17,931	\$ 7,162	\$ 8,222	\$ 16,871	\$ 6,863
Obligations Under Capital Lease	885		431	454	454
Arbitrage Payable	3,705	1,904	60	5,549	
Postemployment Benefits Payable		15,132	4,738	10,394	
Bonds Payable	324,753	5,085	12,740	317,098	13,007
Certificates of Participation Payable	977,486		19,335	958,151	22,015
Compensated Absences Payable	128,808	25,478	19,637	134,649	14,600
<b>Total Governmental Activities</b>	<b>\$ 1,453,568</b>	<b>\$ 54,761</b>	<b>\$ 65,163</b>	<b>1,443,166</b>	<b>\$ 56,939</b>
Plus unamortized bond premium:					
Bonds Payable				9,220	
Certificates of Participation				8,300	
Less unamortized loss on refunding					
Bonds Payable				(10,924)	
Certificates of Participation				(9,660)	
<b>Total Long-Term Liabilities</b>				<b>\$ 1,440,102</b>	

Internal service funds predominately serve the governmental funds and, accordingly, long-term liabilities of those funds are included in the governmental activities. For the governmental activities, compensated absences are generally liquidated with resources of the General Fund, and postemployment health care benefits are generally liquidated with resources of the General and Special Revenue Funds. The estimated liability for long term claims are generally liquidated with resources of the Workers' Compensation and the Liability Self Insurance Internal Service Funds.

**14. RESERVATIONS OF FUND BALANCES**

Reserves are generally limited to indicating that portion of the fund equity that is restricted to a specific future use or is not available for appropriations and expenditures. Fund balances have been reserved for the following at June 30, 2008 (amounts in thousands):

\$158,864      Encumbrances which are the amounts that represent obligations or commitments chargeable in the future when the material and services are rendered.

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- \$ 91,147 Debt Service which is those amounts available to apply against future principal and interest payments.
- \$ 10,949 State Categorical Programs, which are those balances of various specially identified programs, funded by the State Department of Education.
- \$ 5,114 Reserves for Inventories are that portion of inventory on hand over liabilities that cannot be utilized as cash.
- \$ 19,619 Reserves for Other Purposes, which are those balances of various identified programs other than State Categorical programs that are funded by the State and local government.

**15. INTERFUND RECEIVABLES AND PAYABLES**

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

Funds	Interfund	
	Receivables	Payables
Major Funds:		
General	\$ 21,557	\$ 503
Special Revenue:		
Contracted Services	74	4,700
Capital Projects:		
Local Capital Improvement	6,188	1,279
Certificates of Participation	2,698	6,776
Other	3,249	12,302
Nonmajor Governmental Funds	134	8,340
Total	\$ 33,900	\$ 33,900

The majority of interfund receivables and payables are established during the closing period. The receivable in the General Fund is for payback of direct and indirect charges for June 2008. The amounts in Certificates of Participation Fund, Other Capital Projects Fund and nonmajor funds are mostly due to the movement of expenditures between capital projects funds.

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**16. INTERFUND TRANSFERS**

The following is a summary of interfund transfers reported in the fund financial statements (amounts in thousands):

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 2,822	\$ 3,624
Special Revenue:		
Contracted Services	54	
Capital Projects:		
Local Capital Improvement	16	63,703
Certificates of Participation		249
Other	28	2,591
Nonmajor Governmental Funds	69,079	4,353
Internal Service Funds	2,570	49
 Total	 \$ 74,569	 \$ 74,569

The largest amount of interfund transfers is to move money to the debt service funds for bond principal and interest payments. The remainder is the charging of direct and indirect costs.

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**17. STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue for the 2007-08 fiscal year (amounts in thousands):

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 620,999
Categorical Education Programs:	
Class Size Reduction (Operating)	194,834
Transportation	35,832
Voluntary Prekindergarden Program	22,099
Instructional Materials	18,672
School Recognition	9,277
Excellent Teaching Program	4,866
Florida Teachers Lead Program	3,486
Workforce Development	34,254
Class Size Reduction - Construction	32,338
Gross Receipts Tax (Public Education Capital Outlay)	30,576
Discretionary Lottery Funds	9,492
Capital Outlay and Debt Service	7,415
Food Service Supplement	1,449
Mobile Home License Tax	601
State Board of Education Bond Interest	230
Miscellaneous	<u>7,816</u>
 Total	 <u><u>\$ 1,034,236</u></u>

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

**EXHIBIT - M (Continued)**  
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**18. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2007 tax roll for the fiscal year 2007-08 (dollars in thousands):

	Millage Levied	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.784	\$ 403,937
Discretionary Local Effort	0.739	62,397
<u>CAPITAL PROJECTS FUNDS</u>		
Non-voted Tax:		
Local Capital Improvements	2.000	168,870
Total	7.523	\$ 635,204

**19. STATE RETIREMENT PROGRAMS**

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

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 2,374 District participants during the 2007-08 fiscal year. Required contributions made to PEORP totaled \$9,619,561.

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan (including employee contributions) for the fiscal years ending June 30, 2006, June 30, 2007, and

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June 30, 2008, totaled \$67,164,376, \$90,301,679, and \$97,943,619, respectively, representing a percentage of covered payroll of 8.01 percent for fiscal year 2006, 9.79 percent for fiscal year 2007, and 9.95 percent for fiscal year 2008. These amounts include PEORP contributions as discussed above and are equal to the required contributions for each fiscal year.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement, 1317 Winewood Boulevard, Building 8, Tallahassee, Florida 32399.

**20. EARLY RETIREMENT PROGRAM**

Plan Description and Provisions. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (Plan) effective August 1, 1984. The Plan is a single-employer defined benefit plan. The purpose of the Plan is to provide eligible District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 19, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62. The School Board entered into an agreement with Wachovia Bank, N.A., designating the Bank as the Investment Manager and Custodian (Trustee) for the Plan assets. The Agreement also provides that monthly benefits be paid by the Trustee.

Based on an actuarial report as of June 30, 2008, employee membership data related to the Plan was as follows:

Retirees and Beneficiaries Currently Receiving Benefits	529
Active Plan Participants:	
Vested	765
Nonvested	0
Total	765



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A summary of Eligibility and Benefits follows:

- **Eligibility.** A member of the Plan is eligible upon attainment of age 55 to 59, completion of 25 but not more than 28 years of creditable service, at least five consecutive and uninterrupted years of service immediately preceding early retirement, and having applied for retirement under the Florida Retirement System. The Board approved to eliminate the Early Retirement Program on June 30, 2008. It was agreed that employees eligible for the Plan who would become eligible for the Plan after June 30, 2008, but before July 1, 2010, may request entrance into the plan for an effective date no later than July 1, 2010.
- **Benefits.** The amount of the monthly benefit will be equal to the reduction imposed on the retirement benefit by the Florida Retirement System due to early retirement. The benefit amount will be based on the initial amount determined by the Florida Retirement System prior to any cost of living adjustments and once established will remain unchanged, unless a specified increase is authorized by the Board.

Summary of Significant Accounting Policies. The Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a “capital maintenance” measurement focus and the accrual basis of accounting. Employer contributions are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Plan assets are valued at fair value for financial statement purposes.

Separate statements are not issued for the Plan.

Contributions and Reserves. The District's Early Retirement Program was established by the Board on August 1, 1984. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the Plan and to amortize the unfunded actuarial accrued liability within 30 years based on an actuarial study. There are no long-term contracts to the plan. Periodic employer contributions to the Plan are determined on an actuarial basis using the “Entry Age Actuarial Cost Method.” Annual pension cost is funded on a current basis. Pursuant to Section 112.64, Florida Statutes, the unfunded actuarial accrued liability is funded over a 40-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial liability are based on the level percentage-of-payroll method.

Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

Total contributions to the Plan for fiscal years ended 2006, 2007, and 2008, amounted to \$1,988,593, \$3,688,698, and \$3,549,014, respectively. The actuarially determined contribution for fiscal years 2006, 2007,

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and 2008, were \$2,283,533, \$3,640,027, and \$3,649,945, respectively, which were determined through actuarial valuations performed at May 9, 2006, April 26, 2007, and July 1, 2008, respectively. The total annual pension costs for fiscal years 2006, 2007, and 2008, were \$2,278,659, \$3,623,394, and \$3,649,958, respectively. The percentage of pension cost contributed for fiscal years 2006, 2007, and 2008 were 87.27 percent, 101.80 percent, and 97.23 percent, respectively. If the District were to have a material net pension obligation, such disclosure will be provided in the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Fiscal Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Actuarial Liability as a Percentage of Covered Payroll
2008	<u>\$11,892,575</u>	<u>\$32,682,751</u>	<u>\$20,790,176</u>	<u>36.40%</u>	<u>\$40,602,385</u>	<u>80.49%</u>

The computation of the annual required contributions for fiscal year 2008 was based on the same (a) benefit provisions, (b) actuarial funding method, and (c) other significant factors as used to determine annual required contributions in the previous year.

All of the assets in the District's Pension Trust Fund are maintained in legally required reserves. None of the assets have been designated by the Board for any other specific purpose. Costs of administering the Plan are financed through the Plan's resources (employer contributions and investment earnings).

Concentrations. The Plan's investments at June 30, 2008, consisted of the following:

	Balance June 30, 2008	Percentage of Plan Net Assets
Obligations of U.S. Agencies	<u>\$ 14,400,696</u>	<u>100%</u>

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Actuarial Information. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	07/01/07
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll-Closed
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6%
Projected Salary Increases	4%
Rate of Inflation Adjustment	None

**21. POSTEMPLOYMENT BENEFITS PAYABLE**

Plan Description. The Postemployment Health Care Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District and eligible dependents, may continue to participate in the District’s health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. Separate financial statements are not issued.

Funding Policy. The District via the Board can establish and amend the funding requirements. The District has designated fund balance in the general fund for the net other postemployment benefits (OPEB), but has not advance-funded the OPEB costs or the net OPEB obligation. For the 2008 fiscal year, retirees and eligible dependents received postemployment healthcare benefits, which are funded by the District on a pay as you go basis. The District provided required contributions of \$4,737,598 toward annual OPEB cost, comprised of benefit payments made on behalf of the retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums and net of retiree contributions totaling \$9,438,654, which is less than 1 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District’s annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of the Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by*

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*Employers for Postemployment Benefits Other Than Pensions.* The ARC represents a level of funding that is paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 9,136,185
Amortization of Unfunded Actuarial Accrued Liability	5,344,277
Interest on Normal Cost and Amortization	<u>651,621</u>
Annual Required Contribution (ARC)	15,132,083
Interest on Net OPEB Obligation (NOO)	
Amortization of Net OPEB Obligation	<u>                    </u>
Total Expense or Annual OPEB Cost	15,132,083
Annual Contribution Toward OPEB Cost	<u>(4,737,598)</u>
Increase in Net OPEB Obligation	10,394,485
Net OPEB Obligation, Beginning of Year	<u>                    </u>
Net OPEB Obligation, End of Year	<u><u>\$ 10,394,485</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2008 was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, 7/1/07	\$	\$		\$
2007-08	15,132,083	4,737,598	31.3%	10,394,485

***Funded Status and Funding Progress.*** As of June 30, 2008, the actuarial accrued liability for benefits was \$142,851,161, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was \$984,347,937 for the 2008 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.5 percent.

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The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions.** Actuarial methods and assumptions used for the OPEB calculations are as follows:

1. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future; actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.
2. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
3. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designated to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.
4. The actuarial methods and significant assumptions used in the actuarial valuation as of July 1, 2007, are:
  - Entry age actuarial cost method
  - Actuarial value of assets are fair value
  - Investment rate of return 4.5 percent
  - Salary scale is 4 percent
  - Healthcare cost trend rate is 11.5 percent for fiscal year ended June 30, 2008 grading to 5.5 percent for fiscal year ending June 30, 2014.
  - Past Service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 3 percent per year.

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**22. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. Prior to July 1, 2007, the District entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. Effective July 1, 2007, the District chose not to purchase excess coverage, but chose to set aside \$500,000 per year to accumulate to a total of \$5,000,000 to cover any excess claims. The Board has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage for the past three fiscal years.

A liability in the amount of \$16,871,149 was actuarially determined using a discount rate of 3.5 percent to cover reported and unreported insurance claims payable at June 30, 2008. It is estimated that \$6,862,976 of the liability is current and due within one year. The remaining \$10,008,173 will be due in future years.

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2006-07	\$ 20,923,575	\$ 3,888,277	\$ (6,880,781)	\$ 17,931,071
2007-08	17,931,071	7,162,392	(8,222,314)	16,871,149

Claims and judgments are generally liquidated by the internal service funds that are funded by the general fund and special revenue funds.

**EXHIBIT - M (Continued)**  
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**23. CONSTRUCTION CONTRACT COMMITMENTS**

The following is a summary of major construction contract commitments remaining at June 30, 2008 (amounts in thousands):

DETAIL LISTING OF CONSTRUCTION IN PROGRESS

Description	Project Authorization	Extended Through 6/30/2008	Committed
Additions	\$ 125,203	\$ 90,179	\$ 35,024
Elementary Schools	58,002	43,663	14,339
Middle Schools	46,887	21,814	25,073
Senior High Schools	100,190	22,744	77,446
Other	12,661	8,306	4,355
Renovations	109,532	65,065	44,467
Improvements	6,933	5,411	1,522
Total	<u>\$ 459,408</u>	<u>\$ 257,182</u>	<u>\$ 202,226</u>

**24. LITIGATION**

The District is involved in several pending and threatened legal actions. In the opinion of District management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District.

**25. GRANTS AND CONTRACTS**

The District participates in various Federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the District.

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**26. INTERNAL SERVICE FUNDS**

The following is a summary of financial information as reported in the Internal Service Funds for the 2007-08 fiscal year:

	<u>Total</u>	<u>Group Health Insurance Fund</u>	<u>Workers' Compensation Fund</u>	<u>Liability Self- Insurance Fund</u>
Total Assets	<u>\$ 109,647</u>	<u>\$ 18,454</u>	<u>\$ 83,228</u>	<u>\$ 7,965</u>
Liabilities and Net Assets:				
Current Liabilities:				
Accounts Payable	\$ 11,896	\$ 11,896	\$	\$
Deferred Revenue	6,558	6,558		
Estimated Insurance Claims Payable	6,863		5,180	1,683
Noncurrent Liabilities:				
Estimated Insurance Claims Payable	10,008		7,553	2,455
Net Assets:				
Unrestricted Net Assets	<u>74,322</u>		<u>70,495</u>	<u>3,827</u>
Total Liabilities and Net Assets	<u>\$ 109,647</u>	<u>\$ 18,454</u>	<u>\$ 83,228</u>	<u>\$ 7,965</u>
Revenues:				
Premium Contributions	\$ 161,102	\$ 138,889	\$ 22,213	\$
Interest Income	2,820	49	2,532	239
Other	<u>1,918</u>		<u>1,698</u>	<u>220</u>
Total Revenues	165,840	138,938	26,443	459
Total Expenses	148,659	138,889	6,888	2,882
Transfers In (Out)	<u>2,521</u>	<u>(49)</u>		<u>2,570</u>
Change in Net Assets	<u>\$ 19,702</u>	<u>\$ 0</u>	<u>\$ 19,555</u>	<u>\$ 147</u>

**27. SUBSEQUENT EVENT**

As discussed in Note 9, the District entered into a swaption in connection with its Certificates of Participation, Series 1998A. On July 1, 2008, the swaption counterparty exercised its option to make the District issue variable-rate certificates. Consequently, the District issued \$109,830,000 in Certificates of Participation, Series 2008A at a net premium, with an interest rate to be determined daily by a remarketing



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agent. The proceeds were used to refund \$109,475,000 principal amount of the District's then outstanding \$208,180,000 of Certificates of Participation, Series 1998A. The net proceeds of \$110,924,750 (after payment of \$308,398 in underwriter's fees, insurance, accrued interest and other issuance costs) were placed in an irrevocable trust to provide for the future debt service payment of the refunded amount of the Series 1998A Certificates of Participation.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**EXHIBIT – N  
HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SUPPLEMENTAL EARLY RETIREMENT PENSION TRUST  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
June 30, 2008**

Fiscal Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age (1)	Unfunded Actuarial Accrued Liability (3)	Funded Ratio (2)	Covered Payroll	Actuarial Liability as a Percentage of Covered Payroll
2003	\$ 7,202,634	\$ 28,443,117 (4)	\$ 21,240,483	25.30%	\$163,581,224 (4)	17.39%
2004	\$ 7,476,928	\$ 29,906,771 (5)	\$ 22,429,843	25.00%	\$172,252,480 (5)	17.36%
2005	\$ 8,312,833	\$ 31,241,919 (6)	\$ 22,929,086	26.60%	\$177,745,494 (6)	17.58%
2006	\$ 8,833,753	\$ 33,461,470 (7)	\$ 24,627,717	26.40%	\$186,742,083 (7)	17.92%
2007	\$ 9,384,033	\$ 49,388,744 (8)	\$ 40,004,711	19.00%	\$187,094,809 (8)	26.40%
2008	\$11,892,575	\$ 32,682,751 (9)	\$ 20,790,176	36.40%	\$ 40,602,385 (9)	80.49%

- Notes:
- (1) The Entry Age Actuarial Cost Method is used to determine the Plan's funding requirements.
  - (2) The percentage funded is derived by dividing the actuarial value of plan assets by the actuarial accrued liability.
  - (3) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.
  - (4) Based on data from an actuarial valuation report as of July 1, 2002, dated February 28, 2003.
  - (5) Based on data from an actuarial valuation report as of July 1, 2003, dated July 1, 2003.
  - (6) Based on data from an actuarial valuation report as of July 1, 2004, dated November 9, 2004.
  - (7) Based on data from an actuarial valuation report as of July 1, 2005, dated May 9, 2006.
  - (8) Based on data from an actuarial valuation report as of July 1, 2006, dated April 26, 2007.
  - (9) Based on data from an actuarial valuation report as of July 1, 2007, dated June 30, 2008.

See Note 20 for Plan changes.

Isolated analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

**EXHIBIT – O**  
**HILLSBOROUGH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**SUPPLEMENTAL EARLY RETIREMENT PENSION TRUST**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**June 30, 2008**

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	\$ 1,754,766	74.61%
2004	\$ 1,885,854	111.36%
2005	\$ 1,990,860	97.08%
2006	\$ 2,283,533	87.08%
2007	\$ 3,640,027	101.34%
2008	\$ 3,649,945	97.23%

**EXHIBIT - P  
HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
POST EMPLOYMENT HEALTH CARE BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
June 30, 2008**

Fiscal Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age (1)	Unfunded Actuarial Accrued Liability (3)	Funded Ratio (2)	Covered Payroll	Actuarial Liability as a Percentage of Covered Payroll
2008		\$142,851,161	(4) \$ 142,851,161	0.00%	\$984,347,937	(4) 14.50%

- Notes:
- (1) The Entry Age Actuarial Cost Method is used to determine the Plan's funding requirements.
  - (2) The percentage funded is derived by dividing the actuarial value of plan assets by the actuarial accrued liability.
  - (3) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.
  - (4) Based on data from an actuarial valuation report as of July 1, 2007, dated July 24, 2008.

Isolated analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

The District adopted GASB Statement 45, effective July 1, 2007, therefore only one year of funding progress information is available.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Agriculture:</b>				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 12,825,856.87	\$
National School Lunch Program	10.555	300	34,891,924.47	
Summer Food Service Program for Children	10.559	323	816,258.08	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	2,365,913.93	
<b>Total United States Department of Agriculture</b>			<b>50,899,953.35</b>	
<b>United States Department of Labor:</b>				
Direct:				
Disability Employment Policy Development	17.720	N/A	26,686.42	
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	350,548.65	
<b>Total United States Department of Labor</b>			<b>377,235.07</b>	
<b>United States Department of Education:</b>				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	100,742.87	
Federal Work-Study Program	84.033	N/A	80,617.25	
Federal Pell Grant Program	84.063	N/A	1,434,456.77	
<b>Total Student Financial Assistance Cluster</b>			<b>1,615,816.89</b>	
Impact Aid	84.041	N/A	514,536.43	
Magnet Schools Assistance	84.165	N/A	3,069,520.48	
Fund for the Improvement of Education	84.215	N/A	694,000.93	
Foreign Language Assistance	84.293	N/A	376,890.33	
Civic Education - Cooperative Education Exchange Program	84.304	N/A	583,092.24	
Advanced Placement Program	84.330	N/A	274,356.85	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	517,121.60	
Transition to Teaching	84.350	N/A	411,933.53	
Arts in Education	84.351	N/A	474,533.00	
Voluntary Public School Choice	84.361	N/A	1,173,278.60	
Teacher Incentive Fund	84.374	N/A	2,191,090.08	
<b>Total Direct</b>			<b>11,896,170.96</b>	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	39,563,104.70	
Special Education - Preschool Grants	84.173	266, 267	908,929.49	
<b>Total Special Education Cluster</b>			<b>40,472,034.19</b>	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 192, 193	1,891,338.51	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	45,962,204.17	
Migrant Education - State Grant Program	84.011	217	2,568,663.20	
Impact Aid	84.041	137	84,517.76	
Career and Technical Education - Basic Grants to States	84.048	151	2,974,690.16	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	851,106.48	
Education for Homeless Children and Youth	84.196	127	126,189.04	
Tech-Prep Education	84.243	157	258,402.22	
Charter Schools	84.282	298	738,350.00	738,350.00
Twenty-First Century Community Learning Centers	84.287	244	1,505,019.91	
State Grants for Innovative Programs	84.298	113	292,918.00	
Education Technology State Grants	84.318	121, 122	512,682.12	
Comprehensive School Reform Demonstration	84.332	128, 129	115,253.69	
Reading First State Grants	84.357	211	2,454,791.57	
Voluntary Public School Choice	84.361	299	99,887.55	
English Language Acquisition Grants	84.365	102	4,662,537.01	
Mathematics and Science Partnerships	84.366	235	1,747,317.80	
Improving Teacher Quality State Grants	84.367	224	8,001,068.11	
School Improvement Grants	84.377	126	222,656.16	
University of South Florida:				
Education Research , Development and Dissemination	84.305	None	3,495.11	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	None	18,564.94	
<b>Total Indirect</b>			<b>115,563,687.70</b>	<b>738,350.00</b>
<b>Total United States Department of Education</b>			<b>127,459,858.66</b>	<b>738,350.00</b>

**HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Health and Human Services:</b>				
Direct:				
Head Start	93.600 (3)	N/A	\$ 9,699,714.11	\$
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	<u>188,617.32</u>	
<b>Total Direct</b>			<u>9,888,331.43</u>	
Indirect:				
Child Care and Development Fund Cluster:				
Hillsborough County School Readiness Coalition:				
Child Care and Development Block Grant	93.575	None	16,695,988.48	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	<u>13,980,178.46</u>	
<b>Total Child Care and Development Fund Cluster</b>			30,676,166.94	
Florida Department of Children and Families:				
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	None	260,261.76	
Temporary Assistance for Needy Families	93.558	None	16,711,925.14	
Refugee and Entrant Assistance - State Administered Programs	93.566	None	803,531.08	
Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	None	37,628.88	
Refugee and Entrant Assistance - Discretionary Grants	93.576	None	1,971,695.11	
Social Services Block Grant	93.667	None	<u>61,476.38</u>	
<b>Total Indirect</b>			<u>50,522,685.29</u>	
<b>Total United States Department of Health and Human Services</b>			<u>60,411,016.72</u>	
<b>Corporation for National and Community Service:</b>				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	232, 234	<u>77,846.28</u>	
<b>Department of Homeland Security:</b>				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.067	None	<u>7,193.87</u>	
<b>United States Department of Defense:</b>				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	387,630.49	
Army Junior Reserve Officers Training Corps	None	N/A	534,984.59	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	62,384.16	
Navy Junior Reserve Officers Training Corps	None	N/A	<u>579,086.79</u>	
<b>Total United States Department of Defense</b>			<u>1,564,086.03</u>	
<b>Total Expenditures of Federal Awards</b>			<u>\$ 240,797,189.98</u>	<u>\$ 738,350.00</u>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2007-08 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated received used during the 2007-08 fiscal year. Commodities are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include \$1,721,333.61 for grant number/program year 04CH3041/07 and \$7,978,380.50 for grant number/program year 04CH3042/08.



David W. Martin, CPA  
AUDITOR GENERAL

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Hillsborough County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted



accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

### **Compliance and Other Matters**

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

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

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

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

Respectfully submitted,



David W. Martin, CPA

March 23, 2009



David W. Martin, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

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

### Compliance

We have audited the Hillsborough County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2008. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

## Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be a material weakness.

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

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

Respectfully submitted,



David W. Martin, CPA  
March 23, 2009

**HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Special Education Cluster (CFDA Nos. 84.027 and 84.173), Career and Technical Education – Basic Grants to States (CFDA No. 84.048), and Child Care and Development Fund Cluster (CFDA Nos. 93.575 and 93.596)
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

**HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**ADDITIONAL MATTERS**

**Finding No. 1: Preparation of Board Meeting Minutes**

Minutes of the Board's meetings were not timely made available for public inspection, contrary to Sections 286.011(2) and 1001.42, Florida Statutes. Section 286.011(2), Florida Statutes, requires that all minutes of a Board meeting be promptly recorded and open to public inspection. In addition, Section 1001.42(1), Florida Statutes, provides that the School Board shall require minutes and records to be kept as necessary to set forth clearly all actions and proceedings of the Board and minutes shall be kept as a public record in a permanent location.

Our audit disclosed that Board minutes of the seven regular meetings held between July 1, 2007, and October 2, 2007, were not approved by the Board until 7 to 70 days, or an average of 28 days, after the next regular meeting. In addition, we noted that the minutes of 11 workshop and special meetings, held during the 2007-08 fiscal year, were not approved by the Board until 12 to 243 days, or an average of 126 days, after the next regular meeting. We further noted that the minutes of 11 other workshop and special meetings, held during the 2007-08 fiscal year, were not recorded and available for public inspection as of November 11, 2008. According to District personnel, these exceptions occurred due to personnel changes and a misunderstanding of responsibilities. When Board meetings are not timely recorded and approved, public access to official actions taken at such meetings may be limited.

**Recommendation: The Board should take the necessary action to ensure that its minutes are timely recorded, approved, and available for public inspection.**

**Finding No. 2: Construction Projects**

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. CME firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between actual cost of the project and the GMP amount, or the net costs savings, to be returned to the District.

The District's Planning and Construction Department is responsible for the administration of the construction program. Our review of District records supporting the GMP contracts for the Kimbell Elementary School (GMP

\$12.2 million), Summerfield Crossing Elementary School (GMP \$8.9 million), and the Armwood High School Classroom and Field House Addition and Remodeling (GMP \$4.6 million) projects disclosed the following:

- Subcontractor Licenses. District records did not contain evidence that the District verified project subcontractors were appropriately licensed and insured. Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Verification of subcontractor licenses and appropriate subcontractor insurance coverage provides the District additional assurance that the subcontractors met the qualifications to perform the work for which they were engaged. A similar finding was noted in our report No. 2006-201.
- Subcontractor Charges. The District made payments to the CME for the three projects based on payment applications which included subcontractor invoices. According to District personnel, the District's project coordinator performs a limited review to determine whether some of these invoices support the subcontractor charges; however, District records did not evidence the review process, and the District has not established procedures to properly monitor all subcontractor billings, project contingency funds, and potential cost savings under the GMP. Subcontractor charges generally represent a large portion of the work billed. For example, of the total \$428,677 requested on payment application No. 11 for the Summerfield Crossing Elementary School project, approximately \$362,943 represented subcontractor charges, and the District did not document that these amounts were verified. Adequate preaudit of supporting invoices by appropriate staff, and appropriate documentation thereof, is necessary to ensure that charges are consistent with contract terms and District expectations.
- Contract Penalty Clauses. Section 1013.47, Florida Statutes, provides that construction contracts, in part, contain time limits in which construction is to be completed and penalties to be paid by the contractor for any failure to comply with the terms of the contract; however, we noted that the three CME contracts did not contain penalty clauses. Financial penalties provide the District with a means to hold the contractor responsible, thereby increasing a contractor's incentive to complete a project by a certain date. A similar finding was noted in our report No. 2006-201.

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**Recommendation:** The District should establish adequate monitoring procedures for its guaranteed maximum price construction projects that include verification of subcontractor licenses, and procedures to ensure that subcontractor charges are appropriate. Further, the District should enhance procedures to ensure that construction contracts contain penalty clauses for failure to comply with terms of the contracts.

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**Follow-up to Management's Response:**

*In its response to Additional Matters - Finding No. 2, the District indicates that responsibility for performance of the subcontractors is assigned to the construction management entity, and to manage the risk of non-performance, the District obtained the appropriate bond and proof of insurance from the construction manager. However, the point of our finding is that, to minimize the risk related to faulty construction by unlicensed subcontractors, District staff should verify that subcontractors are properly licensed and insured before they are engaged to perform work.*

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**Finding No. 3: Collection of Social Security Numbers**

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The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Effective October 1, 2007, Section 119.071(5)(a), Florida Statutes, as amended by Chapter 2007-251, Laws of Florida, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that as the District collects an individual's SSN, it must provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, the section provides that SSNs collected by the District may not be used by the District for any purpose other than the purpose provided in the written statement. This section also requires that the District review whether its collection of SSNs is in compliance with the above requirements; immediately discontinue the collection of SSNs for purposes that are not in compliance; and certify to the President of the Senate and the Speaker of the House of Representatives its compliance with these requirements no later than January 31, 2008. Further, by this date, the District was required to file a report with the Executive Office of the Governor, the President of the Senate, and the Speaker of the House of Representatives listing the identity of all commercial entities that have requested SSNs during the preceding calendar year and the specific purposes stated by each commercial entity regarding its need for SSNs. If no disclosure requests were made, the District was required to so indicate.

The District collects SSNs from employees and prospective employees, parents or legal guardians for students, and certain contracted vendors for record keeping and withholding tax purposes. Contracted vendors provide SSN information to the District and complete a form which explains that the District used the information as a record of the vendors' eligibility to work. However, contrary to the above law, the District did not conduct the required review and evaluation of the reasons for its collection of SSNs or prepare written statements notifying employees, parents, or legal guardians of the purpose for collection of the numbers. Further, contrary to the above law, the District did not certify to the Legislature that it complied with Section 119.071(5)(a), Florida Statutes, or report to the Governor and Legislature the identity of all commercial entities that requested SSNs during the preceding calendar year, as of December 2008. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

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**Recommendation: The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that collection of the SSNs is not imperative for performance of its duties and responsibilities, the District should discontinue obtaining such numbers.**

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**Finding No. 4: Purchasing Card Administration**

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Our review of the District's purchasing card program indicated that improvements were needed in the administration and monitoring of the program. The District provides credit cards (purchasing cards) to authorized

employees for the purchase of goods and services. Purchasing cards are designed to handle and expedite low dollar purchases of goods and services in a more efficient, effective, and economical manner than may be achieved through the purchase order system. The District contracted with a financial institution to provide the purchasing cards and to process purchases. The District has placed certain dollar limits on employees' use of purchasing cards, including single and monthly purchasing limits. Additionally, purchasing cards are subject to the same rules and regulations that apply to regular District purchases. During the fiscal year ended June 30, 2008, the District expended approximately \$15.4 million through the use of purchasing cards. Our review of purchasing card expenditures, totaling approximately \$76,000, disclosed the following:

- The District typically used cardholder agreements to evidence approval of the issuance of cards as well as evidence that each employee accepted their card and the established conditions of card use. Established conditions included procedures for preapproval of charges, prohibited personal or non-District related purchases, disciplinary action for unauthorized use, and other requirements. However, based on our review of District records for 35 cardholders, we noted three cardholders who had older agreements on file which did not include acceptance of established conditions of card use and five cardholders who had no agreement on file. Effective cardholder agreements would establish the responsibilities of the cardholders and clearly communicate management's intentions regarding safeguarding card use.
- The District used monthly reports, signed by cardholders and their respective supervisor, to evidence monthly approval of the charges. Our tests of 79 monthly reports disclosed eight reports that lacked evidence of supervisory approval, 18 reports that were not approved by a supervisor within two months after the charge or the supervisory approval date was not evidenced, and eight reports that were not signed by either the cardholder or respective supervisor. We also noted five reports that were approved by a secretary using a supervisor's signature stamp, instead of evidence of supervisory approval. Documented approval of purchasing card charges by supervisory staff evidences management's responsibility for such charges and serves to establish prior authorization to make payments.
- District records did not evidence adequate documentation to support four charges, totaling \$6,030, which were mainly for student gift cards and hotel charges. For the gift card purchases, totaling \$3,400, school principals or other supervisors approved the purchases, receipts were on file, and the charges represented allowable charges for certain programs; however, District records did not evidence signatures from the recipients who obtained the gift cards. In addition, hotel charges, totaling approximately \$2,500, were not supported by receipts or evidence of the purpose for the charges. Without appropriate and sufficient support, the risk increases that such purchases may be used for unauthorized purposes.
- We noted three charges, totaling \$3,903.75, supported only by fax copies of receipts or e-mail notes which did not provide a detailed review of what was purchased. Absent such documentation, District records do not clearly evidence the allowability of such charges.

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**Recommendation:** The District should strengthen procedures by maintaining current cardholder agreements which include the cardholder's acceptance of established conditions for card usage. Also, the District should enhance procedures to ensure the timely supervisory review and approval of purchasing card charges, and maintain evidence of such approvals. Further, the District should improve procedures by ensuring that charges are appropriately documented and represent valid charges of the District.

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**Finding No. 5: Student Diplomas**

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For the 2007-08 school year, Hillsborough, King, and Sickles High Schools, and Erwin Vocational Technical Center had approximately 1,880 graduates who received diplomas. However, we noted that enhancements in controls could be made over the issuance of diplomas at these schools, as follows:

- Guidance counselors were responsible for reviewing student records for high school seniors to determine which students did not meet the eligibility requirements to graduate, and notifying the registrar of those students. Those that the counselors deemed ineligible for graduation did not receive diplomas; however, no one independently reviewed student records and verified that guidance counselors' conclusions were correct. Absent this procedure, on at least a test basis, by someone other than the guidance counselors, there is an increased risk for unauthorized diplomas to be issued.
- There was an inadequate separation of duties over ordering and receipt of diplomas at Hillsborough, King, and Sickles High Schools, and Erwin Vocational Technical Institute. The registrars at the high schools submitted orders, containing information such as student names and diploma types, for the printing company to print diplomas; received the completed diplomas; and provided the diplomas to other District personnel for distribution to students. At the Institute, the secretary or bookkeeper ordered blank diploma forms, and the bookkeeper received the forms and provided them to the data processor, who kept them in a locked desk. However, no one other than the high school registrars or Institute bookkeeper verified that the diplomas ordered agreed with those received. In these circumstances, one employee had control over the ordering and receipt of high school and Institute diplomas such that errors or irregularities, should they occur, might not be detected in a timely manner.
- At Erwin Vocational Technical Institute, the data processor typed the student's name, program graduated from, and the graduation date on blank diplomas. Any unused diplomas were picked up by a company which shredded them, but a list of how many diplomas were provided to the shredding company was not retained. The absence of controls over the quantity of diplomas destroyed could result in blank diplomas being obtained by unauthorized persons.
- At Sickles High School, the registrar has blank diploma forms for most years from the 1999 through 2007 school years in a nonlockable file cabinet in the vault room. In addition, the 2008 school year diploma forms were kept in a lockable file cabinet in the vault; however, several staff have keys to the vault. In these circumstances, there is an increased risk that blank diplomas may be obtained and used for unauthorized purposes, without compensating controls to detect or prevent misuse.

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

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## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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**Federal Awards Finding No. 1:****Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education – Grants to States (CFDA No. 84.027)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: None**

**Allowable Costs/Cost Principles.** Enhancements were needed in District procedures for documenting salaries and benefits charged to the Special Education program. The United States Office of Management and Budget *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee.

The District reported Special Education program salary and benefit expenditures, totaling approximately \$2.2 million. Our test of 25 employees, who had salary and benefit expenditures of approximately \$870,000, disclosed that five employees paid, in part, from Special Education program funds, totaling approximately \$74,000, prepared monthly reports which evidenced hours worked; however, the reports did not evidence the amount of time the employees devoted to the program. While we were able to satisfy ourselves by performing additional audit procedures, including obtaining confirmations from applicable employees and interviewing supervisory personnel, that the effort by the employees was consistent with the costs charged to the program, our audit procedures do not substitute for the District's responsibility to properly maintain personnel activity reports.

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**Recommendation: The District should enhance its procedures to ensure that personnel activity reports are prepared, as required, to support charges to Federal programs.**

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District Contact Person: Gretchen Saunders, Chief Business Officer

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## PRIOR AUDIT FOLLOW-UP

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Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in prior audit reports.

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## MANAGEMENT'S RESPONSE

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Management's response is included as Exhibit – Q.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**

*HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2008*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
KPMG 2007-1	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Adult Education - Basic Grants to States (CFDA No. 84.002, Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles	Time and effort documentation was not maintained in accordance with Federal requirements, resulting in questioned costs of \$105,510.	Partially corrected	Grantor has not made a final determination regarding the questioned costs.
KPMG 2007-2	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Adult Education - Basic Grants to States (CFDA No. 84.002, Twenty-First Century Community Learning Centers (CFDA No. 84.287), Reading First State Grants (CFDA No. 84.357) - Cash Management, Reporting	The District's cash advance balance did not reconcile with the grantor's (Florida Department of Education) records, resulting in a difference of approximately \$871,000. Only \$231,087 had been identified, with the remaining amount of \$639,913 not reconciled or otherwise accounted for.	Corrected	
KPMG 2007-3	Career and Technical Education - Basic Grants to States (CFDA No. 84.048) - Procurement	The District did not comply with its policies and procedures for procurement actions greater than \$3,000. Additionally, the District did not comply with State laws and rules regarding sole-source procurements greater than \$25,000.	Corrected	
KPMG 2007-4	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Twenty-First Century Community Learning Centers (CFDA No. 84.287), Reading First State Grants (CFDA No. 84.357) - Period of Availability	Fiscal year-end expenditure review procedures were not adequate, resulting in grant obligations not being liquidated by the date specified in the project award notifications. Questioned costs for the finding amount to \$231,743.	Partially corrected	Grantor has not made a final determination regarding the questioned costs.

*HILLSBOROUGH COUNTY  
DISTRICT SCHOOL BOARD  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS (Continued)  
For the Fiscal Year Ended June 30, 2008*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
KPMG 2007-5	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Equipment Management	Some property items purchased were not being recorded properly as capital assets.	Corrected	
KPMG 2007-6	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Twenty-First Century Community Learning Centers (CFDA No. 84.287), Reading First State Grants (CFDA No. 84.357) - Reporting	The District did properly report grant expenditures to the grantor (Florida Department of Education). Disbursements reported in the Florida Department of Education report forms FA-399 were higher than disbursements recorded in the general ledger. There are no questioned costs; however, there is an impact on cash received from the State.	Corrected	
KPMG 2007-7	Career and Technical Education - Basic Grants to States (CFDA No. 84.048), Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles, Period of Availability	Expenses were transferred via journal vouchers from 2007 awards to 2006 awards without documentation sufficient to demonstrate that the expenditures transferred were incurred in the proper period, resulting in questioned costs of \$65,164.	Partially corrected	Grantor has not made a final determination regarding the questioned costs.
KPMG 2007-8	Head Start (CFDA No. 93.600) - Eligibility	Four of 45 student files reviewed did not include the Quality Assurance Review Sheet, which documents program participation eligibility.	Corrected	

## EXHIBIT – Q MANAGEMENT’S RESPONSE

**School Board**  
 Carol Kurdell, Chair  
 Susan L. Valdes, Vice Chair  
 Doretha W. Edgecomb  
 Jennifer Fallero  
 April Griffin  
 Jack R. Lamb, Ed.D.  
 Candy Olson



**Superintendent of Schools**  
 MaryEllen Elia

March 9, 2009

Mr. David W. Martin, CPA  
 Auditor General  
 Claude Pepper Building G74  
 111 West Madison Street  
 Tallahassee, FL 32399-1450

**Subject:** Response to the preliminary and tentative audit findings and recommendations, as reported by Hillsborough County Public Schools for the fiscal year ended June 30, 2008.

Dear Mr. Martin:

We are in receipt of the above referenced report. After reviewing the information, we are pleased that the Audit Report for Hillsborough County Public Schools indicates compliance, in all material respects, with State requirements governing the determination and reporting of the financial, operational, and Federal audit for the fiscal year ended June 30, 2008.

**Tentative Finding 1) District procedures could be enhanced to ensure that the minutes of Board meetings are promptly recorded and approved, as required.**

A recording is made of all board meetings, workshops, etc. (and the recordings are immediately available upon request), it was misinterpreted that there was a "time certain" for written minutes. Minutes of all future meetings, workshops, etc., will be handled in a timely manner.

**Tentative Finding 2) Improvements could be made in controls over management of construction contracts.**

Subcontractor Licenses The District acknowledges that it is important that subcontractors working on District projects are appropriately licensed and insured. However, as the District has no direct contractual relationship with subcontractors, responsibility for the performance of subcontractors is assigned to the construction management entity. To manage the risk of non-performance, the District has obtained the appropriate bonds and proof of insurance from the construction manager.

Subcontractor Charges District staff samples a portion of submitted invoices, in conjunction with the employment of procedures that insure that the overall payments to the construction manager do not exceed that established by the guaranteed maximum price (itself inclusive of the subcontract amounts under consideration here). Consequently, the District has recently commissioned audits of a select group of projects to determine whether overcharges have occurred, such that significant additional controls or audits are warranted. Additionally, the District intends to implement a process to confirm the amounts of subcontractor payments associated with final pay applications for each project, as a compromise to a resource-intensive check of each application for progress payment.

Contract Penalty Clauses The District currently includes penalty clauses in both construction contracts and construction management agreements. As noted, the District had not previously included penalty clauses in construction management agreements. However, the District has included penalty clauses in construction management agreements issued in the last several months, subsequent to the agreements upon which the finding is based.

Raymond O. Shelton School Administrative Center • 901 East Kennedy Blvd. • Tampa, FL 33602 • Website: www.sdhc.k12.fl.us  
 School District Main Office: 813-272-4000 • P.O. Box 3408 • Tampa, FL 33601-3408

Mr. David W. Martin, CPA  
March 9, 2009  
Page 2

**Tentative Finding 3) The District did not conduct a review and evaluation of reasons for the collection of social security numbers (SSNs), provide a written statement to certain individuals stating the purpose for collection of the numbers, or certify compliance with the new SSN requirements to the Legislature, contrary to Section 119.071(5)(a), Florida Statutes.**

We are in the process of updating our school district website, forms, student and employee handbooks, and any other district information that requests social security numbers.

**Tentative Finding 4) Improvements were needed in controls over the District's purchasing card program.**

An online training and testing program is being developed. All P-Card holders will be required to complete the training and obtain a satisfactory test score every two years. Any cardholder who does not achieve a satisfactory test score will be required to attend additional formal training or surrender his/her P-Card.

**Tentative Finding 5) Controls over high school diploma processing could be enhanced.**

Blank diplomas will be stored in a locked file cabinet in a secured location, i.e. vault.

**Federal Award Findings**

**Tentative Finding 1) Procedures could be enhanced to ensure that personnel activity reports are prepared, as required, to support charges to Federal programs.**

To ensure employees are correctly certifying the amount of their time charged to federal projects, the District has begun to print the employee's expense distribution as it is being allocated on the PAR (personnel activity report) form. This will ensure that employees required to fill out the PAR form are aware of their cost objectives. If the time the employee spends on these objectives is different from the allocated percentage, the employee is to specify the correct percentage, otherwise the employee is to mark an X certifying the percentage.

Once this process is complete, the site administrator forwards a copy of the forms to Federal Finance, who then in conjunction with Special Revenue, reconciles and makes payroll expense distribution corrections if necessary.

In the future, training will be conducted annually to the site administrator and other staff to ensure the process is understood and to inform required personnel of any changes.

As always, we appreciate the opportunity for review of our management procedures regarding our financial, operational and Federal audit. The audit report is generally accepted as written. Additionally, we reserve the right to appeal the final audit report, as we deem appropriate.

In conclusion, we wish to thank Mr. Denis Jessen, Ms. Elba Guzik, and Mr. Louis Giunta of the Auditor General's staff for the professional and courteous manner in which they conducted the audit. If additional questions arise, please feel free to contact our staff or me, as needed.

Sincerely,



Mary Ellen Elia  
Superintendent  
/sr