



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
Financial and Federal Single Audit

For the Fiscal Year Ended June 30, 2005

Hillsborough County District School Board members and the Superintendent of Schools who served during the 2004-05 fiscal year are shown in the following tabulation:

	<i>District No.</i>
<i>Glenn Barrington to 11-15-04, Chair</i>	<i>1</i>
<i>Susan L. Valdes from 11-16-04</i>	<i>1</i>
<i>Candy Olson, Vice-Chair to 11-15-04, Chair from 11-16-04</i>	<i>2</i>
<i>Dr. Jack R. Lamb</i>	<i>3</i>
<i>Jennifer Faliero</i>	<i>4</i>
<i>Doris Ross Reddick to 11-15-04</i>	<i>5</i>
<i>Doretha W. Edgcomb from 11-16-04</i>	<i>5</i>
<i>Carolyn Brickleyer, Vice Chair from 11-16-04</i>	<i>6</i>
<i>Carol W. Kurdell</i>	<i>7</i>

Dr. Earl J. Lennard, Superintendent

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Hillsborough County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2005, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note an internal control finding that is summarized below.

Finding No. 1: Proper segregation of duties did not always exist for certain financial module processes in the District's computerized accounting system.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Twenty-First Century Community Learning Centers, Education Technology State Grants, and Child Care and Development Fund 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 compliance and internal control findings that are summarized below.

Federal Awards Finding No. 1: Special Tests and Provisions - Private School Participation

The District did not timely consult with private school officials or communicate in writing with the private schools in Hillsborough County with regard to participation in the Twenty-First Century Community Learning Centers grant for the 2004-05 fiscal year.

Federal Awards Finding No. 2: Special Tests and Provisions – On-Site Reviews

In our tests of 44 on-site reviews of food service meal counting and claiming systems, we noted 14 instances in which deficiencies were noted in the reviews, but for which the follow-up, on-site reviews were not performed timely (ranging from 6 to 37 days late).

Federal Awards Finding No. 3: Special Tests and Provisions – Competitive Food Sales

The District's review of competitive food sales at schools during the 2004-05 fiscal year noted ten schools where these sales were not limited to one hour following the close of the last lunch period. We noted similar instances at Plant High School.

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;
- Complied with the various provisions of law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected all deficiencies disclosed 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, 2005. We obtained an understanding of internal control and assessed control risk 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, administrative rules, regulations, contracts, and grant agreements.

Audit Methodology

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

This audit was conducted by Anna A. McCormick, CPA, and supervised by Christina R. Porter, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDINGS AND RECOMMENDATIONS

Reportable Conditions

Finding No. 1: Information Technology – Segregation of Duties

Proper segregation of duties is necessary to preclude the inappropriate use of the District's resources. Work responsibilities that are segregated so that one individual does not control all critical stages of a process diminish the likelihood that errors and wrongful acts will go undetected. In an electronic system, the implementation of adequate identification, authentication, and authorization mechanisms helps enforce an appropriate segregation of duties by restricting unneeded access to, and use of, computing resources.

The Lawson financial module was implemented at the District in December 2003. Within the District, user privileges were established through the definition of process flows, roles, and permissions for the defined business processes. Roles were defined based on the District process flows and other access needs. Within roles, users were granted permissions, which are the authorities to perform various defined system functions. We noted the following deficiencies with regard to the Lawson financial module:

- For the purchasing of commodities, the capability existed for specific users to enter and approve the same transaction. Specifically, we noted three individuals within the purchasing department who had multiple user roles which permitted these individuals to both enter and approve transactions. In addition, we noted five individuals with a level of programming access which permitted these individuals the ability to establish a vendor, initiate a requisition, transfer budgeted funds, approve the requisition, and receive the commodities.
- Twenty-seven users were granted Developer-Highest, Developer-Finance, or System Administrator capabilities, thereby enabling the same user to make program changes, perform all program testing, and move the programs into the Lawson production environment. According to District staff, program changes were made, tested, and moved into the production environment by the same individual in many instances.
- Sufficient documentation was not available at the District to provide evidence that there was adequate user involvement in testing and approving program changes, compounding the lack of segregation of duties noted above.

The aforementioned excessive access capabilities and lack of appropriate segregation of duties increased the risk of unauthorized purchases being initiated and processed without detection either through the Lawson financial module or through unauthorized programs that modify Lawson data files. While our tests of vendor records created during the audit period did not disclose any instances where unauthorized purchases were made, our tests are not a substitute for effective internal controls.

Recommendation: The District should enhance program change controls, restrict access to the Lawson production environment, and strengthen controls regarding role assignments within the process flows established by the District to more effectively promote a proper segregation of duties.

PRIOR AUDIT FINDINGS

The District corrected the deficiencies and exceptions cited in our previous financial audit, report No. 03-156, and in the financial audit conducted by an independent accounting firm for fiscal year ended June 30, 2004.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Hillsborough County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations included in this report is shown on pages 81 through 84.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***MANAGEMENT'S DISCUSSION AND ANALYSIS******BASIC FINANCIAL STATEMENTS***

EXHIBIT – A *Statement of Net Assets.*

EXHIBIT – B *Statement of Activities.*

EXHIBIT – C *Balance Sheet – Governmental Funds.*

EXHIBIT – D *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.*

EXHIBIT – E *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.*

EXHIBIT – F *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.*

EXHIBIT – G *Statement of Net Assets – Proprietary Funds.*

EXHIBIT – H *Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.*

EXHIBIT – I *Statement of Cash Flows – Proprietary Funds.*

EXHIBIT – J *Statement of Fiduciary Net Assets – Fiduciary Funds.*

EXHIBIT – K *Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.*

EXHIBIT – L *Notes to Financial Statements.*

OTHER REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT – M *Budgetary Comparison Schedule – General and Major Special Revenue Funds.*



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



850/488-5534/SC 278-5534
Fax: 488-6975/SC 278-6975

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, 2005, which collectively comprise the District's basic financial statements as listed on page 3. 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 aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board as of June 30, 2005, and the respective changes in financial

position and cash flows, where applicable, thereof for the fiscal 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, administrative rules, regulations, contracts, and grant agreements 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 6 through 14) and the Budgetary Comparison Schedule (shown as exhibit M) 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 thereon.

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's *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,



William O. Monroe, CPA

March 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Hillsborough County (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 15).

OVERVIEW OF FINANCIAL STATEMENT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENT

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. Governmental activities are consolidated into a single column 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 fund current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases and 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 and component units.

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 statement can be found on pages 15 through 17 of this report.

FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will 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 for the demonstration of sources and uses. 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 more narrow 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

A 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 20 and 24). 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 16 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue - Other Fund, Special Revenue - Food Services Fund, Capital Projects - Certificates of Participation Fund, Capital Projects - Sales Tax Revenue Bond Fund, and Capital Projects - Other Fund that are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds

The District maintains internal service funds as proprietary funds. 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. 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 25 through 27.

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 also uses agency funds to account for resources held for student activities and groups. 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 30 through 64 of this report.

GOVERNMENTWIDE FINANCIAL ANALYSIS

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 exceed liabilities by \$1,163,676 thousand at the end of the current fiscal year.

By far, the largest portion of the District's net assets (75 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to citizens; 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.

	Governmental Activities (in thousands)	
	6-30-05	6-30-04
Current and Other Assets	\$ 743,852	\$ 729,816
Capital Assets	1,757,012	1,615,378
Total Assets	2,500,864	2,345,194
Long-Term Liabilities	1,253,635	1,194,856
Other Liabilities	83,553	91,628
Total Liabilities	1,337,188	1,286,484
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	870,883	822,439
Restricted	292,200	289,321
Unrestricted (Deficit)	593	(53,050)
Total Net Assets	\$ 1,163,676	\$ 1,058,710

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 \$593 thousand. Unrestricted net assets may be used to meet the government's on going obligations to citizens and creditors.

The District's net assets increased by \$104,966 thousand during the current year and the unrestricted net assets increased by \$53,643 thousand. The increase in net assets is due in part to the increase of capital assets.

Operating Results for the Year		
Governmental Activities (in thousands)		
	<u>6-30-05</u>	<u>6-30-04</u>
Program Revenues:		
Charges for Services	\$ 44,370	\$ 44,651
Operating Grants and Contributions	78,181	76,750
Capital Grants and Contributions	32,269	122,546
General Revenues:		
Property Taxes, Levied for Operational Purposes	334,149	304,334
Property Taxes, Levied for Debt Service	9,966	10,197
Property Taxes, Levied for Capital Projects	108,114	97,048
Local Sales Taxes	23,248	21,559
Grants and Contributions not Restricted to Specific Programs	914,133	852,075
Investment Earnings	14,525	8,156
Miscellaneous	31,770	20,060
Total Revenues	<u>1,590,725</u>	<u>1,557,376</u>
Expenses:		
Instructional Services	773,361	714,080
Instructional Support Services	135,841	122,807
Pupil Transportation Services	58,847	55,102
Operation and Maintenance of Plant	110,370	101,680
Facilities Acquisition and Construction	103,066	87,709
School Administration	79,215	70,565
General Administration	46,366	53,972
Food Services	77,408	74,500
Community Services	54,744	53,922
Interest on Long-Term Debt	46,017	49,120
Unallocated Depreciation Expenses	524	477
Total Expenses	<u>1,485,759</u>	<u>1,383,934</u>
Increase in Net Assets	104,966	173,442
Net Assets, Beginning of Year	<u>1,058,710</u>	<u>885,268</u>
Net Assets End of Year	<u>\$ 1,163,676</u>	<u>\$ 1,058,710</u>

Property taxes increased by \$40,650 thousand. This is due to the increase in the assessed value of property and the continued growth and new construction in Hillsborough County.

Unrestricted grants and contributions revenue increased by \$62,058 thousand, mostly due to the increase of the Florida Education Finance Program (FEFP) and the Class Size Reduction Operating Program funds, and the continued proactive grant application team which aggressively seeks grant funding.

Capital grants and contributions decreased by \$90,277 thousand, mostly due to the decrease of Class Size Reduction Capital Outlay contributions.

For the most part, the increase in expenses is due to the continued growth of the District in both urban and rural areas. The District continues to grow at an accelerated rate, requiring additional schools, teachers, and support personnel to meet the needs of additional students.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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 \$654,378 thousand, an increase of \$9,445 thousand over the prior year. Of this total amount, \$474,759 thousand constitutes unreserved fund balances, which are available for spending at the District's discretion. The remainder of the fund balances 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 (\$63,867 thousand); 2) to pay debt service (\$69,821 thousand); 3) to complete State categorical programs (\$15,095 thousand); 4) to complete other committed projects (\$25,872 thousand); and 5) as reserved for inventories (\$4,964 thousand).

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 is \$94,704 thousand, while total fund balance is \$149,513 thousand. The fund balance of the District's General Fund increased by \$52,785 thousand 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 8.75 percent of total General Fund expenditures, while total fund balance represents 13.82 percent of that same amount.

The Special Revenue – Other Fund had an increase in revenue due to the increase of several ongoing grants and the addition of new ones.

The Special Revenue – Food Services Fund had a decrease of \$1,225 thousand in fund balance. The District has increased meal prices for the first time in five years for the 2005-06 fiscal year to help alleviate the losses.

The Capital Projects - Certificates of Participation Fund total fund balance increased by \$20,330 thousand to a total of \$209,895 thousand. This increase was due to the Certificates of Participation Fund receiving an additional \$88,534 thousand from the issuance of the Certificates of Participation, Series 2004C. The Capital Projects - Sales Tax Revenue Bond Fund fund balance continues to be expended for eligible projects. The Capital Projects - Other Fund had a decrease of fund balance of \$15,925 thousand, to a total of \$100,043 thousand. This was due to the expenditures incurred from opening eight new schools and the ongoing construction of six new schools scheduled to open in 2006.

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 Board approves the final amendment to the budget after year-end.

There were revisions made to the 2004-05 General Fund original budget. These revisions were due to a variety of situations. The District increased by 7,350 new students over the previous school year and opened eight new schools. The actions to reduce district expenditures were approved by the Board and implemented throughout the year.

Budgeted expenditures decreased \$11,384 thousand from the original budget to the final amended budget because of Districtwide reductions approved and implemented by the Board throughout the year.

Actual expenditures were \$85,793 thousand below the final amended budget. This amount reflects only 7.3 percent of the final budget. In the normal course of business, some of the budget is left unspent, primarily due to temporarily unfilled positions.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$1,757,012 thousand (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

	Governmental Activities 2005 (In thousands)	Governmental Activities 2004 (In thousands)
Land	\$ 115,549	\$ 105,210
Land Improvements	38,056	32,705
Construction in progress	163,165	131,843
Improvements other than buildings	54,860	52,181
Buildings and systems	1,293,561	1,198,161
Furniture, fixtures and equipment	52,234	59,490
Motor vehicles	36,409	33,052
Property under capital lease		63
Audio visual materials	12	39
Computer software	3,166	2,634
	\$ 1,757,012	\$ 1,615,378
Total Capital Assets	\$ 1,757,012	\$ 1,615,378

This year's additions of \$213,510 thousand included the construction of eight (8) new schools which opened in the 2004-05 fiscal year, six (6) schools which are to be opened in the 2005-06 fiscal year, and several major expansion and renovation projects.

See the notes the financial statements for more information on the District's capital assets.

Long-Term Debt

At the end of the current fiscal year, the District has total debt outstanding of \$1,130,871 thousand, which is net of unamortized bond premiums and unamortized loss on bond refunding of \$1,668 thousand.

	2005 <u>(In thousands)</u>	2004 <u>(In thousands)</u>
Notes Payable	\$ 1,707	\$ 2,561
Obligations Under Capital Leases		20
Estimated Liability for Arbitrage Payable		744
Bonds Payable	295,808	311,592
Certificates of Participation Payable	<u>833,356</u>	<u>758,216</u>
Total long term debt	<u>\$ 1,130,871</u>	<u>\$ 1,073,133</u>

The District's total debt increased by \$57,738 thousand (net of repayment of principal on outstanding debt) during the current fiscal year. The key factor in this increase was the issuance of the following:

- \$3,415 thousand SBE Bonds, 2004A
- \$1,145 thousand SBE Bonds, 2005A
- \$89,750 thousand Certificates of Participation, Series 2004C
- \$48,915 thousand Certificates of Participation, Series 2005A
- \$127,975 thousand Sales Tax Refunding Bonds, Series 2005

The District has been given the following bond ratings:

	<u>Insured</u>	<u>Underlying</u>
<u>General Obligation Bonds</u>		
Moody's	Aaa	Aa3
Standard & Poors	AAA	AA
Fitch IBCA	AAA	AA-
<u>Sales Tax Revenue Bonds</u>		
Moody's	Aaa	A2
Standard & Poors	AAA	A
Fitch IBCA	AAA	A+
<u>Certificates of Participation</u>		
Moody's	Aaa	A1
Standard & Poors	AAA	AA-
Fitch IBCA	AAA	A+

See the notes 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, 901E. Kennedy Blvd., Tampa, FL 33602.

EXHIBIT - A
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	\$ 12,010,865.87	\$ 2,457,285.00
Investments	568,592,758.67	3,019,256.00
Accounts Receivable	1,645,741.34	537,148.00
Prepaid Items		2,697,085.00
Due from Other Agencies	143,483,926.73	493,326.00
Inventories	5,745,757.20	
Deferred Charges	12,372,858.22	201,350.00
Capital Assets:		
Land	115,549,600.82	2,977,020.00
Land Improvements - Nondepreciable	38,055,815.75	26,988.00
Construction in Progress	163,164,543.22	1,630,223.00
Improvements Other Than Buildings, Net	54,860,273.21	
Buildings and Fixed Equipment, Net	1,293,561,046.30	9,384,895.00
Furniture, Fixtures, and Equipment, Net	52,233,790.29	927,726.00
Motor Vehicles, Net	36,408,791.74	189,083.00
Property Under Capital Lease, Net		812,896.00
Audio Visual Materials and Computer Software, Net	3,178,242.24	231,509.00
TOTAL ASSETS	\$ 2,500,864,011.60	\$ 25,585,790.00
LIABILITIES		
Salaries and Benefits Payable	\$ 1,247,558.62	\$ 244,817.00
Payroll Deductions and Withholdings	307,044.76	12,276.00
Accounts Payable	23,966,690.54	1,271,435.00
Accrued Interest	21,262,219.03	
Due to Other Agencies	2,596,163.22	327,748.00
Deposits Payable	13,545.52	
Deferred Revenue	9,168,481.09	125,433.00
Estimated Insurance Claims Payable	24,991,648.00	
Long-Term Liabilities:		446,406.00
Portion Due Within One Year:		
Note Payable	853,400.00	410,574.00
Bonds Payable	19,255,000.00	
Certificates of Participation Payable	17,635,000.00	
Compensated Absences Payable	11,914,976.99	
Portion Due After One Year:		
Note Payable	853,400.00	10,359,636.00
Bonds Payable	276,553,201.91	
Certificates of Participation Payable	815,721,336.41	
Compensated Absences Payable	110,848,272.48	
Total Liabilities	1,337,187,938.57	13,198,325.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	870,883,060.89	4,691,002.00
Restricted for:		
State Categorical Programs	15,095,077.40	
Debt Service	48,558,906.58	
Capital Projects	202,673,735.39	35,794.00
Other Purposes	25,872,076.54	6,341,264.00
Unrestricted	593,216.23	1,319,405.00
Total Net Assets	1,163,676,073.03	12,387,465.00
TOTAL LIABILITIES AND NET ASSETS	\$ 2,500,864,011.60	\$ 25,585,790.00

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, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 773,360,619.78	\$ 10,819,563.85	\$	\$
Pupil Personnel Services	61,097,649.54			
Instructional Media Services	23,891,736.69			
Instruction and Curriculum Development Services	38,783,903.52			
Instructional Staff Training	12,067,431.42			
Board of Education	4,282,788.65			
General Administration	10,214,056.48			
School Administration	79,214,857.12			
Facilities Acquisition and Construction	103,065,644.42			26,142,980.33
Fiscal Services	5,353,469.07			
Food Services	77,407,918.36	31,438,187.45	43,460,724.50	
Central Services	26,515,634.89			
Pupil Transportation Services	58,846,498.85	2,112,356.46	34,719,729.00	
Operation of Plant	83,195,549.13			
Maintenance of Plant	27,175,354.43			
Community Services	54,744,388.82			
Interest on Long-Term Debt	46,016,652.65			6,125,647.77
Unallocated Depreciation Expenses	524,468.15			
Total Governmental Activities	\$ 1,485,758,621.97	\$ 44,370,107.76	\$ 78,180,453.50	\$ 32,268,628.10
Component Units				
Educational Foundation	\$ 2,646,752.00	\$	\$	\$
Charter Schools	25,435,295.00	1,547,788.00	842,500.00	443,892.00
Total Component Units	\$ 28,082,047.00	\$ 1,547,788.00	\$ 842,500.00	\$ 443,892.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Debt Service				
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, 2004				
Net Assets - June 30, 2005				

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

EXHIBIT - B

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Units</u>
<u>Activities</u>	
\$ (762,541,055.93)	\$
(61,097,649.54)	
(23,891,736.69)	
(38,783,903.52)	
(12,067,431.42)	
(4,282,788.65)	
(10,214,056.48)	
(79,214,857.12)	
(76,922,664.09)	
(5,353,469.07)	
(2,509,006.41)	
(26,515,634.89)	
(22,014,413.39)	
(83,195,549.13)	
(27,175,354.43)	
(54,744,388.82)	
(39,891,004.88)	
(524,468.15)	
<u>(1,330,939,432.61)</u>	
	(2,646,752.00)
	<u>(22,601,115.00)</u>
	<u>(25,247,867.00)</u>
334,149,104.53	
9,966,205.48	
108,113,612.60	
23,247,803.68	
914,133,050.30	25,301,287.00
14,525,556.74	355,336.00
31,769,983.42	404,478.00
<u>1,435,905,316.75</u>	<u>26,061,101.00</u>
104,965,884.14	813,234.00
<u>1,058,710,188.89</u>	<u>11,574,231.00</u>
<u>\$ 1,163,676,073.03</u>	<u>\$ 12,387,465.00</u>

**EXHIBIT - C
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005**

	General Fund	Special Revenue - Food Services Fund	Special Revenue - Other Fund
ASSETS			
Cash	\$ 9,130,441.97	\$ 20,256.52	\$ 167,295.14
Investments	127,402,423.66	422.98	567,566.22
Accounts Receivable, Net	183,174.78	31,207.60	30,164.97
Due from Other Funds	18,313,345.33	608,595.20	205,277.33
Due from Other Agencies	9,805,154.45	5,581,442.64	9,544,550.94
Inventories	4,963,880.14	781,877.06	
TOTAL ASSETS	\$ 169,798,420.33	\$ 7,023,802.00	\$ 10,514,854.60
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 982,311.20	\$ 265,247.42	\$
Payroll Deductions and Withholdings	307,044.76		
Accounts Payable	13,915,004.30	94,570.28	
Due to Other Funds	1,005,392.66	6,412,380.38	8,429,995.28
Due to Other Agencies	2,418,576.20		11,421.02
Deposits Payable	8,037.52		
Deferred Revenue	1,648,370.13	251,603.92	2,073,438.30
Total Liabilities	20,284,736.77	7,023,802.00	10,514,854.60
Fund Balances:			
Reserved for State Categorical Programs	15,095,077.40		
Reserved for Encumbrances	8,878,252.09		
Reserved for Inventories	4,963,880.14		
Other Purposes	25,872,076.54		
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	94,704,397.39		
Capital Projects Funds			
Total Fund Balances	149,513,683.56		
TOTAL LIABILITIES AND FUND BALANCES	\$ 169,798,420.33	\$ 7,023,802.00	\$ 10,514,854.60

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

EXHIBIT - C

Capital Projects - Certificates of Participation Fund	Capital Projects - Sales Tax Revenue Bond Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 111,335.31	\$ 6,669.93	\$ 114,577.77	\$ 2,322,910.21	\$ 11,873,486.85
213,996,955.57	29,158,369.72	26,234,149.67	117,214,314.81	514,574,202.63
		107,000.00	2,750.00	354,297.35
192,373.08	1,354,134.91	3,819,031.16	7,629,157.32	32,121,914.33
	911,210.83	74,094,241.01	42,939,310.69	142,875,910.56
				5,745,757.20
<u>\$ 214,300,663.96</u>	<u>\$ 31,430,385.39</u>	<u>\$ 104,368,999.61</u>	<u>\$ 170,108,443.03</u>	<u>\$ 707,545,568.92</u>
\$	\$	\$	\$	\$ 1,247,558.62
				307,044.76
4,405,915.62	982,198.95	4,154,682.45	5,629,722.55	14,009,574.58
		166,166.00		31,020,287.89
		5,508.00		2,596,163.22
				13,545.52
				3,973,412.35
<u>4,405,915.62</u>	<u>982,198.95</u>	<u>4,326,356.45</u>	<u>5,629,722.55</u>	<u>53,167,586.94</u>
15,924,830.29	5,211,811.73	6,211,719.13	27,640,365.48	15,095,077.40
				63,866,978.72
				4,963,880.14
				25,872,076.54
			69,821,125.61	69,821,125.61
				94,704,397.39
<u>193,969,918.05</u>	<u>25,236,374.71</u>	<u>93,830,924.03</u>	<u>67,017,229.39</u>	<u>380,054,446.18</u>
<u>209,894,748.34</u>	<u>30,448,186.44</u>	<u>100,042,643.16</u>	<u>164,478,720.48</u>	<u>654,377,981.98</u>
<u>\$ 214,300,663.96</u>	<u>\$ 31,430,385.39</u>	<u>\$ 104,368,999.61</u>	<u>\$ 170,108,443.03</u>	<u>\$ 707,545,568.92</u>

**EXHIBIT - D
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total Fund Balances - Governmental Funds \$ 654,377,981.98

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. 1,757,012,103.57

Debt issuance costs and underwriters' discounts are not expensed in the government-wide statements, but are reported as deferred charges, and amortized over the life of the debt. 12,372,858.22

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. 14,809,936.08

Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due. (21,262,219.03)

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

Bonds Payable	\$ 295,808,201.91	
Note Payable	1,706,800.00	
Certificates of Participation Payable	833,356,336.41	
Compensated Absences Payable	122,763,249.47	
	(1,253,634,587.79)	(1,253,634,587.79)

Total Net Assets - Governmental Activities \$ 1,163,676,073.03

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, 2005

	General Fund	Special Revenue - Food Services Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 1,470,687.44	\$	\$ 18,441,670.44
Federal Through State	5,863,437.16	42,026,627.50	156,528,061.31
State	762,503,325.63	1,434,097.00	2,024,727.56
Local	<u>367,358,102.94</u>	<u>31,450,164.57</u>	<u>1,967,581.50</u>
Total Revenues	<u>1,137,195,553.17</u>	<u>74,910,889.07</u>	<u>178,962,040.81</u>
Expenditures			
Current - Education:			
Instruction	699,729,284.44		70,844,801.71
Pupil Personnel Services	45,670,732.83		15,547,673.32
Instructional Media Services	20,400,182.99		2,921,881.31
Instruction and Curriculum Development Services	17,710,315.67		20,863,544.71
Instructional Staff Training	3,395,914.67		8,702,492.86
Board of Education	4,226,889.59		
General Administration	7,070,790.56		3,155,714.58
School Administration	77,042,343.75		971,122.26
Facilities Acquisition and Construction	703,738.11		1,476,047.64
Fiscal Services	4,828,670.29		658,132.97
Food Services	381,409.67	77,163,070.90	
Central Services	22,240,027.09		1,295,880.32
Pupil Transportation Services	55,025,995.11		1,406,127.22
Operation of Plant	84,636,960.84		132,847.87
Maintenance of Plant	27,266,649.44		36,561.85
Community Services	7,438,333.62		47,172,246.04
Fixed Capital Outlay:			
Facilities Acquisition and Construction	323,229.09		681,721.87
Other Capital Outlay	3,860,641.20	645,613.31	3,155,629.74
Debt Service:			
Principal			
Interest and Fiscal Charges			
Dues, Fees, and Issuance Costs			
Total Expenditures	<u>1,081,952,108.96</u>	<u>77,808,684.21</u>	<u>179,022,426.27</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>55,243,444.21</u>	<u>(2,897,795.14)</u>	<u>(60,385.46)</u>
Other Financing Sources (Uses)			
Transfers In	481,547.95	1,672,674.81	60,485.46
State School Bonds Issued			
Premium on Sale of Bonds			
Sales Tax Revenue Refunding Bonds Issued			
Premium on Refunding Bonds			
Certificates of Participation Issued			
Premium on Certificates of Participation			
Proceeds from the Sale of Capital Assets			
Payments to Refunded Bond Escrow Agent			
Transfers Out	<u>(2,940,393.70)</u>		<u>(100.00)</u>
Total Other Financing Sources (Uses)	<u>(2,458,845.75)</u>	<u>1,672,674.81</u>	<u>60,385.46</u>
Net Change in Fund Balances	52,784,598.46	(1,225,120.33)	
Fund Balances, July 1, 2004	<u>96,729,085.10</u>	<u>1,225,120.33</u>	
Fund Balances, June 30, 2005	<u>\$ 149,513,683.56</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

EXHIBIT - E

Capital Projects - Certificates of Participation Fund	Capital Projects - Sales Tax Revenue Bond Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$ 19,912,357.88
		12,100,408.35	22,189,089.51	204,418,125.97
<u>5,123,910.10</u>	<u>1,929,016.48</u>	<u>9,152,442.37</u>	<u>146,329,817.91</u>	<u>800,251,648.05</u>
<u>5,123,910.10</u>	<u>1,929,016.48</u>	<u>21,252,850.72</u>	<u>168,518,907.42</u>	<u>1,587,893,167.77</u>
			21,949.75	770,596,035.90
			4,104.94	61,218,406.15
				23,326,169.24
				38,573,860.38
				12,098,407.53
				4,226,889.59
				10,226,505.14
			17,083.99	78,030,550.00
6,063,357.12	8,301,034.79	2,286,573.11	31,751,214.50	50,581,965.27
				5,486,803.26
				77,544,480.57
				23,535,907.41
			900.00	56,433,022.33
			12,516.16	84,782,324.87
			81,713.94	27,384,925.23
				54,610,579.66
66,750,313.78	58,327,447.16	39,500,952.58	40,212,197.58	205,795,862.06
			51,882.28	7,713,766.53
			32,038,400.00	32,038,400.00
			48,202,577.67	48,202,577.67
			4,068,226.30	4,068,226.30
<u>72,813,670.90</u>	<u>66,628,481.95</u>	<u>41,787,525.69</u>	<u>156,462,767.11</u>	<u>1,676,475,665.09</u>
<u>(67,689,760.80)</u>	<u>(64,699,465.47)</u>	<u>(20,534,674.97)</u>	<u>12,056,140.31</u>	<u>(88,582,497.32)</u>
3,947.59			59,582,674.11	61,801,329.92
			4,560,000.00	4,560,000.00
			47,307.04	47,307.04
			127,975,000.00	127,975,000.00
			10,295,637.15	10,295,637.15
88,534,049.00			50,130,951.00	138,665,000.00
			827,794.85	827,794.85
		4,609,252.33		4,609,252.33
(518,911.81)			(187,871,254.76)	(187,871,254.76)
			(59,422,709.89)	(62,882,115.40)
<u>88,019,084.78</u>		<u>4,609,252.33</u>	<u>6,125,399.50</u>	<u>98,027,951.13</u>
20,329,323.98	(64,699,465.47)	(15,925,422.64)	18,181,539.81	9,445,453.81
<u>189,565,424.36</u>	<u>95,147,651.91</u>	<u>115,968,065.80</u>	<u>146,297,180.67</u>	<u>644,932,528.17</u>
<u>\$ 209,894,748.34</u>	<u>\$ 30,448,186.44</u>	<u>\$ 100,042,643.16</u>	<u>\$ 164,478,720.48</u>	<u>\$ 654,377,981.98</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, 2005**

Net Change in Fund Balances - Governmental Funds \$ 9,445,453.81

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expenses in the current period. 145,099,898.92

The statement of activities reflects only the gain or loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net assets differs from the change in fund balances by the cost of assets sold. (5,170,912.18)

Donated capital assets are reported in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds. 1,705,408.77

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, is an expenditure and payments to a refunding agent is another financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$271,200,000) exceeded repayment of bond principal (\$32,058,599.19) and repayments to a refunding agent (\$187,871,254.76) in the current period. (51,270,146.05)

Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:

Interest expense (including arbitrage rebate) 2,251,116.04

Compensated absences (1,040,425.72)

Amortization of bond discount, premium, and issuance costs 2,191,506.61

Governmental funds report costs associated with certain bond transaction as resources or uses. However, in the statement of activities these transactions are reported over the life of the debt as expenses (\$2,508,597.57 issuance cost) and bond premiums (\$11,123,432). (8,614,834.43)

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. 10,368,818.37

Change in Net Assets - Governmental Activities \$ 104,965,884.14

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

EXHIBIT - G
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2005

		Governmental Activities - Internal Service Funds
<hr/>		
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	137,379.02
Investments		54,018,556.04
Accounts Receivable, Net		139,099.68
Due From Other Agencies		608,016.17
		<hr/>
TOTAL ASSETS	\$	54,903,050.91
		<hr/> <hr/>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$	9,906,398.09
Deferred Revenue		5,195,068.74
Estimated Insurance Claims Payable		24,991,648.00
		<hr/>
Total Liabilities		40,093,114.83
		<hr/>
NET ASSETS		
Unrestricted		14,809,936.08
		<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$	54,903,050.91
		<hr/> <hr/>

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

EXHIBIT - H
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Premium Revenues	\$	132,203,860.17
Other Operating Revenues		1,353,058.27
Total Operating Revenues		133,556,918.44
OPERATING EXPENSES		
Salaries		661,472.65
Employee Benefits		220,256.63
Purchased Services		2,037,441.22
Insurance Premiums, Claims, and Other Expenses		122,231,982.05
Total Operating Expenses		125,151,152.55
Operating Income		8,405,765.89
NONOPERATING REVENUES		
Interest		882,267.00
Income Before Transfers		9,288,032.89
Transfers In		1,207,233.43
Transfers Out		(126,447.95)
Change in Net Assets		10,368,818.37
Total Net Assets, July 1, 2004		4,441,117.71
Total Net Assets, June 30, 2005	\$	14,809,936.08

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

**EXHIBIT - I
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	\$ 133,216,665.20
Cash Received from Other Operating Revenues	1,353,058.27
Cash Payments to Suppliers for Goods and Services	(2,037,441.22)
Cash Payments to Employees for Services	(881,729.28)
Cash Payments for Insurance Premiums and Other Fees	(113,134,912.45)
Cash Payments for Insurance Claims	<u>(9,503,190.61)</u>
Net Cash Provided by Operating Activities	<u>9,012,449.91</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from Other Funds	1,207,233.43
Transfer to Other Funds	<u>(126,447.95)</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,080,785.48</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	10,411.38
Purchase of Investments	(10,980,120.85)
Interest Income	<u>882,267.00</u>
Net Cash Used by Investing Activities	<u>(10,087,442.47)</u>
Net Increase in Cash and Cash Equivalents	5,792.92
Cash and Cash Equivalents, Beginning	<u>131,586.10</u>
Cash and Cash Equivalents, Ending	<u>\$ 137,379.02</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ <u>8,405,765.89</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(139,099.68)
Decrease in Due From Other Funds	1,600,370.43
Increase in Due From Other Agencies	(33,201.51)
Increase in Accounts Payable	940,434.99
Decrease in Deferred Revenues	(415,264.21)
Decrease in Estimated Insurance Claims Payable	<u>(1,346,556.00)</u>
Total Adjustments	<u>606,684.02</u>
Net Cash Provided by Operating Activities	<u>\$ 9,012,449.91</u>

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

EXHIBIT - J
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2005

	Pension Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$	\$ 10,734,735.32
Investments	8,779,792.11	7,693,112.61
Accounts Receivable, Net	53,960.65	
Due from Other Funds		50,717.87
Inventories		305,411.90
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 8,833,752.76	\$ 18,783,977.70
	<u> </u>	<u> </u>
LIABILITIES		
Payroll Deductions and Withholdings	\$	\$ 4,126,987.88
Accounts Payable		40,857.36
Due to Other Funds		1,152,344.31
Internal Accounts Payable		13,463,788.15
	<u> </u>	<u> </u>
Total Liabilities		\$ 18,783,977.70
	<u> </u>	<u> </u>
NET ASSETS		
Assets Held in Trust for Pension Benefits	<u>8,833,752.76</u>	
TOTAL LIABILITIES AND NET ASSETS	\$ 8,833,752.76	
	<u> </u>	

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

EXHIBIT - K
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2005

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 1,952,251.91
Total Contributions	1,952,251.91
Investment Earnings:	
Net Decrease in Fair Value of Investments	(33,828.26)
Interest, Dividends, and Other	342,605.37
Total Investment Income	308,777.11
Less Investment Expense	24,718.69
Net Investment Income	284,058.42
Total Additions	2,236,310.33
DEDUCTIONS	
Benefits Paid to Participants	1,590,110.21
Administrative Expenses	7,969.50
Total Deductions	1,598,079.71
Change in Net Assets	638,230.62
Net Assets, July 1, 2004	8,195,522.14
Net Assets, June 30, 2005	\$ 8,833,752.76

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

EXHIBIT – L
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Hillsborough County School District is considered part of the Florida system of public education. The governing body of the school district is the Hillsborough County District School Board which is composed of seven 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.

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

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

- **Blended Component Unit.** The Hillsborough School Board Leasing Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the Hillsborough County District School Board and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Units.** The component units columns in the government-wide financial statements, Exhibits A and B, include the financial data of the Hillsborough Education Foundation, Inc. (the Foundation), and the following charter schools: Anderson Academy Charter School, Central City Charter School, Learning Gate Charter School, Mount Pleasant Charter School, Pepin Charter School of Tampa, Prince Academy Charter School, ReBirth Academy Charter School, Richard Milburn Charter School, Richardson Academy Charter School, Tampa Bay Academy Charter School, Tampa Charter School, Terrace Community Charter School, Trinity Charter School, Trinity Upper Charter School, USF Charter School, The Village of Excellence Charter School, Walton Academy Charter School, and Wilbesan Academy Charter School.

The Foundation 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. Complete financial statements of the Foundation can be obtained from their administrative office at 2010 E. Hillsborough Avenue, Suite 212, Tampa, Florida 33610.

The Charter Schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under charters approved by their sponsor, the

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Hillsborough County District School Board. Audits of the Charter Schools' financial statements for the fiscal year ended June 30, 2005, are conducted by independent certified public accountants and the audit reports are on file at the District's administrative office.

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Depreciation expenses which are not readily associated with a particular function are reported as unallocated.

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

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

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

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 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 – Food Services Fund – to account for activities of the food service program.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

- Capital Projects - Certificates of Participation Fund – to account for, and report on, the revenues generated from the issuance of Certificates of Participation.
- Capital Projects - Sales Tax Revenue Bond Fund – to account for, and report on, the revenues generated from the issuance of construction bonds backed by sales tax revenue.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources which are restricted for capital outlay purposes.

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

- Internal Service Funds – to account for the District's workers' compensation, general, and automotive 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 of the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities; and for the amounts due to employees in the extended year fund and miscellaneous deposit fund.

➤ **Basis of Accounting**

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

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

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

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds'

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

The Hillsborough Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as 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 cash equivalents as those amounts invested with the State Board of Administration.

Investments consist of amounts placed in the 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 pool created by Section 218.405, Florida Statutes, and those made locally. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.

Investments made locally consist of Money Market Mutual Funds, United States Treasury Securities, and Collateralized Mortgage Obligations and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories 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 Agriculture and Consumer Services, Bureau of Food Distribution. All other inventories are stated at cost based on the last invoice price, which approximates the first-in, first-out basis. The cost of inventories is 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 by

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

the District as those costing more than \$1,000, those purchased before July 1, 2004, are defined as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. The ending balances for buildings and improvements as of June 30, 2001, were restated based on historical cost estimate provided by an appraisal company.

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>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	10 - 25 years
Buildings and Fixed Equipment	50 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 as liabilities 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 effective interest 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 issuances, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances and losses on refunding issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently 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.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2004 tax levy on September 7, 2004. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2005, the District has the following investments and maturities:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Investment	Maturities	Fair Value
Evergreen Institutional Treasury Money Market Fund	47 Day Weighted Average	\$ 6,487.29
State Board of Administration Local Government Surplus Funds Trust Funds Investment Pool	54 Day Average	572,452,290.92
State Board of Administration Debt Service Accounts	6 months	1,507,445.71
Certificates of Deposits	July 2005 - June 2007	393,274.28
United States Treasury TIPS Inflation-Indexed Securities	January 2006 - January 2008	635,028.27
Federal Agency Mortgage Backed Securities: Collateralized Mortgage Obligations:		
Fannie Mae Bonds	June 2006 - December 2006	1,409,709.00
Federal Home Loan Bank Bonds	March 2006 - April 2009	1,485,675.00
Federal Home Loan Mortgage Corp. Bonds	February 2006 - April 2009	296,064.00
Federal National Mortgage Association Bonds	May 2006 - May 2009	696,534.00
Federal National Mortgage Association Discount Notes	August 2005	270,799.10
United States Treasury Notes	August 2005 - May 2010	4,146,419.75
Obligations of Federal Agencies	November 2006 - November 2015	1,662,061.27
Federal Agency Mortgage Backed Securities Pool:		
Federal Home Loan Mortgage Corp. Partnership	April 2006 - October 2013	88,982.98
Federal National Mortgage Association Guaranteed Mortgage	January 2006 - January 2016	14,891.82
Total Investments, Primary Government		585,065,663.39
Component Units		3,019,256.00
Total Investments, Reporting Entity		<u>\$ 588,084,919.39</u>

Interest Rate Risk

- The District has a formal investment policy that limits investments of idle funds (other than debt proceeds and pension trust fund) to the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool, created by Section 218.405, Florida Statutes, or with an intergovernmental pool. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- The District has \$2,008,008.00 in obligations of United State Agencies, which includes \$1,162,521.50 in Fannie Mae Bonds and \$845,486.50 in Federal Home Loan Bank Bonds, 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 between June 2006 and June 2007.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments in money market funds to Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's investment policy limits investments to United States Treasury securities, obligations of United States Government Agencies and Instrumentalities, SEC registered money market funds with the highest rating from at least two of the six nationally recognized statistical rating organizations, certificates of deposit in State qualified public depositories, as well as the Local Government Surplus Funds Trust Fund.
- As of June 30, 2005, the District's investment in the Local Government Surplus Funds Trust fund investment pool was unrated.
- The District's investment in Evergreen Institutional Treasury Money Market Fund, as well as investments in the Federal Home Loan Bank, Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, were rated AAAM by Standard & Poor's and Aaa by Moody's Investor Services.
- The District's investments in Certificates of Deposit were in qualified public depositories.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Of the District's investments, \$6,443,509.29 in United States Treasury securities and \$4,262,655.90 in underlying securities are held by the counterparty's trust department in the name of the District.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

	Balance 7-1-04	Additions	Deletions	Balance 6-30-05
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 105,209,618.09	\$ 11,666,188.08	\$ 1,326,205.35	\$ 115,549,600.82
Land Improvements	32,705,008.47	5,350,807.28		38,055,815.75
Construction in Progress	131,843,031.48	179,720,420.99	148,398,909.25	163,164,543.22
Total Capital Assets Not Being Depreciated	<u>269,757,658.04</u>	<u>196,737,416.35</u>	<u>149,725,114.60</u>	<u>316,769,959.79</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	125,602,950.13	8,187,590.66	299,644.00	133,490,896.79
Buildings and Fixed Equipment	1,539,067,093.31	134,923,834.71	26,355,509.09	1,647,635,418.93
Furniture, Fixtures, and Equipment	173,318,892.76	13,437,653.96	11,090,551.82	175,665,994.90
Motor Vehicles	79,681,009.71	9,019,146.81	2,559,829.91	86,140,326.61
Property Under Capital Lease	181,407.14		181,407.14	
Audio Visual Materials and Computer Software	18,718,832.20	2,138,823.43	388,261.20	20,469,394.43
Total Capital Assets Being Depreciated	<u>1,936,570,185.25</u>	<u>167,707,049.57</u>	<u>40,875,203.16</u>	<u>2,063,402,031.66</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	73,422,281.19	5,466,379.81	258,037.42	78,630,623.58
Buildings and Fixed Equipment	340,905,630.94	38,930,750.83	25,762,009.14	354,074,372.63
Furniture, Fixtures, and Equipment	113,828,944.22	17,240,633.40	7,637,373.01	123,432,204.61
Motor Vehicles	46,628,379.88	5,457,835.49	2,354,680.50	49,731,534.87
Property Under Capital Lease	118,778.49		118,778.49	
Audio Visual Materials and Computer Software	16,046,120.51	1,314,130.14	69,098.46	17,291,152.19
Total Accumulated Depreciation	<u>590,950,135.23</u>	<u>68,409,729.67</u>	<u>36,199,977.02</u>	<u>623,159,887.88</u>
Total Capital Assets Being Depreciated, Net	<u>1,345,620,050.02</u>	<u>99,297,319.90</u>	<u>4,675,226.14</u>	<u>1,440,242,143.78</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,615,377,708.06</u>	<u>\$ 296,034,736.25</u>	<u>\$ 154,400,340.74</u>	<u>\$ 1,757,012,103.57</u>

Depreciation expenses were charged to functions as follows:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 6,207,472.04
Public Personnel Services	175,596.16
Instructional Media Services	441,267.66
Instruction and Curriculum Development	545,621.90
Instructional Staff Training	88,908.12
Board of Education	550.06
General Administration	113,980.65
School Administration	511,297.61
Facilities Acquisition and Construction	52,688,337.76
Fiscal Services	38,456.70
Food Services	812,140.44
Central Services	613,132.99
Pupil Transportation Services	4,477,632.32
Operation of Plant	310,574.16
Maintenance of Plant	638,333.51
Community Services	221,959.44
Unallocated Depreciation	<u>524,468.15</u>
Total Depreciation Expenses - Governmental Activities	<u><u>\$68,409,729.67</u></u>

5. REVOLVING LINE OF CREDIT

Pursuant to the provision of Section 1011.13, Florida Statutes, the Board approved a revolving Line of Credit (Tax Anticipation Note) on June 7, 2005, in the amount of \$80,000,000 that matures December 31, 2005, with Wachovia National Bank of Florida. The outstanding principal amount of the Note shall bear interest at 69.50 percent of Prime Rate, as published in the *Wall Street Journal* on the Monday of the week preceding the actual borrow date. 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. During the year ended June 30, 2005, no funds have been borrowed under this line-of-credit.

6. NOTE PAYABLE

Note payable is comprised of the following:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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Balance at
6-30-05

Wachovia Bank N.A.

\$4,267,000, Borrowed 1-23-02, Under Provisions of Section 1011.14, Florida Statutes. Variable Interest Rate of 3.269 Percent at 6-30-05. Proceeds Used to Purchase Insurance on Educational Property. The Board's Intent is to Extend Repayment of the Remaining Balance Over the Next Two Years in Annual Installments of \$853,400.

\$ 1,706,800.00

Amounts payable for the planned extended repayment of the Section 1011.14, Florida Statutes, bank loan are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2006	\$ 909,041.68	\$ 853,400.00	\$ 55,641.68
2007	<u>881,220.84</u>	<u>853,400.00</u>	<u>27,820.84</u>
Total	<u>\$ 1,790,262.52</u>	<u>\$ 1,706,800.00</u>	<u>\$ 83,462.52</u>

7. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on October 1, 1996, and supplemental arrangements dated March 1, 1998, October 1, 1999, March 9, 2000, November 1, 2000, January 15, 2001, July 1, 2001, October 12, 2001, September 15, 2002, September 1, 2003, February 19, 2004, February 19, 2004, June 8, 2004, November 1, 2004, and February 15, 2005, in which each arrangement was characterized as a lease-purchase agreement with the Hillsborough School Board Leasing Corporation, whereby the District secured financing of various educational facilities in the total amount of \$28,000,000, \$336,930,000, \$111,700,000, \$10,628,000, \$48,860,000, \$103,770,000, \$69,265,000, \$9,600,000, \$64,010,000, \$72,065,000, \$27,305,000, \$56,715,000, \$6,131,000, \$89,750,000, and \$48,915,000, respectively. The financing was accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the 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 initial terms of the leases are 35 years commencing on October 1, 1996, March 1, 1998, October 1, 1999, April 11, 2000, November 1, 2000, January 15, 2001, July 1, 2001, November 6, 2001, September 15, 2002, September 1, 2003, February 1, 2004, February 1, 2004, June 8, 2004, November 1, 2004, and February 15, 2005, are

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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June 30, 2005

referred to as the Series 1996 Project, the Series 1998 Project, the Series 1999 Project, the Series 2000 QZAB Project, the Series 2000 Project, the Series 2001A Project, the Series 2001B Project, the Series 2001 QZAB Project, the Series 2002 Project, the Series 2003B Project, the Series 2004A Project, the Series 2004B Project, the Series 2004 QZAB Project, the Series 2004C Project, and the Series 2005A Project, respectively. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement to the Trustee for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to 35 years from the date of inception of the arrangement.

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 District has acquired, constructed and installed from the proceeds of the Series 1994 and Series 1995 Certificates of Participation. 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 District has acquired, constructed, and installed from the proceeds of the Series 1999 Certificates of Participation. The Series 2004A Certificates of Participation were issued in order to provide funds necessary to advance refund the Series 1996 Certificate of Participation and refinance the Series 1996 facilities that the District has acquired, constructed, and installed from the proceeds of the Series 1996 Certificates of Participation. 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 District has acquired, constructed, and installed from the proceeds of the Series 2000 Certificates of Participation.

The District properties included in the ground lease dated March 1, 1998, include land on which the projects are to be constructed. The projects funded from the Series 1998 Certificates of Participation are as follows:

Series 1998 Certificates of Participation

Westchase Middle School "FF"
Middleton High School "GGG" Land
Media Centers
Completion of Blake High School
Completion of Series 1995 Project
Completion of Series 1996 Project

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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The Master Lease allows the District to modify the components to the Series 1998 Project. As of June 30, 2005, the District has amended the project list to include, as follows:

Davidson Middle School "FF"
Springhead Elementary School
Wilson Elementary School
Media Centers
Completion of Series 1995 Project
Riverview High School
Durant High School
Freedom Athletic Facility
Middleton High School "GGG" Athletic Facility and Land
Baycrest Elementary School
Woodbridge Elementary School
Completion of Blake High School
Franklin Middle School
Lake Magdelene Elementary School
Alonso Athletic Facility

The District properties included in the ground lease dated October 1, 1999, include land on which the projects are to be constructed. The projects funded from Series 1999 Certificates of Participation are as follows:

Series 1999 Certificates of Participation

Middleton High School "GGG"
High School "JJJ"
Middle School "JJ"
Elementary School "M"

The Master Lease allows the District to modify the components to the Series 1999 Project. As of June 30, 2005, the District has amended the project list to include, as follows:

Middleton High School
Freedom High School and land for site
Liberty Middle School and land for site
Mulrennan Middle School
Newsome Athletic Facility
Sheehy Elementary School
Spoto Athletic Facility

The District properties included in the ground lease dated April 11, 2000, include land on which the projects are to be constructed. The projects funded from Series 2000-QZAB Certificates of Participation are as follows:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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Series 2000-QZAB Certificates of Participation

Remodeling of D.W. Waters Training Center

The District properties included in the ground lease dated November 1, 2000, include land on which the projects are to be constructed. The projects funded from the Series 2000 Certificates of Participation are as follows:

Series 2000 Certificates of Participation

Middle School "MM"
Elementary School "P"
Buckhorn Elementary School
Claywell Elementary School
Essrig Elementary School
Mabry Elementary School
Morgan Woods Elementary School
Riverview Elementary School
Dover ESE
Lopez ESE
Ferrell Middle School
Gorrie Elementary School

The Master Lease allows the District to modify the components to the Series 2000 Project. As of June 30, 2005, the District has amended the project list to include, as follows:

Farnell Middle School
Cimino Elementary School
Claywell Elementary School
Essrig Elementary School
Mabry Elementary School
Morgan Woods Elementary School
High School "LLL" Athletic Facility
Westshore Elementary School
Riverview Elementary School
Dover ESE
Lopez ESE
Ferrell Middle School
Gorrie Elementary School
Lewis Elementary School
West Tampa Elementary

The District properties included in the ground lease dated July 1, 2001, include land on which the properties are to be constructed. The projects funded from the Series 2001B Certificates of Participation are as follows:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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Series 2001B Certificates of Participation

Middle School "LL"
Elementary School "B"
East County Career Center
Elementary School "R"
Elementary School "E"
Plant City ESE
Elementary School "D"

The Master Lease allows the District to modify the components to the Series 2001B Project. As of June 30, 2005, the District has amended the project list to include, as follows:

Jennings Middle School
Heritage Elementary School
East County Career Center
Broward Elementary School
Sessums Elementary School
MacFarlane Center
Nelson Elementary School
Plant City ESE
Ippolito Elementary School
Grady Elementary School
Kingswood Elementary School

The District properties included in the ground lease dated November 6, 2001, include land on which the projects are to be constructed. The projects funded from Series 2001-QZAB Certificates of Participation are as follows:

Series 2001-QZAB Certificates of Participation

Renovations at Cahoon Elementary School
Renovations at Van Buren Middle School

The District properties included in the ground lease dated September 15, 2002, include land on which the projects are to be constructed. The projects funded from the Series 2002 Certificates of Participation are as follows:

Series 2002 Certificates of Participation

Elementary School "I"
Elementary School "W"
Middle School "OO"
Elementary School "X"
Elementary School "Z"

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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The Master Lease allows the School Board to modify the components to the Series 2002 Project. As of June 30, 2005, the Board has amended the project list to include, as follows:

Corr Elementary School
Just Early Childhood Center
Woodbridge Elementary School
Middle School "OO"
Middleton High School Athletics
Turner Elementary School
Stewart Middle School
Collins Elementary School

The District properties included in the ground lease dated September 1, 2003, include land on which the projects are to be constructed. The Projects funded from the Series 2003B Certificates of Participation are as follows:

Series 2003B Certificates of Participation

High School "PPP" and Athletic Facility
Sam Rampello Downtown Partnership School
Elementary School "Y"
Elementary School "Z"

The Master Lease allows the District to modify the components to the Series 2003B Project. As of June 30, 2005, the District has amended the project list to include, as follows:

Spoto High School
Sam Rampello Downtown Partnership School
Fishhawk Elementary School
Frost Elementary School
Additions to Knights Elementary School

The District properties included in the ground lease dated February 19, 2004, include land on which the projects are to be constructed. The projects funded from the Series 2004B Certificates of Participation are as follows:

Series 2004B Certificates of Participation

High School "RRR"
Elementary School "K"
Parking Facility – Sam Rampello Downtown Partnership School

The District properties included in the ground lease dated June 8, 2004, include land on which the projects are to be constructed. The projects funded from the Series 2004-QZAB Certificates of Participation are as follows:

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HILLSBOROUGH COUNTY
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Series 2004 QZAB Certificates of Participation

Just Elementary School
Cleveland Elementary School
Foster Elementary School
Desoto Elementary School

The District properties included in the ground lease dated November 1, 2004, include land on which the projects are to be constructed. The projects funded from the Series 2004C Certificates of Participation are as follows:

Series 2004C Certificates of Participation

High School "SSS"
Middle School "RR"
Middle School "TT"
Elementary School "X"
Ancillary Facilities

The lease payments for the Series 1998, Series 1999, Series 2000, Series 2001A, Series 2001B, Series 2002, Series 2003B, Series 2004A, Series 2004B, and Series 2005A Certificates are payable by the District, semi-annually, on July 1 and January 1 at interest rates of 4.375 to 5.50 percent, 4.5 to 4.9 percent, 4.40 to 4.65 percent, 3.7 to 5.0 percent, 3.50 to 5.25 percent, 4.00 to 4.625 percent, 5.00 percent, 5.25 percent, 2.00 to 4.375 percent, and 2.375 to 5.00 percent, respectively. The lease payments for the Series 2004C Certificates are payable by the District, annually, on July 7. Interest rates are calculated weekly at an auction interest rate. The lease payments for the Series 2000 QZAB, 2001 QZAB, and 2004 QZAB Certificates are due April 10, 2012, November 6, 2015, and June 3, 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-payment agreements together with the present value of minimum lease payments as of June 30, 2005:

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HILLSBOROUGH COUNTY
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<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 54,916,969.36	\$ 17,635,000.00	\$ 37,281,969.36
2007	53,611,943.43	16,545,000.00	37,066,943.43
2008	53,666,758.35	17,265,000.00	36,401,758.35
2009	53,609,997.31	17,960,000.00	35,649,997.31
2010	53,567,571.95	18,760,000.00	34,807,571.95
2011-2015	280,151,583.95	120,648,000.00	159,503,583.95
2016-2020	288,964,823.12	160,906,000.00	128,058,823.12
2021-2025	274,690,087.31	188,330,000.00	86,360,087.31
2026-2030	262,482,000.64	226,895,000.00	35,587,000.64
2031	50,375,000.00	50,375,000.00	
Total Minimum Lease Payments	<u>\$ 1,426,036,735.42</u>	<u>\$ 835,319,000.00</u>	<u>\$ 590,717,735.42</u>

8. INTEREST RATE SWAP

The District entered into a swaption contract that provided the District an up-front payment of \$5,006,500. This payment was 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 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 in 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 bonds. The original fixed swap rate of 5.036 percent is in accordance with the adjustment in notional amount and reduced premium.

The swaption was entered into on February 19, 2003. The \$3,206,500 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 the Bond Market Association municipal swap index.

As of June 30, 2005, the swap has a fair value of \$10,971,196.82, estimated using the zero-coupon method. The contract's fair value reflects the aforementioned amendment to interest rate swaption. The zero coupon method calculated the future net settlement payments required by the swap, assuming that the current

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
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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 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).

9. BONDS PAYABLE

Bonds payable at June 30, 2005, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1996-B	\$ 340,000.00	4.400 - 4.625	2007
Series 1998-A	45,625,000.00	4.5 - 5.5	2018
Series 1999-A	6,280,000.00	4.00 - 4.75	2019
Series 2000-A	820,000.00	4.875 - 6.000	2020
Series 2002-A	1,505,000.00	3 - 5	2022
Series 2003-A	2,800,000.00	3 - 5	2023
Series 2004 -A	3,305,000.00	3.000 - 4.625	2024
Series 2005-A	1,145,000.00	3 - 5	2025
District Revenue Bonds:			
Series 1998 Capital Improvement and Racetrack Revenue Refunding	3,648,224.50	4.25 - 5.35	2028
Series 2002 Sales Tax	92,550,000.00	2.250 - 5.375	2025
Series 2005 Sales Tax, Refunding	127,975,000.00	2.25 - 5.00	2023
District General Obligation Bonds:			
Series 1994, Refunding	<u>9,520,000.00</u>	5.25 - 7.00	2005
Total Bonds Payable	<u><u>\$ 295,513,224.50</u></u>		

The various bonds were issued to finance capital outlay projects of the District.

The following is a description of the bonded debt issues:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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➤ **State School Bonds**

These bonds are issued by the State Board of Education (SBE) 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 Board to pledge all of the portion of racetrack funds accruing annually to Hillsborough County, under the provisions of Chapter 550, Florida Statutes, as allocated pursuant to law, and Chapter 132, Florida Statutes, which authorized the refunding of the District Revenue Bonds of 1985. The tax proceeds are distributed to the Board pursuant to Section 212.20(6)(d)7.a., Florida Statutes. As required by the bond resolution, the Board 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 and Series 2005 - 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 collection by the County of the one-half cent local infrastructure sales surtax.

➤ **District General Obligation Bonds**

General Obligation Bonds, Series 1994, are authorized by Sections 1010.40 and 1010.41, Florida Statutes, and other applicable provisions of law, and are secured by a pledge of property taxes levied, pursuant to Chapters 1010 and 1011, Florida Statutes.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2005, are as follows:

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HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2006	\$ 6,265,417.36	\$ 3,270,000.00	\$ 2,995,417.36
2007	6,287,648.75	3,440,000.00	2,847,648.75
2008	6,291,565.00	3,595,000.00	2,696,565.00
2009	6,295,440.00	3,755,000.00	2,540,440.00
2010	6,299,790.00	3,945,000.00	2,354,790.00
2011-2015	31,542,657.50	22,950,000.00	8,592,657.50
2016-2020	21,004,397.50	18,460,000.00	2,544,397.50
2021-2025	<u>2,659,163.75</u>	<u>2,405,000.00</u>	<u>254,163.75</u>
Total State School Bonds	<u>86,646,079.86</u>	<u>61,820,000.00</u>	<u>24,826,079.86</u>
District Revenue Bonds:			
2006	16,404,015.00	6,465,000.00	9,939,015.00
2007	16,655,497.50	6,925,000.00	9,730,497.50
2008	16,714,803.25	7,155,000.00	9,559,803.25
2009	16,566,654.00	7,187,606.00	9,379,048.00
2010	16,555,240.03	7,433,998.00	9,121,242.03
2011-2015	82,625,071.27	41,631,066.80	40,994,004.47
2016-2020	81,893,768.11	51,209,007.30	30,684,760.81
2021-2025	81,756,386.60	64,922,264.00	16,834,122.60
2026-2028	<u>33,532,491.01</u>	<u>31,244,282.40</u>	<u>2,288,208.61</u>
Total District Revenue Bonds	<u>\$362,703,926.77</u>	<u>224,173,224.50</u>	<u>138,530,702.27</u>
General Obligation Bonds:			
1994 Refunding General Obligation Bonds	<u>9,797,980.00</u>	<u>9,520,000.00</u>	<u>277,980.00</u>
Total	<u>\$459,147,986.63</u>	<u>\$295,513,224.50</u>	<u>\$163,634,762.13</u>

10. STATE BOARD OF EDUCATION BONDS

On August 25, 2004, and June 1, 2005, the State Board of Education issued Series 2004A, in the amount of \$3,415,000, and Series 2005A, in the amount of \$1,145,000, in Capital Outlay Bonds, with an average interest rate of 3.000 to 4.625 percent and 3.00 to 5.00 percent, respectively, on behalf of the District in order to finance the cost of acquiring, building, constructing, remodeling, improving, enlarging, furnishing, maintaining, renovating or repairing of various projects. The net proceeds of \$3,383,764.82 and \$1,185,161.42 were placed in Capital Outlay Funds.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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11. DEFEASED DEBT

On February 24, 2005, the Board issued \$48,915,000 in Certificates of Participation, Series 2005A, at a premium, with interest rates of 2.375 percent to 5.00 percent. The proceeds were used to advance refund the \$45,625,000 principal amount of the District's Certificates of Participation Series 2000. The net proceeds of \$48,563,015 (after payment of \$649,880 in underwriter's fees, insurance, accrued interest, and other issuance costs and after the deposit of \$516,219 to the District's debt service fund) were placed in an irrevocable trust to provide for all future debt service payments of the Series 2000 Certificates of Participation.

As a result, \$45,625,000 of the Series 2000 Certificates of Participation is considered defeased and the liability for these certificates has been removed from the long term debt liability. Accordingly, the trust account assets and the liability for that portion of the Series 2000 Certificates of Participation are not included in the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$2,215,521, which resulted in an economic gain (difference between the present value of debt service payments on the old and new debt) of \$1,963,967.

On March 1, 2005, the School Board issued \$127,975,000 in Sales Tax Refunding Bonds, Series 2005, at a premium, with interest rates of 2.25 percent to 5.00 percent. The proceeds were used to partially advance refund \$126,160,000 of the principal amount of the District's Sales Tax Revenue Bonds, Series 2002. The net proceeds of \$139,308,239 (after payment of \$1,684,659 in underwriter's fees, insurance, accrued interest, and other issuance costs and including an additional \$2,722,261 of Series 2002 sinking fund moneys) were placed in an irrevocable trust to provide for all future debt service payments of the Series 2002 Sales Tax Revenue Bonds.

As a result, the \$126,160,000 of the Series 2002 Sales Tax Revenue Bonds is considered defeased and the liability for these certificates has been removed from the long term debt liability. Accordingly, the trust account assets and the liability for that portion of the Series 2002 Sales Tax Revenue Bonds are not included in the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$6,724,695, which resulted in an economic gain (difference between the present value of debt service payments on the old and the new debt) of \$4,850,667.

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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In prior years, the District defeased in substance certain outstanding revenue bonds, general obligation bonds, and Certificates of Participation by placing proceeds of each of the new bond issues in irrevocable trusts to provide 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 District's financial statements. At June 30, 2005, \$9,495,000 of General Obligation Bonds, Series 1985A and 1985B; \$9,570,000 of General Obligation Bonds, Series 1990; \$136,375,000 of Series 1994 Certificates of Participation; \$54,370,000 of Series 1995 Certificates of Participation; \$95,785,000 of Series 1999 Certificates of Participation; and \$28,000,000 of Series 1996 Certificates of Participation are considered defeased.

12. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-04	Additions	Deductions	Balance 6-30-05	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 307,598,224.50	\$132,535,000.00	\$144,620,000.00	\$ 295,513,224.50	\$19,255,000.00
Add: Unamortized Premium/Discounts	3,993,997.25	10,295,637.15	2,384,532.35	11,905,102.05	
Less: Unamortized Loss on Refunding		(11,817,448.29)	(207,323.65)	(11,610,124.64)	
Total Bonds Payable	311,592,221.75	131,013,188.86	146,797,208.70	295,808,201.91	19,255,000.00
Certificates of Participation Payable	755,004,000.00	138,665,000.00	58,350,000.00	835,319,000.00	17,635,000.00
Add: Unamortized Premium/Discounts	7,016,984.70	827,794.85	2,264,691.66	5,580,087.89	
Less: Unamortized Loss on Refunding	(3,805,199.35)	(4,074,359.50)	(336,807.37)	(7,542,751.48)	
Total Certificates of Participation Payable	758,215,785.35	135,418,435.35	60,277,884.29	833,356,336.41	17,635,000.00
Obligations Under Capital Lease	20,199.19		20,199.19		
Estimated Liability for Arbitrage Payable	744,375.94		744,375.94		
Note Payable	2,560,200.00		853,400.00	1,706,800.00	853,400.00
Compensated Absences Payable	121,722,823.75	31,866,470.02	30,826,044.30	122,763,249.47	11,914,976.99
Total Governmental Activities	\$ 1,194,855,605.98	\$298,298,094.23	\$239,519,112.42	\$ 1,253,634,587.79	\$49,658,376.99

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

13. RESERVE FOR ENCUMBRANCES

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

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The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2005-06 fiscal year budget as a result of purchase orders outstanding at June 30, 2005.

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$11,093,597.74 at June 30, 2005.

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major Funds:		
General	\$ 18,313,345.33	\$ 1,005,392.66
Special Revenue:		
Food Services	608,595.20	6,412,380.38
Other	205,277.33	8,429,995.28
Capital Projects:		
Certificates of Participation	192,373.08	4,405,915.62
Sales Tax Revenue Bond	1,354,134.91	982,198.95
Other	3,819,031.16	4,154,682.45
Nonmajor Governmental Funds	7,629,157.32	5,629,722.55
Fiduciary Funds	50,717.87	1,152,344.31
Total	\$ 32,172,632.20	\$ 32,172,632.20

Interfund receivables and payables represent the payment of expenditures by one fund to another fund and will be repaid within 12 months.

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

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 481,547.95	\$ 2,940,393.70
Special Revenue:		
Food Services	1,672,674.81	
Other	60,485.46	100.00
Capital Projects:		
Certificates of Participation	3,947.59	518,911.81
Nonmajor Governmental Funds	59,582,674.11	59,422,709.89
Internal Service Funds	1,207,233.43	126,447.95
Total	<u>\$ 63,008,563.35</u>	<u>\$ 63,008,563.35</u>

The majority of transfers out of the Capital Projects Funds (nonmajor governmental funds) were to provide debt service principal and interest payments. The remainder is the charging of direct and indirect costs.

15. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2004-05 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 573,732,140.00
Categorical Educational Programs:	
Class Size Reduction - Operating Funds	69,344,376.00
Transportation	34,719,729.00
Instructional Materials	17,459,124.00
Discretionary Lottery Funds	10,419,744.00
Other	18,218,257.00
Workforce Development Program	31,359,175.00
Gross Receipts Tax (Public Education Capital Outlay)	14,507,165.00
Class Size Reduction	10,417,704.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	7,241,737.56
Food Service Supplement	1,434,097.00
Mobile Home License Tax	639,063.31
Pari-Mutuel Tax	446,500.00
State Board of Education Bond Interest	102,021.54
Miscellaneous	10,210,814.64
Total	<u>\$ 800,251,648.05</u>

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

16. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2004 tax roll for the 2004-05 fiscal year:

EXHIBIT - L (Continued)
HILLSBOROUGH COUNTY
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	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.4930	\$ 295,262,991.29
Basic Discretionary Local Effort	0.6840	36,766,773.36
<u>DEBT SERVICE FUNDS</u>		
Voted Tax:		
Interest and Sinking	0.1839	9,884,870.82
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	2.0000	107,505,035.79
Total	8.3609	\$ 449,419,671.26

17. STATE RETIREMENT PROGRAM

Plan Description. All regular employees of the District are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions 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 the FRS. Benefits in the defined benefit plan vest at six years of service. The defined benefit plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The defined benefit plan provides retirement, disability, and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (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 the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2004-05 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.39
Florida Retirement System, Elected County Officers	0.00	15.23
Florida Retirement System, Senior Management Service	0.00	9.37
Florida Retirement System, Special Risk	0.00	18.53
Teachers' Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.08 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions (including employee contributions) for the fiscal years ending June 30, 2003, June 30, 2004, and June 30, 2005, totaled \$42,222,780.27, \$55,925,287.33, and \$56,151,200.33, respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan. Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Required employer contributions made to the program for the fiscal year ending June 30, 2005, totaled \$3,069,803.19.

Pension Reporting. The financial statements and other supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida which may be obtained by contacting

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HILLSBOROUGH COUNTY
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the Florida Department of Financial Services. Also, an annual report on the FRS, which includes its financial statements, required supplemental information, actuarial report, and other relevant information, may be obtained from the Florida Department of Management Services, Division of Retirement.

18. EARLY RETIREMENT PROGRAM

Plan Description. 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 pension plan. The purpose of the Plan is to provide District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 17, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement. The Board entered into an agreement designating a bank as the Investment Manager and Custodian (Trustee) for the Plan assets.

Based on an actuarial report as of July 1, 2004, employee membership data related to the Plan were as follows:

Retirees and Beneficiaries Currently Receiving Benefits	446
Active Plan Participants:	
Vested	2,361
Nonvested	3,140
Total	5,501

A Summary of Eligibility and Benefits follows:

- **Eligibility.** The participant must have elected early retirement under the Florida Retirement System; attained the age of 55 but not have attained the age of 60 upon early retirement; been credited with at least 25 years, but not more than 28 years, of service under the Florida Retirement System upon early retirement; and must have been credited with at least 5 consecutive and uninterrupted years of service for the Board immediately preceding early retirement.

- **Benefits.** The amount of the monthly benefit will be equal to the reduction imposed on the retirement benefit by the Florida Retirement System as a consequence of early retirement. The benefit amount will be based on the initial benefit amount determined by the Florida Retirement System prior to any cost of living adjustments and will remain unchanged, once established, unless a specific increase is authorized by the Board.

Summary of Significant Accounting Policies. Significant accounting policies related to basis of accounting and method of asset valuation are disclosed in Note 1. Investment disclosures related to the Pension Trust Fund are in Note 3.

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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 40 years, and any subsequent increase in the unfunded liability within 30 years of being so increased based on an actuarial study.

Periodic employer contributions to the Plan are determined on an actuarial basis using the entry-age normal 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 in the 2004-05 fiscal year in the amount of \$1,932,629, all of which were paid by the Board, were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at May 4, 2004.

The computation of the annual required contributions for 2004-05 fiscal year was based on the same: (a) actuarial assumptions, (b) benefit provisions, (c) actuarial funding method, and (d) other significant factors as used to determine annual required contributions in the previous year. However, the actuarial assumption included changes in the assumed transfers to the Public Employee Optional Retirement Program, and assumed retirement rates.

All of the assets in the District's Pension Trust Fund are 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, 2005, consist of the following:

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HILLSBOROUGH COUNTY
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	Balance June 30, 2005	Percentage of Plan Net Assets
Obligations of U.S. Agencies	\$ 8,773,304.82	99.93%
Money Market Mutual Funds	6,487.29	0.07%
Total	\$ 8,779,792.11	100.00%

Trend Information. Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age (1)	Unfunded Actuarial Accrued Liability (2)	Funded Ratio (3)	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
2000	\$ 5,138,834	\$ 17,837,415	\$ 12,698,581	28.8%	\$ 128,190,836 (4)	9.91%
2001	5,580,220	22,070,817	16,490,597	25.3%	156,605,715 (5)	10.53%
2002	6,409,495	22,827,019	16,417,524	28.1%	170,162,468 (6)	9.65%
2003	7,202,634	28,443,117	21,240,483	25.3%	163,581,224 (7)	12.98%
2004	7,476,928	29,906,771	22,429,843	25.0%	172,252,480 (8)	13.02%
2005	8,312,833	31,241,919	22,929,086	26.6%	177,745,494 (9)	12.90%

- Notes:(1) The actuarial method is the Entry-Age Actuarial Method.
(2) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of assets.
(3) The percentage funded is derived by dividing the actuarial value of assets by the actuarial accrued liability.
(4) Based on data from an actuarial valuation report as of July 1, 1999, dated July 1,1999.
(5) Based on data from an actuarial valuation report as of July 1, 2000, dated April 30,2001.
(6) Based on data from an actuarial valuation report as of July 1, 2001, dated December 4, 2001.
(7) Based on data from an actuarial valuation report as of July 1, 2002, dated February 28, 2003.
(8) Based on data from an actuarial valuation report as of July 1, 2003, dated May 4, 2004.
(9) Based on data from an actuarial valuation report as of July 1, 2004, dated November 9, 2004.

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.

Trends in the unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts

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HILLSBOROUGH COUNTY
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June 30, 2005

for the effects of inflation, and aids analysis of the progress made in accumulating assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2000	\$ 1,117,834	92.23%
2001	1,400,908	81.60%
2002	1,362,831	108.69%
2003	1,754,766	74.61%
2004	1,885,854	111.36%
2005	1,990,860	97.08%

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	7-01-04
Actuarial Cost Method	Entry Age Actuarial
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Various
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	5.00%
Cost-of-Living Adjustments	None

The aggregate entry actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

19. SPECIAL TERMINATION BENEFITS

School Board policy provides for the payment of special termination benefits to qualifying employees equal to 100 percent of accrued vacation leave at the date of termination of employment. Upon retirement, payment for accumulated vacation and sick leave is paid to the various classifications of employees at varying rates based on length of employment. Ranges for accumulated vacation and sick leave payments at retirement range from 100 to 107.2 percent and from 35 to 107.2 percent, respectively.

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HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

20. OTHER POSTEMPLOYMENT BENEFITS

Pursuant to Section 112.0801, Florida Statutes, the District pays a portion of the cost of health care benefits for retired former employees. The employer contribution rate from July 2004 through June 2005 was 1.11 percent of eligible wages. Total District contributions for the fiscal year ended June 30, 2005, were \$8,704,525.

21. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Expended to 6-30-05	Balance Committed
Additions	\$ 51,217,489.67	\$ 8,336,055.59	\$ 42,881,434.08
Elementary Schools	45,385,252.36	26,461,914.87	18,923,337.49
Middle Schools	30,173,620.54	14,229,590.14	15,944,030.40
Senior High Schools	68,876,776.94	27,867,676.20	41,009,100.74
Other	12,052,425.52	6,305,674.44	5,746,751.08
Renovations	110,568,081.85	78,599,671.95	31,968,409.90
Improvements	2,217,745.43	1,363,960.03	853,785.40
Total	<u>\$ 320,491,392.31</u>	<u>\$ 163,164,543.22</u>	<u>\$ 157,326,849.09</u>

22. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

The District's health and hospitalization insurance program is administered by an insurance carrier under an agreement wherein the total premium is divided and the District retains on deposit a portion of the premium in a minimum premium account. The insurance carrier draws on this account to pay claims submitted by District employees and dependents.

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HILLSBOROUGH COUNTY
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Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

A liability in the amount of \$24,991,648 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2005.

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
2003-04	\$ 28,619,040.00	\$ 4,557,077.00	\$ (6,837,913.00)	\$ 26,338,204.00
2004-05	26,338,204.00	8,156,634.61	(9,503,190.61)	24,991,648.00

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2004-05 fiscal year:

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HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

	Total	Workers' Compensation	Group Benefit Health	Liability Insurance
Total Assets	<u>\$ 54,903,050.91</u>	<u>\$ 36,083,323.08</u>	<u>\$ 15,101,466.83</u>	<u>\$ 3,718,261.00</u>
Liabilities and Net Assets:				
Accounts Payable	\$ (9,906,398.09)	\$	\$ (9,906,398.09)	\$
Deferred Revenue	(5,195,068.74)		(5,195,068.74)	
Estimated Insurance Claims Payable	(24,991,648.00)	(21,273,387.00)		(3,718,261.00)
Net Assets:				
Unrestricted Net Assets	<u>(14,809,936.08)</u>	<u>(14,809,936.08)</u>		
Total Liabilities and Net Assets	<u>\$ (54,903,050.91)</u>	<u>\$ (36,083,323.08)</u>	<u>\$ (15,101,466.83)</u>	<u>\$ (3,718,261.00)</u>
Revenues:				
Premium Revenues	\$ 132,203,860.17	\$ 18,128,512.73	\$ 114,075,347.44	\$
Interest Income	882,267.00	701,534.21	126,447.95	54,284.84
Other	<u>1,353,058.27</u>	<u>1,292,111.79</u>		<u>60,946.48</u>
Total Revenues	134,439,185.44	20,122,158.73	114,201,795.39	115,231.32
Total Expenses	(125,151,152.55)	(9,453,864.98)	(114,075,347.44)	(1,621,940.13)
Transfers In (Out)	<u>1,080,785.48</u>		<u>(126,447.95)</u>	<u>1,207,233.43</u>
Change in Net Assets	10,368,818.37	10,668,293.75	0.00	(299,475.38)
Net Assets, July 1, 2004	<u>4,441,117.71</u>	<u>4,141,642.33</u>		<u>299,475.38</u>
Net Assets, June 30, 2005	<u>\$ 14,809,936.08</u>	<u>\$ 14,809,936.08</u>	<u>\$ 0.00</u>	<u>\$ 0.00</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.

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EXHIBIT - M
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 800,000.00	\$ 1,480,687.44	\$ 1,470,687.44	\$ (10,000.00)
Federal Through State	3,800,000.00	6,262,484.51	5,863,437.16	(399,047.35)
State	761,711,946.00	763,022,598.63	762,503,325.63	(519,273.00)
Local	<u>357,329,050.00</u>	<u>369,458,142.06</u>	<u>367,358,102.94</u>	<u>(2,100,039.12)</u>
Total Revenues	<u>1,123,640,996.00</u>	<u>1,140,223,912.64</u>	<u>1,137,195,553.17</u>	<u>(3,028,359.47)</u>
Expenditures				
Current - Education:				
Instruction	727,412,000.00	741,730,160.23	699,729,284.44	42,000,875.79
Pupil Personnel Services	67,444,190.20	46,447,788.49	45,670,732.83	777,055.66
Instructional Media Services	27,312,150.00	23,264,664.51	20,400,182.99	2,864,481.52
Instruction and Curriculum Development Services	25,016,800.00	19,321,244.51	17,710,315.67	1,610,928.84
Instructional Staff Training	20,495,000.00	5,077,130.78	3,395,914.67	1,681,216.11
Board of Education	4,630,000.00	4,443,226.90	4,226,889.59	216,337.31
General Administration	21,402,500.00	11,414,269.62	7,070,790.56	4,343,479.06
School Administration	72,976,700.00	83,777,852.28	77,042,343.75	6,735,508.53
Facilities Acquisition and Construction	3,840,500.00	2,257,018.92	703,738.11	1,553,280.81
Fiscal Services	5,056,250.00	5,425,437.25	4,828,670.29	596,766.96
Food Services		381,409.67	381,409.67	
Central Services	27,815,000.00	27,301,820.55	22,240,027.09	5,061,793.46
Pupil Transportation Services	53,700,000.00	56,365,303.68	55,025,995.11	1,339,308.57
Operation of Plant	85,805,000.00	89,827,651.94	84,636,960.84	5,190,691.10
Maintenance of Plant	26,048,000.00	36,541,797.95	27,266,649.44	9,275,148.51
Community Services	10,175,000.00	9,984,301.87	7,438,333.62	2,545,968.25
Fixed Capital Outlay:				
Facilities Acquisition and Construction		323,229.09	323,229.09	
Other Capital Outlay		<u>3,860,641.20</u>	<u>3,860,641.20</u>	
Total Expenditures	<u>1,179,129,090.20</u>	<u>1,167,744,949.44</u>	<u>1,081,952,108.96</u>	<u>85,792,840.48</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(55,488,094.20)</u>	<u>(27,521,036.80)</u>	<u>55,243,444.21</u>	<u>82,764,481.01</u>
Other Financing Sources (Uses)				
Transfers In	757,100.00	481,547.95	481,547.95	
Transfers Out	<u>(200,000.00)</u>	<u>(2,945,602.57)</u>	<u>(2,940,393.70)</u>	<u>5,208.87</u>
Total Other Financing Sources (Uses)	<u>557,100.00</u>	<u>(2,464,054.62)</u>	<u>(2,458,845.75)</u>	<u>5,208.87</u>
Net Change in Fund Balances	(54,930,994.20)	(29,985,091.42)	52,784,598.46	82,769,689.88
Fund Balances, July 1, 2004	<u>75,464,228.00</u>	<u>96,729,085.10</u>	<u>96,729,085.10</u>	
Fund Balances, June 30, 2005	<u>\$ 20,533,233.80</u>	<u>\$ 66,743,993.68</u>	<u>\$ 149,513,683.56</u>	<u>\$ 82,769,689.88</u>

EXHIBIT - M

Special Revenue - Food Services Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
39,996,660.00	45,026,714.04	42,026,627.50	(3,000,086.54)
1,640,000.00	1,640,000.00	1,434,097.00	(205,903.00)
<u>33,708,700.00</u>	<u>34,440,615.35</u>	<u>31,450,164.57</u>	<u>(2,990,450.78)</u>
<u>75,345,360.00</u>	<u>81,107,329.39</u>	<u>74,910,889.07</u>	<u>(6,196,440.32)</u>
71,957,700.00	80,631,196.50	77,163,070.90	3,468,125.60
	<u>645,613.31</u>	<u>645,613.31</u>	
<u>71,957,700.00</u>	<u>81,276,809.81</u>	<u>77,808,684.21</u>	<u>3,468,125.60</u>
<u>3,387,660.00</u>	<u>(169,480.42)</u>	<u>(2,897,795.14)</u>	<u>(2,728,314.72)</u>
<u>(372,000.00)</u>	1,672,674.81	1,672,674.81	
<u>(372,000.00)</u>	<u>1,672,674.81</u>	<u>1,672,674.81</u>	
3,015,660.00	1,503,194.39	(1,225,120.33)	(2,728,314.72)
561,708.96	1,225,120.33	1,225,120.33	
<u>\$ 3,577,368.96</u>	<u>\$ 2,728,314.72</u>	<u>\$ 0.00</u>	<u>\$ (2,728,314.72)</u>

EXHIBIT - M (Continued)
HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2005

	Special Revenue - Other Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 17,000,000.00	\$ 28,260,586.29	\$ 18,441,670.44	\$ (9,818,915.85)
Federal Through State	170,500,000.00	207,057,431.40	156,528,061.31	(50,529,370.09)
State	5,000,000.00	5,985,729.25	2,024,727.56	(3,961,001.69)
Local	2,800,100.00	3,063,894.38	1,967,581.50	(1,096,312.88)
Total Revenues	195,300,100.00	244,367,641.32	178,962,040.81	(65,405,600.51)
Expenditures				
Current - Education:				
Instruction	78,577,293.00	104,008,015.11	70,844,801.71	33,163,213.40
Pupil Personnel Services	16,055,000.00	17,451,693.58	15,547,673.32	1,904,020.26
Instructional Media Services	3,189,000.00	4,102,192.63	2,921,881.31	1,180,311.32
Instruction and Curriculum Development Services	19,357,500.00	26,301,057.17	20,863,544.71	5,437,512.46
Instructional Staff Training	9,028,000.00	17,259,329.06	8,702,492.86	8,556,836.20
Board of Education	7,000.00			
General Administration	4,302,500.00	5,415,744.65	3,155,714.58	2,260,030.07
School Administration	160,450.00	1,005,542.68	971,122.26	34,420.42
Facilities Acquisition and Construction	6,506,000.00	3,861,301.95	1,476,047.64	2,385,254.31
Fiscal Services	579,000.00	684,706.28	658,132.97	26,573.31
Food Services				
Central Services	830,500.00	1,698,971.73	1,295,880.32	403,091.41
Pupil Transportation Services	1,786,500.00	2,294,592.04	1,406,127.22	888,464.82
Operation of Plant	202,500.00	148,571.49	132,847.87	15,723.62
Maintenance of Plant	18,757.00	55,827.58	36,561.85	19,265.73
Community Services	54,900,000.00	56,308,338.09	47,172,246.04	9,136,092.05
Fixed Capital Outlay:				
Facilities Acquisition and Construction		681,721.87	681,721.87	
Other Capital Outlay		3,155,629.74	3,155,629.74	
Total Expenditures	195,500,000.00	244,433,235.65	179,022,426.27	65,410,809.38
Excess (Deficiency) of Revenues Over Expenditures	(199,900.00)	(65,594.33)	(60,385.46)	5,208.87
Other Financing Sources (Uses)				
Transfers In	200,000.00	65,694.33	60,485.46	(5,208.87)
Transfers Out	(100.00)	(100.00)	(100.00)	
Total Other Financing Sources (Uses)	199,900.00	65,594.33	60,385.46	(5,208.87)
Net Change in Fund Balances				
Fund Balances, July 1, 2004				
Fund Balances, June 30, 2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

FEDERAL REPORTS AND SCHEDULES

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



850/488-5534/SC 278-5534
Fax: 488-6975/SC 278-6975

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board as of and for the fiscal year ended June 30, 2005, 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 included disclosures regarding our reference to the reports of 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the District's basic financial statements and not to provide an opinion on the District's internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This matter is discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

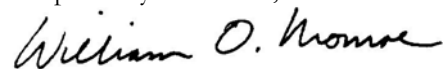
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative 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 instances of noncompliance related to Federal programs which are discussed in the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** section of this audit report.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA

March 3, 2006



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



850/488-5534/SC 278-5534
Fax: 488-6975/SC 278-6975

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 District'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, 2005. The District's major Federal programs are identified in the **SUMMARY OF AUDIT RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS**. 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 the District's 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 fiscal year ended June 30, 2005. However, as discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the results of our auditing procedures disclosed some instances of noncompliance with those requirements that are required to be reported in accordance with OMB *Circular A-133*.

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 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 and to test and report on internal control over compliance in accordance with OMB *Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA

March 3, 2006

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Direct:				
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226	N/A	\$ 21,661.94	\$
Indirect:				
Florida Department of Agriculture and Consumer Services: Food Donation	10.550 (2)	None	3,104,820.90	
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	11,749,004.93	
National School Lunch Program	10.555	300	27,909,821.76	
Summer Food Service Program for Children	10.559	323	698,713.00	
Total Child Nutrition Cluster			40,357,539.69	
Total Indirect			43,462,360.59	
Total United States Department of Agriculture			43,484,022.53	
United States Department of Labor:				
Direct:				
Disability Employment Policy Development	17.720	N/A	48,490.93	
Indirect:				
Florida Department of Education:				
Migrant and Seasonal Farmworkers	17.264	None	284,230.29	
WIA Incentive Grants - Section 503 Grants to States	17.267	None	90,510.24	
Total Indirect			374,740.53	
Total United States Department of Labor			423,231.46	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	117,507.90	
Federal Work-Study Program	84.033	N/A	71,897.69	
Federal Pell Grant Program	84.063	N/A	1,372,801.38	
Total Student Financial Assistance Cluster			1,562,206.97	
Impact Aid	84.041	N/A	459,770.47	
Magnet Schools Assistance	84.165	N/A	1,577,872.43	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	477,323.96	
Fund for the Improvement of Education	84.215	N/A	1,079,647.60	
Foreign Language Assistance	84.293	N/A	97,367.05	
Advanced Placement Program	84.330	N/A	414,813.53	
Transition to Teaching	84.350	N/A	237,340.32	
Arts in Education	84.351	N/A	309,691.96	
Voluntary Public School Choice	84.361	N/A	2,404,874.45	
Total Direct			8,620,908.74	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	35,037,289.66	
Special Education - Preschool Grants	84.173	266, 267	1,326,111.88	
Total Special Education Cluster			36,363,401.54	
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191	944,506.12	
Title I Grants to Local Educational Agencies	84.010	212	32,518,199.82	
Migrant Education - State Grant Program	84.011	217	2,433,427.13	
Vocational Education - Basic Grants to States	84.048	151	2,462,466.55	
Safe and Drug-Free Schools and Communities - National Programs	84.184	107	130,585.28	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	1,068,434.09	
Education for Homeless Children and Youth	84.196	127	103,543.53	
Even Start - State Educational Agencies	84.213	219	396,351.59	
Tech-Prep Education	84.243	157	255,144.92	
Charter Schools	84.282	298	1,900,000.00	1,900,000.00
Twenty-First Century Community Learning Centers	84.287	243	1,870,973.87	
State Grants for Innovative Programs	84.298	113	1,171,234.98	
Education Technology State Grants	84.318	121	1,861,354.04	
Advanced Placement Program	84.330	160	11,790.75	
Comprehensive School Reform Demonstration	84.332	128, 129	418,382.91	
School Renovation Grants	84.352	145	670,159.52	
Reading First State Grants	84.357	211	3,800,965.06	
Voluntary Public School Choice	84.361	299	210,368.98	
English Language Acquisition Grants	84.365	102	1,815,584.44	
Improving Teacher Quality State Grants	84.367	224	12,171,320.47	
Washington County District School Board:				
Reading First State Grants	84.357	None	178,145.60	
Total Indirect			102,756,341.19	1,900,000.00
Total United States Department of Education			111,377,249.93	1,900,000.00

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	\$ 9,936,220.23	\$
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	<u>271,078.72</u>	
Total Direct			<u>10,207,298.95</u>	
Indirect:				
Child Care and Development Fund Cluster:				
Florida Department of Children and Families:				
Child Care and Development Block Grant	93.575	None	340,183.67	
Hillsborough County School Readiness Coalition:				
Child Care and Development Block Grant	93.575	None	14,811,993.52	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	<u>17,766,137.77</u>	
Total Child Care and Development Fund Cluster			32,918,314.96	
Florida Department of Children and Families:				
Centers for Disease Control and Prevention - Investigations and Technical Assistance				
	93.283	None	32,661.10	
Temporary Assistance for Needy Families	93.558	None	17,724,348.67	
Refugee and Entrant Assistance - State Administered Programs	93.566	None	69,891.78	
Refugee and Entrant Assistance - Discretionary Grants	93.576	None	2,589,531.98	
Social Services Block Grant	93.667	None	<u>15,226.61</u>	
Total Indirect			<u>53,349,975.10</u>	
Total United States Department of Health and Human Services			<u>63,557,274.05</u>	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	<u>12,033.53</u>	
Department of Homeland Security:				
Direct:				
Hazard Mitigation Grant	97.039	N/A	3,080.35	
Indirect:				
Florida Department of Education:				
State Domestic Preparedness Equipment Support Program	97.004	None	<u>118,981.00</u>	
Total United States Department of Homeland Security			<u>122,061.35</u>	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	110,616.18	
Army Junior Reserve Officers Training Corps	None	N/A	423,756.44	
Marine Junior Reserve Officers Training Corps	None	N/A	44,654.77	
Navy Junior Reserve Officers Training Corps	None	N/A	<u>443,744.16</u>	
Total United States Department of Defense			<u>1,022,771.55</u>	
Total Expenditures of Federal Awards			<u>\$ 219,998,644.40</u>	<u>\$ 1,900,000.00</u>

- Notes:
- (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2004-05 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 Food Donation. Represents the amount of donated food used during the 2004-05 fiscal year. Commodities are valued at fair value as determined at the time of donation.
 - (3) Head Start. Expenditures include \$3,245,783.76 for grant number/program year 04CH3038/38 and \$6,690,436.47 for grant number/program year 04CH3039/39.

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SUMMARY OF AUDIT RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section __.505, the following is a summary of the results of the audit of the Hillsborough County District School Board for the fiscal year ended June 30, 2005:

- An unqualified opinion was issued on the financial statements.
- A certain matter involving the internal control and its operation was considered to be a reportable condition but was not considered to be a material weakness.
- No noncompliance was disclosed which is material to the financial statements.
- No reportable conditions in internal control over major Federal programs were reported.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553), National School Lunch Program (CFDA No. 10.555), and Summer Food Service Program for Children (CFDA No. 10.559)]; Twenty-First Century Community Learning Centers (CFDA No. 84.287); Education Technology State Grants (CFDA No. 84.318); and Child Care and Development Fund Cluster [(Child Care and Development Block Grant (CFDA No. 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA No. 93.596)).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$3,000,000.
- The low risk entity threshold was applied.

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FINDINGS AND RECOMMENDATIONS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Twenty-First Century Learning Centers Grants (CFDA No. 84.287)

Finding Type: Noncompliance

Questioned Costs: N/A

Special Tests and Provisions - Private School Participation. Pursuant to Section 9501 of the Elementary and Secondary Education Act (ESEA), a local educational agency grantee is required to engage in timely and meaningful consultation with private school officials during the design and development of specified programs and to make such educational services or other benefits available to private school students and educational personnel. Section 9501 of the ESEA further provides that consultation with private school officials shall include such issues as how the children's needs will be identified; what services will be offered; how, where, and by whom the services will be provided; how the services will be assessed and how the results of the assessment will be used to improve those services; the size and scope of services to be provided; as well as other decisions about delivery of services.

District personnel indicated that they were not aware of the requirement to notify the private schools and, therefore, the District neglected to timely consult with private school officials or communicate in writing with the private schools in Hillsborough County with regard to participation in the Twenty-First Century Community Learning Centers grant for the 2004-05 fiscal year. Subsequent to our inquiry, in December 2005, the District established additional procedures to ensure proper communication with private schools within the county for future grants.

Recommendation: The District should enhance its procedures to provide for timely and meaningful consultation with private school officials regarding the design and development of programs to make Federally-funded educational services available.

District Contact Person: Gretchen Saunders, Chief Business Officer

Federal Awards Finding No. 2:**Federal Agency: United States Department of Agriculture****Pass-Through Entity: Florida Department of Education****Program: National School Lunch Program (CFDA No. 10.555)****Finding Type: Noncompliance****Questioned Costs: N/A**

Special Tests and Provisions – On-Site Reviews. Title 7, Section 210.8, Code of Federal Regulations, requires that the school food service authority (Hillsborough County District School Board) establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly claim for reimbursement. At a minimum, these internal controls shall include, among other things, an on-site review of the meal counting and claiming system employed by each school within the jurisdiction of the school food authority. Each school food authority shall perform no less than one on-site review which will take place prior to February 1 of each school year. In addition, if problems are detected during this review, a corrective action plan is to be developed and a follow-up review is required to be performed within 45 days of the initial review to determine whether corrective actions resolved the problems which were noted.

During the 2004-05 school year, District personnel performed initial on-site reviews at 202 schools. Of the 44 on-site reviews included in our audit tests, we noted 14 instances in which deficiencies had been noted during the District's initial on-site reviews and for which the follow-up on-site reviews were not performed timely (ranging from 6 to 37 days late).

Recommendation: **The District should strengthen procedures to provide for District personnel to conduct timely follow-up on-site reviews in schools where meal counting or claiming system deficiencies are disclosed.**

District Contact Person: Gretchen Saunders, Chief Business Officer

Federal Awards Finding No. 3:**Federal Agency: United States Department of Agriculture****Pass-Through Entity: Florida Department of Education****Program: National School Lunch Program (CFDA No. 10.555)****Finding Type: Noncompliance****Questioned Costs: N/A**

Special Tests and Provisions – Competitive Food Sales. The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items. Title 7, Section 210.11, Code of Federal Regulations, requires that State agencies and school food authorities shall establish such rules or regulations as are necessary to control the sale of foods in competition with lunches served under the National School Lunch Program. State Board of Education Rule 6A-7.042, Florida Administrative Code, provides that competitive food and beverage items may be sold in secondary schools only, with the approval of the school board, one hour following the close of the last lunch period. This Rule further provides that when competitive

food and beverage items are sold during the school day, all proceeds from such sales shall accrue to the food service program or to a school organization approved by the board.

During the 2004-05 fiscal year, the District performed its own review of competitive sales at schools as part of its on-site reviews. Contrary to State rules, this review noted, for ten schools, competitive food sales were not limited to one hour following the close of the last lunch period. Our review during November 2005 disclosed that carbonated beverages and snack items were sold to students throughout the school day outside the cafeteria at Plant High School.

Recommendation: The District should take appropriate action to ensure compliance with the Federal regulations and State rules relating to the sale of foods and beverages in competition with the National School Lunch Program.

District Contact Person: Gretchen Saunders, Chief Business Officer

*HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005*

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 FYE June 30, 2004	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, 10.559) - Reporting	Monthly reports submitted to the Florida Department of Education were not supported by meal counts reported in the District's food service system. The District underreported meal counts, which resulted in \$104,823 of reimbursements not being requested.	Corrected.	

MANAGEMENT RESPONSE

School Board

Carolyn Bricklemeyer, Chair
Jack R. Lamb, Ed.D., Vice Chair
Doretha W. Edgecomb
Jennifer Fallero
Carol W. Kurdell
Candy Olson
Susan L. Valdes



Superintendent of Schools
MaryEllen Elia

March 15, 2006

Mr. William O. Monroe, CPA
Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Monroe:

The School District of Hillsborough County, Florida is in receipt of the Preliminary and Tentative Findings for the District's Financial and Federal audit for the fiscal year ended June 30, 2005. In accordance with Section 11.45 (4)(d), Florida Statutes, attached are our responses, including actual and proposed corrective actions for each finding.

I would like to express for the record that we very much appreciate your staff and the work they did on the audit. We take all reviews of our operations seriously and will utilize any constructive criticism as a way to improve our performance. I also want you to know that your staff was very professional and took extra steps in the collection of their data so as not to impede the day-to-day operations of the system.

Should you need additional information, please free to contact me or Ms. Gretchen Saunders, the District's Chief Business Officer.

Sincerely,

MaryEllen Elia
Superintendent

Enclosure

MANAGEMENT RESPONSE (CONTINUED)

Finding #1: The District should enhance program change controls, restrict access to the Lawson production environment, and strengthen controls regarding role assignments within the process flows established by the District to more effectively promote a proper segregation of duties

District Response to Finding #1: The District fully agrees with the statement that, "proper segregation of duties is necessary to preclude the inappropriate use of the District's resources."

The District has strengthened controls regarding role assignments within the process flows established by the District to more effectively promote a proper segregation of duties. This has been accomplished through:

- a) The elimination of all multiple user roles breaking the chain that would allow any one individual in Purchasing or Accounts Payable to both enter and approve transactions. All other sites and departments within the District follow the process where approvers can enter and approve transactions but not perform the receiving function for those commodities or services.
- b) In addition, the level of programming access within the District has been reduced so that individuals who have the ability to establish vendors, transfer budget funds, approve requisitions, and receive commodities can no longer initiate a requisition. This change allows those individuals to perform their normal duties without having the ability to control all critical stages of the requisition process.

The District is enhancing program change controls to restrict access to the Lawson production environment. Anticipate the completion of these enhancements and enforcement of the restricted process at the earliest possible date but not later than May 1, 2006. The change controls include:

- a) Eliminate developer access to the Lawson production environment.
- b) Providing Data Center Operators a process to move approved programs and modules from the Quality Assurance (QA) environment to the Production environment. Note that Data Center Operators are not authorized any functional access to Lawson.
- c) After developers have completed coordination with functional users on the testing of program changes and have received approval to move the changes to production, they will submit a script that copies the changed programs and modules to a staging area in the QA environment. In addition they will submit documentation to the Data Center Operations Supervisor requesting movement of the programs and modules to production.
- d) Upon receipt of the change control request, the Data Center Operations Supervisor will verify the approval and pass the request to a Data Center Operator for execution.

MANAGEMENT RESPONSE (CONTINUED)

- e) Data Center Operators submit a script which will retrieve the changed program and modules from staging area of the QA environment and copy them to the Production environment. As part of this process the script will backup the production programs and modules being replaced so they are available for restore as necessary and it will log the move so that there is an appropriate accountability record of the movement to production of changed programs.

Functional staff ownership for the processes of the financial modules is critical for an integrated ERP system such as Lawson Software. However, documenting adequate user involvement in testing and approving program changes is more difficult to accomplish than enforcing controls on role assignments or establishing program change controls. Documentation requires personal discipline and control where role assignment and program change control are program and system controlled. In addition, determining the type and amount of documentation required to show adequate involvement can negatively impact staff's productivity if excessive. To ensure documentation is available in the future to show adequate user involvement the District is implementing the following procedures in conjunction with the enhance program change controls stated above:

- a) The Information Services staff will include the Request for Services (RFS) number on all documentation and correspondence, including email, related to each request for program change, program issue, or problem report. In addition, the program change control process described above will record the RFS number in the change control log as a reference to associate changes to production with developer/functional user documentation and correspondence.
- b) In addition to using the RFS number to track all associated documentation and correspondence between developers and users, a change control tracking form which the District will use as part of the program change control request process will require signoff by the functional owner/user verifying completion of testing and giving authorization to move the change program to production.

Federal Finding #1: The District should enhance its procedures to provide for timely and meaningful consultation with private school officials regarding the design and development of programs to make Federally-funded educational services available.

District Response to Federal Finding #1: As indicated in the comment, we have implemented additional procedures to ensure proper communication with all schools within our District, both public and private, relating to Federally-funded educational services.

Federal Finding #2: The District should strengthen procedures to provide for District personnel to conduct timely follow-up on-site reviews in schools where meal counting or claiming systems deficiencies were disclosed.

MANAGEMENT RESPONSE (CONTINUED)

District Response to Federal Finding #2: As noted in the comment, the District did complete the follow-up on-site reviews, however, not in a timely manner as required. The District has enhanced our procedures to ensure that follow-up on-site reviews are performed in a timely manner.

Federal Finding #3: The District should take appropriate action to ensure compliance with Federal regulations and State rules relating to the sale of food and beverages in competition with the National School Lunch Program.

District Response to Federal Finding #3: The District has addressed the competitive issues with the specific schools noted and strengthened our procedures overall to ensure compliance at all of our locations.