



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2006

Volusia County District School Board members and the Superintendent of Schools who served during the 2005-06 fiscal year are shown in the following tabulation:

	<i>District No.</i>
<i>Candace Lankford, Chairman to 11-21-05</i>	<i>1</i>
<i>Dr. Al Williams</i>	<i>2</i>
<i>Judy Andersen, Vice Chairman to 11-21-05, Chairman from 11-22-05</i>	<i>3</i>
<i>Judy Conte</i>	<i>4</i>
<i>Vicki Bumpus, Vice Chairman from 11-22-05</i>	<i>5</i>

Dr. Margaret A. Smith, Superintendent

AUDITOR GENERAL

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VOLUSIA COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Volusia County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2006, 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 internal control and compliance findings that are summarized below.

Summary of Audit Findings**Finding No. 1: Information Technology - Access Controls**

Improvements were needed in the District's access controls over information technology resources. In the absence of adequate access controls over information technology resources, there is an increased risk that unauthorized or improper use of computer resources could occur.

Finding No. 2: Information Technology - Software Change Management

Improvements were needed in the District's software change management procedures for information technology applications to ensure that all software changes are properly authorized, tested, and implemented.

Finding No. 3: Information Technology – Disaster Preparedness

The District's disaster preparedness could be improved by providing for periodic testing of all critical systems outlined in its Disaster Recovery Plan.

Finding No. 4: Student Fees - Extended Day Enrichment Program

Improvements were needed in controls over student fee collections for the Extended Day Enrichment program to ensure that funds are submitted timely for deposit, and prenumbered receipts issued are reconciled to fee collections.

Finding No. 5: Purchasing Card Administration

Improvements could be made in controls over purchasing card transactions to ensure that monthly transaction purchase limits are in accordance with cardholder agreements and that access to purchasing cards is timely removed for terminated employees.

Finding No. 6: Capital Outlay - Architect Insurance

District policies and procedures did not ensure that its architectural firms were adequately and properly insured.

Finding No. 7: Fingerprinting and Background Screening Requirements

Improvements were needed in procedures for timely obtaining fingerprints and background checks for staff and contractors as required. Delays in performing the required background screenings increase the risk that staff and contractors may have backgrounds that are not suitable for direct contact with students.

Finding No. 8: Cellular Telephones - Taxable Fringe Benefit

The District did not have formal policies and procedures regarding the assignment and use of District cellular telephones.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a compliance and internal control finding that is summarized below.

Federal Awards Finding No. 1: Special Tests and Provisions - Highly Qualified Teachers

The District used \$157,830 in Title I funds to pay the salaries and benefits of four teachers who were not considered highly qualified as defined in Title 34, Section 200.56, Code of Federal Regulations. These payments are considered to be questioned costs subject to disallowance by the grantor.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of 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, or are in the process of correcting, all deficiencies disclosed in our report Nos. 2004-202 and 2004-208 and the audit report for the 2004-05 fiscal year prepared by other auditors.

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, 2006. 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 Nancy Heyman, CPA, and supervised by James R. Stultz, 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 and other audit reports prepared by the Auditor General can be obtained on our Web site 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 - Access Controls

Security features are necessary to protect the integrity, confidentiality, and availability of information systems' data and resources. During our audit, we identified improvements that could be made in the District's security procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising the District's information systems data and resources. However, appropriate District personnel have been notified of the needed improvements. A similar finding was noted in the audit report for the 2004-05 fiscal year prepared by other auditors. Weakness in access controls could increase the risk that individuals could gain unauthorized access to the system without timely detection.

Recommendation: The District should improve the appropriate control features to enhance security over the District's information technology resources.

Finding No. 2: Information Technology - Software Change Management

The District has established a formal Information Systems Development Methodology (ISDM) to guide the development, maintenance, and acquisition of information technology systems and projects. As part of developing the ISDM, the District should establish appropriate software change management procedures to provide increased assurance that all software changes are properly authorized, tested, and implemented.

The District has established software change management procedures for one of its applications; however, the District has not established software change management procedures for all of its information technology applications. A similar finding was noted in our report No. 2004-202. Change management procedures provide assurances that all changes to software applications are properly authorized, tested, and implemented and reduces the risk of unauthorized changes or that changes do not function as intended.

Recommendation: The District should establish software change management procedures for all of its information technology applications to ensure that all software changes are properly authorized, tested, and implemented.

Additional Matters

Finding No. 3: Information Technology - Disaster Preparedness

A basic element of safeguarding computer facilities and data is a well-planned and well-tested back-up and recovery process, incorporating physical facilities; personnel and operating instructions; supplies and forms; applications programs, system software, and related documentation; and data, including machine-readable files or source documents needed to recreate files.

The District developed a Disaster Recovery Plan that outlined critical systems, provided for an alternate site for processing in the event of a processing disruption, and provided that the plan be periodically tested. The District indicated that a test of the payroll system was performed at an alternative site during the 2005-06 fiscal year; however, documentation of this test was not retained to document the effectiveness of the test performed or to determine if improvements to the Plan were needed. Documentation of testing would provide evidence of the effectiveness of the District's Disaster Recovery Plan. Additionally, the District indicated that other applications identified as critical systems in its Disaster Recovery Plan have not been tested.

Recommendation: The District should test its Disaster Recovery Plan periodically for all critical systems as outlined in its Plan. In addition, the District should retain documentation of its testing of the Disaster Recovery Plan to provide for an evaluation of the effectiveness of the Plan and any improvements to the Plan needed based on the tests performed.

Finding No. 4: Student Fees - Extended Day Enrichment Program

The District operated an Extended Day Enrichment Program at 34 elementary schools and reported fee collections of approximately \$3.4 million during the 2005-06 fiscal year. Our tests of internal controls over fee collections at five elementary schools disclosed the following control deficiencies:

- Although prenumbered receipts are issued by the facilitator at each site documenting collections, these receipts are not reconciled and balanced to collections submitted to the bookkeeper for deposit. The timely reconciliation of receipts issued to collections remitted for deposit reduces the risk of intentional or unintentional loss of collections.
- Our tests of collections disclosed that, for 10 of the 55 collections tested, collections in amounts ranging up to \$811 were held by the facilitators up to six days before being remitted to the bookkeepers for deposit. The District's procedures require the facilitators to remit collections to the bookkeepers no later than one business day after receipt. The timely remittance of collections reduces the risk of intentional or unintentional loss of collections.

Recommendation: The District should improve controls to ensure that receipts issued for collections are reconciled to amounts remitted for deposit and to ensure that collections are timely remitted for deposit.

Finding No. 5: Purchasing Card Administration

Our review of the District's purchasing card program indicated that improvements were needed in the monitoring of the program. The District provides credit cards (purchasing cards) to authorized employees for the purchase of goods and services. Purchasing cards are designed to handle and expedite low dollar purchases of goods and services in a more efficient, effective, and economical manner than may be achieved through the purchase order system. The District contracted with a financial institution to provide the purchasing cards and to process purchases. The District has placed certain dollar limits on employees' use of purchasing cards, including single and monthly purchasing limits. Additionally, purchasing cards are subject to the same rules and regulations that apply to regular District purchases. Our review of purchasing cards revealed the following:

- Our test of purchasing card monthly transaction limits disclosed eight instances where the monthly transaction limits authorized by the cardholder maintenance agreement did not agree with the monthly

transaction limits in the bank records. In these eight instances, the bank's monthly transaction limit exceeded the limits in the cardholder maintenance agreements in amounts ranging from \$250 to \$15,000. According to the District, the purchasing card limits may be temporarily increased in certain circumstances, such as a special purchase or travel arrangements that exceed the monthly transaction limits; however, the increase granted in these cases should be temporary. For these eight instances, the monthly transaction limits were not subsequently decreased back to the amount authorized by the District's cardholder maintenance agreement.

- Purchasing cards issued to three former employees were terminated from 11 to 161 days after the employee's termination date. We reviewed the purchasing activities on the monthly purchasing card statements from the date the employee terminated employment until the date the purchasing card was canceled and determined that none of the terminated employees charged purchases subsequent to their termination dates. The lack of procedures to timely terminate access to purchasing cards for former employees increases the risk that unauthorized purchases could be made.

A good system of internal controls would provide procedures over purchasing cards and purchasing card transactions to ensure that purchases are made in accordance with Board directives and that access to purchasing card privileges would be timely removed for terminating employees.

Recommendation: The District should enhance its procedures as necessary to ensure monthly transaction purchase limits are in accordance with cardholder agreements. Furthermore, the District should improve procedures to timely remove access to purchasing cards for former employees.

Finding No. 6: Capital Outlay - Architect Insurance

District procedures did not ensure that its architects and engineers were adequately insured. The District contracts for architectural and engineering services for design and construction administration services for its significant construction projects. Section 4.1(2)(f) of the Florida Department of Education's publication, *State Requirements for Educational Facilities – 1999*, recommends that districts develop policies to provide insurance against errors and omissions or liability, or require the design professional to carry insurance by including this requirement in the advertisement for request for services.

The District's policy requires, for any project exceeding the estimated costs of \$500,000, that architect's professional insurance coverage be obtained. For any project with estimated costs exceeding \$1 million, the policy requires \$1 million of architect's professional liability insurance and is subject to a higher limit based on the complexity of the project as determined by the Superintendent or designee. The District's policy on architect professional liability insurance does not ensure that the amount of liability insurance required is adequate in relation to the total contract price of each project. Our tests of five architect contracts in process during the 2005-06 fiscal year, for construction projects ranging from \$11 million to \$36 million, disclosed that the District received evidence of required professional liability insurance of \$2 million for four contracts and \$5 million for the \$36 million project. Additionally, our review disclosed that the Board policy does not provide for specific criteria to be used in determining the amount of architect's professional liability insurance in excess of \$1 million, other than the complexity of the project.

In these circumstances, the insurance coverage in effect for the larger construction projects may not provide the District with adequate protection if, for example, a design or construction flaw were to appear subsequent to contract completion and the responsible architect or engineer carries an insufficient amount of insurance.

Recommendation: The District should enhance its policy and procedures for determining the amounts of professional liability insurance on contracts with design professionals. Consideration should be given not only to the complexity of the project and the experience and capabilities of the architect and engineer, but also to the anticipated project cost.

Finding No. 7: Fingerprinting and Background Screening Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for staff and contractual personnel that have direct contact with students. Sections 1012.56(9) and 1012.465, Florida Statutes (2004), require instructional personnel renewing their teaching certificates and noninstructional personnel every five years following employment, respectively, to undergo a background screening, including a requirement that such staff file a complete set of fingerprints. In a memorandum dated June 25, 2004, the Florida Department of Education (FDOE) recommended that, due to the large number of affected employees, districts conduct the background screenings for certified instructional employees every five years at the time of renewal of their teaching certificates and that background screenings be obtained for approximately 20 percent of the noninstructional employees each five year period in order to have all background screenings for such staff completed by July 1, 2009.

The District has established procedures to provide for fingerprinting and background checks for staff and contractual personnel; however, our tests disclosed that the District's procedures did not require fingerprinting and background checks for teachers at the time they renewed their teaching certificates. Also, the District's procedures did not ensure that all contractual personnel having direct contact with students would have the required fingerprinting and background checks. Our tests of fingerprinting and background checks for staff and contractual personnel disclosed the District did not obtain fingerprints or perform background checks for 11 of 20 teachers tested who renewed their teaching certificates during the 2005-06 fiscal year. Our review of District records indicated that it had been between 7 to 19 years since the last background check was performed for these 11 teachers. Additionally, our tests of ten contractual personnel that had direct access to students disclosed one instance in which a behavior specialist did not have the required fingerprinting and background check. Absent the required fingerprinting and background screening, there is an increased risk that staff and contractors may have backgrounds that are not suitable for direct contact with students.

Recommendation: The District should enhance its personnel procedures to ensure that the required fingerprinting and background checks are performed for instructional staff and contractors on a timely basis.

Finding No. 8: Cellular Telephone – Taxable Fringe Benefits

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T(e). Because cellular telephones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which require employees to submit records to the District to establish the amount, date, place, and business purpose for each business use.

The District had not established formal policies and procedures governing the use of District cellular telephones and restricting usage to business purposes. In addition, the District did not maintain a Districtwide listing of cellular telephones issued; the employees assigned a cellular telephone; or the date issued. There were no formal Districtwide procedures in place for monitoring the use of cellular telephones to ensure use was limited to business purposes. The District allowed each department or school to determine cellular telephone purchases and monitoring procedures. Further, employees were not required to maintain a log of business calls detailing the date, time, establishment called, and business purpose of the call.

Absent formal policies and procedures on a Districtwide basis, the District was unable to document the number of cellular telephones purchased, the criteria used in assigning cellular telephones, or that cellular telephone usage was limited to only valid public purposes. Such policies and procedures, if established, could serve to provide guidance to employees on the criteria used in the determination of assigning cellular telephones to specific employees and the acceptable use of the cellular telephones. Additionally, these policies and procedures should address the reporting requirements of United States Treasury Regulations related to the use of cellular telephones.

Since District policies and procedures did not require employees to submit records substantiating the business use of cellular telephones, and cellular telephone bills were not routinely reviewed to ascertain personal calls, the District should have reported to the Internal Revenue Service (IRS) the value of cellular telephone services provided to each employee assigned a cellular telephone. The District had not included the value of these services in the income reported on the 2005 calendar year W-2 forms for these employees.

Recommendation: The District should adopt formal Districtwide monitoring procedures regarding cellular telephone usage to provide guidance to employees that are assigned cellular telephones. In addition, the District should establish and implement policies and procedures to document the business use of cellular telephones and to require reviews of cellular telephone bills to ascertain personal calls made and reimbursement thereof. In the absence of implementation of these policies and procedures, the District should report appropriate amounts in income to the IRS in accordance with Federal requirements. In connection with the development of policies and procedures, and any corrective actions, the District should confer with the IRS.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in the report prepared by the other auditors for the 2004-05 fiscal year and in our report No. 2004-202.

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 Volusia 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 74 through 76.

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 Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund.*
- EXHIBIT – H*** *Statement of Net Assets – Proprietary Funds.*
- EXHIBIT – I*** *Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.*
- EXHIBIT – J*** *Statement of Cash Flows – Proprietary Funds.*
- EXHIBIT – K*** *Statement of Fiduciary Net Assets – Fiduciary Funds.*
- EXHIBIT – L*** *Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.*
- EXHIBIT – M*** *Notes to Financial Statements.*



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Volusia County District School Board as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed on page 7. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal accounts, reported as Agency Funds, which represent 7 percent of the assets and 38 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the school internal accounts and 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 for the Volusia County District School Board as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis (pages 10 through 20) is not a required part of the basic financial statements but is 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

November 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the District School Board of Volusia County, Florida, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with our basic financial statements found on pages 21 through 64.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at June 30, 2006, by \$699,130,765. Of this amount, \$534,830,900 represents investments in capital assets (net of related debt), and \$164,299,865 represents restricted and unrestricted net assets of \$170,067,232 and (\$5,767,367), respectively.
- The District's total net assets increased by \$67,870,489, which includes a prior period adjustment of \$10,000,000 to record the District's investment in a joint venture acquired in a prior year.
- At June 30, 2006, the District's governmental funds report combined fund balances of \$427,613,341, an increase of \$125,000,142 in comparison with the prior year.
- At June 30, 2006, the unreserved fund balance for the General Fund is \$23,041,560, or 5.4 percent of total General Fund expenditures. The unreserved fund balance is available for spending at the District's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The government-wide financial statements include the District (known as the primary government), the Volusia County Education Direct-Support Organization, Inc., and three charter schools, Reading Edge Academy, Inc., The Chiles Academy, Inc., and Richard Milburn Academy of Volusia County for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. The Volusia School Board Leasing Corporation, Inc.

(Leasing Corporation), although also legally separate, was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government. The government-wide financial statements can be found on pages 21 through 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into one of three 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, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing 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.

The District maintains eighteen 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 District's most significant funds. The District's major governmental funds are the General Fund, Certificates of Participation – Debt Service Fund, Local Capital Improvement – Capital Projects Fund, Certificates of Participation – Capital Projects Fund, and Local Sales Tax – Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund on page 31 to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24 through 30 of this report.

Proprietary Funds. Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains internal service funds to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its self-insurance programs. Because these services predominately benefit governmental rather than business-type functions, they have been included with governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The four internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary funds financial statements can be found on pages 32 through 34 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. The District maintains Private Purpose Trust Funds to account for the resources of the District's trust and endowment funds for DeLand High, Spruce Creek High, and Seabreeze High. The District also maintains Agency funds to account for resources of the school internal funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on pages 35 and 36 of this report.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 through 64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's total assets exceeded its liabilities by \$699,130,765 (total net assets) at June 30, 2006, which was an increase of \$67,870,489 over the previous year. This increase includes a prior period adjustment of \$10,000,000 to report the District's investment in a joint venture acquired in a prior year.

Net assets include investments in capital assets, primarily school facilities and related furniture, fixtures, and equipment, net of outstanding debt used to acquire or construct capital assets. The remaining net assets are divided between those that are restricted and those that are unrestricted. Restricted net assets are those assets net of related liabilities that are restricted to uses specified by third parties, primarily under the terms of debt issues, and Federal and State grantor agencies.

The following is a summary of the District's net assets as of June 30, 2006, compared to net assets as of June 30, 2005:

Condensed Statement of Net Assets		
	Governmental Activities	
	2006	2005
Current and Other Assets	\$ 491,844,276	\$ 351,257,209
Capital Assets, Net	<u>875,399,678</u>	<u>769,894,896</u>
Total assets	<u>1,367,243,954</u>	<u>1,121,152,105</u>
Long-Term Liabilities	631,387,173	458,501,674
Other Liabilities	<u>36,726,016</u>	<u>31,390,155</u>
Total liabilities	<u>668,113,189</u>	<u>489,891,829</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	534,830,900	453,024,671
Restricted	170,067,232	186,139,004
Unrestricted	<u>(5,767,367)</u>	<u>(7,903,399)</u>
Total net assets	<u>\$ 699,130,765</u>	<u>\$ 631,260,276</u>

The District reports a \$5,767,367 deficit in unrestricted net assets at June 30, 2006, which represents a 27 percent increase in net assets from the prior year. The increase was primarily due to the adjustment to beginning net assets of \$10,000,000 to report the District's investment in a joint venture. The increase was partially offset by an increase of \$5,965,697 in the District's liability for compensated absences. Management has every confidence that the deficit in unrestricted net assets does not represent an inability to meet District obligations. Compensated absences in the amount of \$47,902,175 was the most significant liability (claim) against unrestricted assets. Most of the estimated amount of compensated absences liability, \$43,568,193, will be due more than one year from the financial statement date and does not require the use of current resources.

Restricted net assets represent resources that are subject to external restrictions on how they may be used, such as for capital projects and debt service. The restricted portion of the District's net assets totals \$170,067,232, which represents an 8.6 percent decrease from the prior year.

The largest portion of the District's net assets (76.5 percent) reflects its investment in capital assets, less any related debt still outstanding. Investment in capital assets, less related debt, increased \$81,806,229.

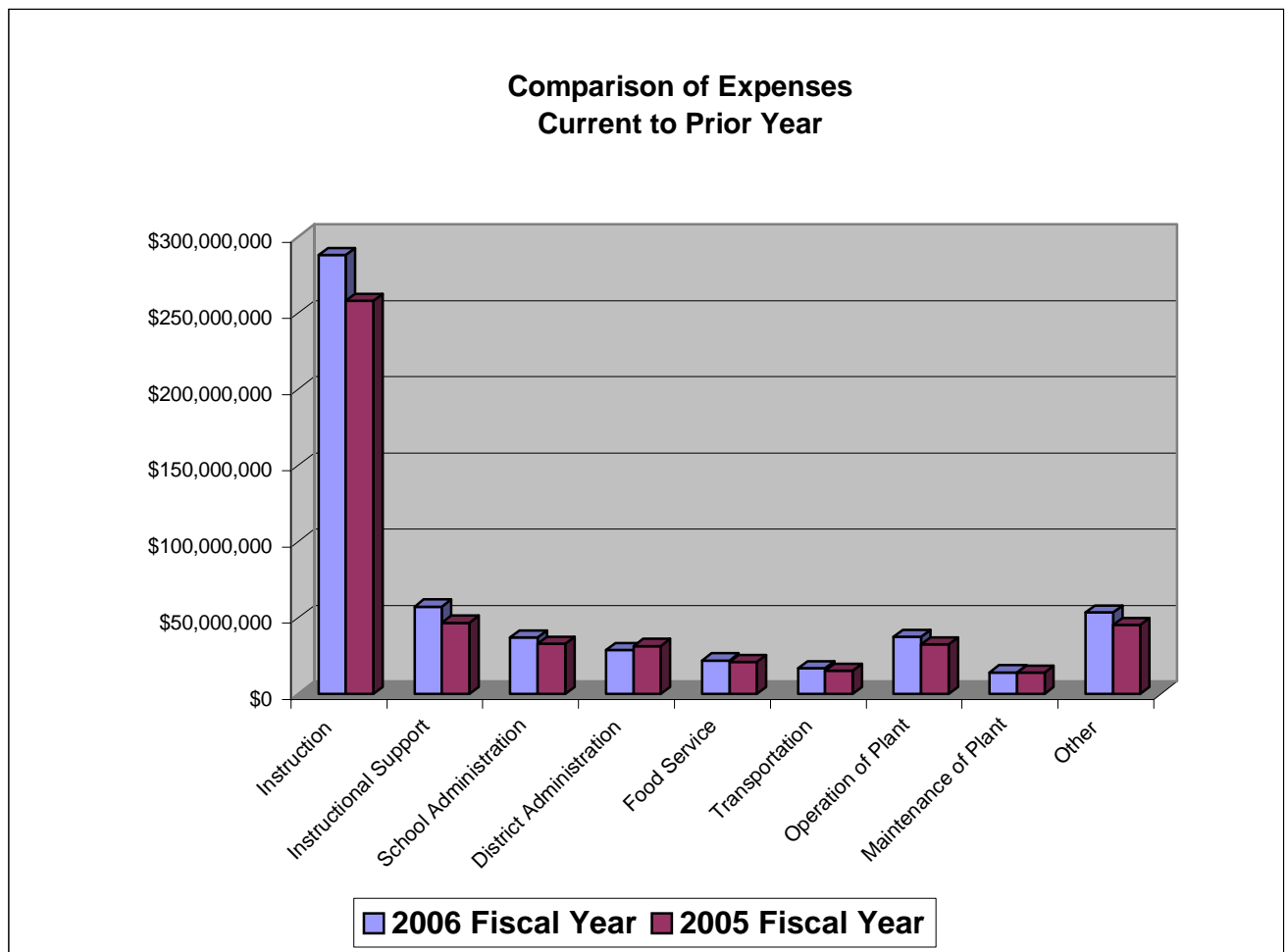
The decrease in restricted net assets and the increase in investment in capital assets were primarily due to an increase in expenditures for construction projects.

Key elements of the changes in the District's net assets for the fiscal years ended June 30, 2006, and June 30, 2005, are as follows:

Change in Net Assets		
	Governmental Activities	
	2006	2005
Revenues:		
Program Revenues:		
Charges for Services	\$ 13,060,891	\$ 11,628,184
Operating Grants and Contributions	31,124,132	30,888,569
Capital Grants and Contributions	17,184,270	27,521,165
General Revenues:		
Property Taxes	239,989,137	205,986,522
Other Taxes	37,737,410	34,774,547
Grants and Contributions not Restricted to Specific Programs	254,397,184	249,925,667
Other	19,481,410	12,568,441
Total Revenues	612,974,434	573,293,095
Expenses:		
Instruction	288,187,757	257,929,426
Pupil Personnel Services	23,169,573	21,124,508
Instructional Media Services	7,343,328	6,971,563
Instruction and Curriculum Development Services	13,933,703	11,568,095
Instructional Staff Training Services	8,839,340	7,001,523
Instruction Related Technology	4,102,673	
Board of Education	519,889	466,004
General Administration	3,394,346	4,030,529
School Administration	36,934,562	32,892,990
Facilities Acquisition and Construction	12,729,032	12,428,485
Fiscal Services	2,711,616	2,473,857
Food Services	21,985,268	20,888,480
Central Services	5,536,321	12,029,958
Pupil Transportation Services	16,837,763	15,045,108
Operation of Plant	37,472,736	32,543,373
Maintenance of Plant	14,153,260	13,813,228
Administrative Technology Services	3,862,846	
Community Services	1,612,862	1,668,177
Interest on Long-Term Debt	19,501,861	14,355,846
Depreciation Expense	32,275,209	29,077,484
Total Expenses	555,103,945	496,308,634
Increase in Net Assets	57,870,489	76,984,461
Net Assets - Beginning	631,260,276	554,275,815
Adjustment to Beginning Net Assets	10,000,000	
Net Assets - Beginning, Restated	641,260,276	554,275,815
Net Assets - Ending	\$ 699,130,765	\$ 631,260,276

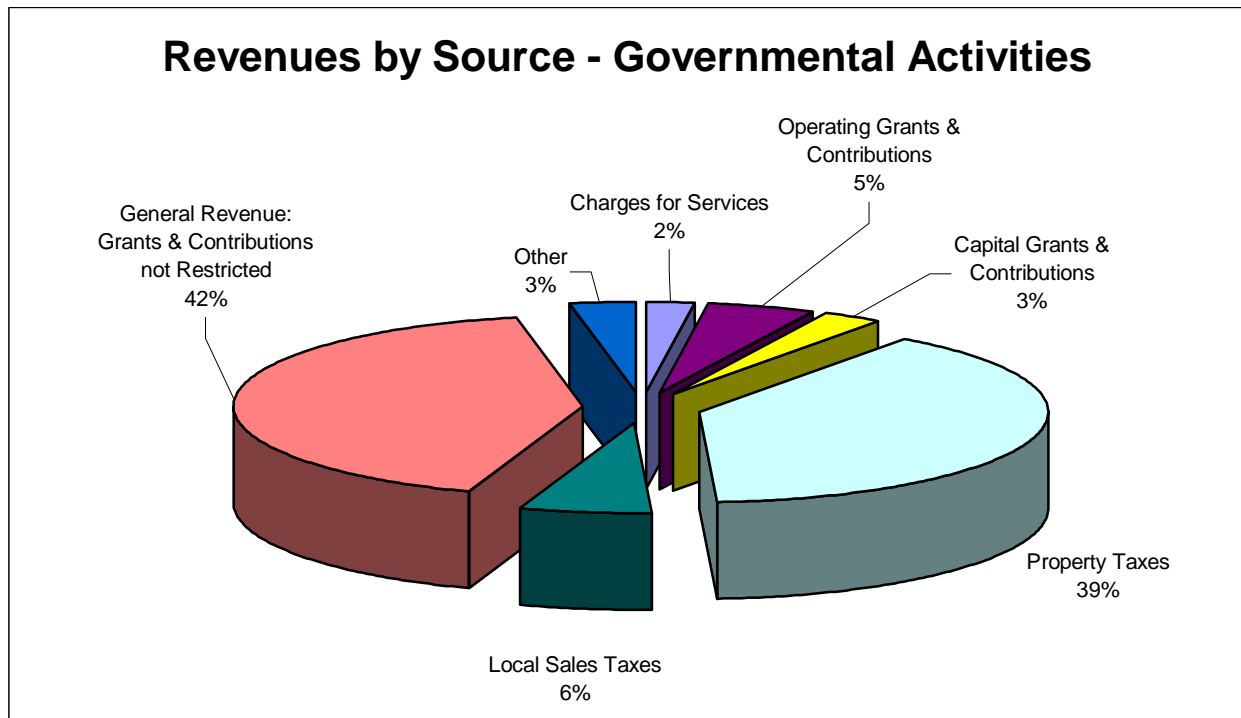
Governmental activities increased the District’s net assets by \$67,870,489, which includes a prior period adjustment of \$10,000,000 to record an investment in a joint venture acquired in a prior year. Key elements of this increase are as follows:

- Property tax revenue increased by \$34,002,615 (16.5 percent) during the year. Most of this increase relates to an increase in the taxable assessed value.
- Instruction and instructional support expenses accounted for approximately 62.3 percent of total governmental expenses in the 2005-06 fiscal year. Instruction and instructional support expenses increased by \$40,981,259, which represents a 13.5 percent increase from the 2004-05 fiscal year. The increase is primarily due to an increase in the number of instructional personnel hired to meet the class size requirements and due to an increase in salaries.



Instructional support includes Pupil Personnel Services, Instructional Media Services, Instruction and Curriculum Development Services, Instructional Staff Training Services, and Instruction Related Technology.

District Administration includes Board of Education, General Administration, Facilities Acquisition and Construction, Fiscal Services, Central Services, and Administrative Technology Services. Other includes Community Services, Interest on Long-Term Debt, and Depreciation Expense.



FINANCIAL ANALYSIS OF THE INDIVIDUAL FUNDS

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

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 report combined ending fund balances of \$427,613,341, an increase of \$125,000,142 in comparison with the prior year. Approximately 58.8 percent of the ending fund balances, \$251,425,930, constitutes unreserved fund balances, which is available for spending at the District’s discretion, in accordance with regulations, restrictions, or limitations of the fund. The remainder of the fund balances are reserved to indicate that they are not available for new spending because they have already been committed 1) to liquidate contracts and purchase orders of the prior period, \$97,791,010; 2) to liquidate the related expenditures that will be recognized when inventories are eventually consumed, \$4,166,865; 3) to make debt service payments, \$73,613,093; or 4) to fund State categorical programs, \$616,443.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$23,041,560, while total fund balance was \$27,110,223. 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 5.4 percent of total General Fund expenditures, while total fund balance represents 6.3 percent of that same amount.

During the current fiscal year, the fund balance of the General Fund decreased by \$3,016,448. Key factors in this decline are as follows:

- Revenues increased by 8 percent (\$30,596,698), mainly due to an increase in local property taxes. The District received an additional \$12,662,091, for class size reduction state funding, however, the Florida Education Finance Program state funding was reduced by \$10,118,800. Overall, total state revenues increased by only 1.5 percent (\$3,408,113).
- Expenditures increased by 10.1 percent (\$39,292,880) and exceeded revenues and other financing sources by \$3,016,448. The majority of this increase (\$24,445,441) was spent in instruction.

The Certificates of Participation – Debt Service Fund, which is used to account for the payment of principal, interest, and related costs pertaining to the District's Certificates of Participation, has a total fund balance of \$47,650,931. This balance resulted from the issuance of the Crossover Refunding Certificates of Participation, Series 2005B, and is held in an irrevocable trust fund by the escrow agent in order to pay interest on the Series 2005B Certificates up to and including August 1, 2009, the crossover date. The fund balance decreased by \$1,986,074 due to a decrease in the fair value of the investments held in escrow.

The Local Capital Improvement – Capital Projects Fund, which is used to account for revenues produced by an ad valorem (property) tax levy authorized by the school board to support capital improvements, has a total fund balance of \$45,565,875. This levy has been capped at two mills since 1989-90 by the State Legislature. The fund balance increased during the current fiscal year by \$15,290,976, due to an increase in property taxes. It should also be noted that \$24,855,080 of the total fund balance has been encumbered under specific engineering and construction contracts for projects in progress at year-end.

The Certificates of Participation – Capital Projects Fund, which is used to account for capital project activity funded by a form of lease-purchase agreement, has a total fund balance of \$163,336,205. The increase of \$125,048,500 from the prior year resulted from the sale of Certificates of Participation, Series 2006A.

The Local Sales Tax – Capital Projects Fund, which is used to account for a ten-year construction plan funded by a voter approved referendum adopting a half-cent sales tax for fifteen years, has a total fund balance of \$82,934,160, all of which is reserved for specific capital projects. The \$11,991,443 net decrease in fund balance during the current fiscal year resulted from an increase in expenditures for construction projects, such as Taylor Middle/High School, Mainland High School, and New Smyrna Beach High School. It should be noted that \$42,955,166 of the total fund balance has been encumbered under specific engineering and construction contracts for projects in progress at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget for revenues were approximately \$6,231,945 (1.5 percent increase), and can be briefly summarized as follows:

- \$4,117,061 decrease in State funding due to a decline in projected enrollment and the McKay Scholarships (a voucher program for exceptional student education (ESE) students where the amount is deducted from the District's allocation and sent to a designated private school).
- \$2,894,200 increase in local property tax collections due to an increase in the taxable assessed values.
- Approximately \$6,600,000 increase in other local revenues. The District's after school age child care program generated approximately \$2,800,000 of the increase, interest generated an additional \$1,000,000, bus fees also generated an additional \$1,000,000, and \$1,800,000 was from increases in various other sources.

The final amended budget reflected a reduction in fund balance of \$15,334,976 for current year operations. Many of the large fluctuations between original and amended budget are from revenues that are not known and measurable at the time of budget adoption. These are amended into the budget during the year. Revenues and the corresponding appropriations are amended into the budget upon receipt. Annual salary increases are amended into the budget once salary negotiations have concluded. Fluctuations between amended budget and actual amounts usually occur from unused grant balances. Certain unexpended funds remain allocated and are rebudgeted in the following fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$875,399,678 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; audio visual materials; and computer software. The total increase in the District's investment in capital assets for the current fiscal year was 13.7 percent. Major capital asset events during the current fiscal year included the following:

- Completion of Mainland High replacement school, Manatee Cove Elementary School, New Smyrna Beach High replacement school, and additions and renovations to Spruce Creek High School.
- Continued construction and renovations to Blue Lake Elementary School and DeLand High School.
- Began construction of Taylor Middle/High replacement school, construction of Elementary "V", construction of Osteen Elementary replacement school, and construction and renovations to South Daytona Elementary School.

The following is a summary of capital assets as of June 30, 2006, and June 30, 2005:

	Capital Assets	
	(net of depreciation)	
	Governmental Activities	
	2006	2005
Land	\$ 54,793,359	\$ 49,826,007
Construction in Progress	248,517,279	164,662,288
Improvements Other than Buildings	33,867,475	25,196,796
Buildings and Fixed Equipment	503,065,037	498,461,099
Furniture, Fixtures, and Equipment	16,016,673	13,663,758
Motor Vehicles	16,480,664	14,573,248
Property Under Capital Lease		424,012
Audio Visual Materials	7,568	7,221
Computer Software	2,651,623	3,080,467
Total	\$ 875,399,678	\$ 769,894,896

Additional information on the District's capital assets can be found in note 4 on page 47 of this report.

Long-Term Debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$558,705,000, excluding premiums. Of this amount, \$9,780,000 comprises debt backed by the full faith and credit of the District, \$233,450,000 backed by sales tax revenue, and \$18,045,000 backed by the full faith and credit of the State of Florida. The remainder of this debt represents \$297,430,000 in certificates of participation.

The District maintains underlying ratings of an "A2" from Moody's Investor Services, Inc. and an "A+" from Fitch Ratings on its certificates of participation and sales tax revenue bonds. The Sales Tax Revenue Bonds, Series 2006, also carry an underlying rating of "A+" from Standard and Poor's. The general obligation bonds carry an underlying rating of "A1" from Moody's and an "A+" from Standard and Poor's. All debt issues are insured and carry an "Aaa" insured rating.

Additional information on the District's long-term debt can be found in notes 5 through 9 on pages 47 through 56 of this report.

The following is a summary of outstanding debt, excluding premiums, as of June 30, 2006, and June 30, 2005:

Outstanding Debt		
	Governmental Activities	
	2006	2005
Bonds Payable	\$ 261,275,000	\$ 225,665,000
Obligation Under Capital Lease		635,700
Certificates of Participation	<u>297,430,000</u>	<u>168,850,000</u>
Total	<u>\$ 558,705,000</u>	<u>\$ 395,150,700</u>

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The unemployment rate for the District (Volusia County, Florida) is currently 3.1 percent, which compares favorably to the State's average unemployment rate of 3.3 percent and the national average unemployment rate of 4.8 percent.
- The assessed value of taxable property in Volusia County increased by 24.7 percent over the previous year, continuing the trend of increasing taxable values.
- District revenues depend to a large extent on Florida education allocations. As of the date of this report, the most recent State estimates of revenues were very close to the projections used when the State budget was prepared.
- Funding from the Florida Education Finance Program (FEFP) through the Florida Legislature increased approximately \$46,000,000 for fiscal year 2006-07. Included in this amount is approximately \$15,200,000 for class size reduction based on a voter-approved amendment to reduce class size in the State of Florida. Districts are required to reduce their average class size in each grade by 2 students, until they meet the required class size of 18 students in kindergarten through 3rd grade, 22 students in grades 4 through 8, and 25 students in grades 9 through 12 by the year 2010.

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School District of Volusia County, Finance Department, P.O. Box 2118, DeLand, Florida 32721-2118.

**EXHIBIT - A
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2006**

	Primary Governmental Activities	Component Units
ASSETS		
Cash	\$ 8,293,175	\$ 1,133,834
Investments	442,597,304	
Accounts Receivable		128,642
Interest Receivable	1,900,037	
Deposits Receivable		22,510
Due from Other Agencies	20,533,338	
Inventories	4,166,865	1,476
Prepaid Items		357,091
Deferred Charges	4,353,557	
Investment in Joint Venture	10,000,000	
Capital Assets:		
Land	54,793,359	496,475
Construction in Progress	248,517,279	
Improvements Other Than Buildings, Net	33,867,475	
Buildings and Fixed Equipment, Net	503,065,037	1,329,006
Furniture, Fixtures, and Equipment, Net	16,016,673	97,473
Motor Vehicles, Net	16,480,664	
Audio Visual Materials, Net	7,568	
Computer Software, Net	2,651,623	31,318
	<u>\$ 1,367,243,954</u>	<u>\$ 3,597,825</u>
TOTAL ASSETS		
	<u>\$ 1,367,243,954</u>	<u>\$ 3,597,825</u>
LIABILITIES		
Salaries and Benefits Payable	\$ 3,249,627	\$ 1,425
Payroll Deductions and Withholdings	1,328	
Accounts Payable	9,479,070	90,817
Construction Contracts Payable	9,544,417	
Construction Contracts Payable - Retainage	13,032,624	
Accrued Interest Payable	244,500	
Due to Other Agencies	326,118	51,435
Unearned Revenue	848,332	44,330
Long-Term Liabilities:		
Portion Due Within One Year:		
Notes Payable		36,863
Bonds Payable	28,519,560	
Obligations Under Capital Lease		19,516
Certificates of Participation Payable	7,660,229	
Compensated Absences Payable	4,333,982	6,294
Estimated Insurance Claims Payable	2,016,257	
Portion Due After One Year:		
Notes Payable		664,517
Bonds Payable	239,851,036	
Obligations Under Capital Lease		74,932
Certificates of Participation Payable	299,699,339	
Compensated Absences Payable	43,568,193	
Estimated Insurance Claims Payable	5,738,577	
	<u>668,113,189</u>	<u>990,129</u>
Total Liabilities		
	<u>668,113,189</u>	<u>990,129</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	534,830,900	1,158,444
Restricted for:		
State Categorical Programs	616,443	
Debt Service	27,769,025	
Capital Projects	133,521,941	
Food Service	8,159,823	
Other Purposes		522,438
Unrestricted	(5,767,367)	926,814
	<u>699,130,765</u>	<u>2,607,696</u>
Total Net Assets		
	<u>699,130,765</u>	<u>2,607,696</u>
TOTAL LIABILITIES AND NET ASSETS		
	<u>\$ 1,367,243,954</u>	<u>\$ 3,597,825</u>

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

EXHIBIT - B
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 288,187,757	\$ 3,389,212	\$	\$
Pupil Personnel Services	23,169,573			
Instructional Media Services	7,343,328			
Instruction and Curriculum Development Services	13,933,703			
Instructional Staff Training Services	8,839,340			
Instruction Related Technology	4,102,673			
Board of Education	519,889			
General Administration	3,394,346			
School Administration	36,934,562			
Facilities Acquisition and Construction	12,729,032		2,259,232	12,863,827
Fiscal Services	2,711,616			
Food Services	21,985,268	8,680,020	13,377,126	
Central Services	5,536,321			
Pupil Transportation Services	16,837,763		11,549,719	
Operation of Plant	37,472,736		170,396	
Maintenance of Plant	14,153,260		3,767,659	
Administrative Technology Services	3,862,846			
Community Services	1,612,862	991,659		
Interest on Long-Term Debt	19,501,861			4,320,443
Depreciation Expense	32,275,209			
Total Governmental Activities	555,103,945	13,060,891	31,124,132	17,184,270
Component Units				
Charter Schools	\$ 2,839,215	\$ 77,592	\$ 188,788	\$
Volusia County Education Direct-Support Organization, Inc.	523,020	127,815	523,118	
Total Component Units	\$ 3,362,235	\$ 205,407	\$ 711,906	\$

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, 2005
Adjustment to Beginning Net Assets
Net Assets - July 1, 2005, Restated

Net Assets - June 30, 2006

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>		
\$	(284,798,545)	\$
	(23,169,573)	
	(7,343,328)	
	(13,933,703)	
	(8,839,340)	
	(4,102,673)	
	(519,889)	
	(3,394,346)	
	(36,934,562)	
	2,394,027	
	(2,711,616)	
	71,878	
	(5,536,321)	
	(5,288,044)	
	(37,302,340)	
	(10,385,601)	
	(3,862,846)	
	(621,203)	
	(15,181,418)	
	(32,275,209)	
	<u>(493,734,652)</u>	
		(2,572,835)
		<u>127,913</u>
		<u>(2,444,922)</u>
	172,453,066	
	9,434,299	
	58,101,772	
	37,737,410	
	254,397,184	2,726,865
	12,375,391	15,490
	<u>7,106,019</u>	<u>97,425</u>
	<u>551,605,141</u>	<u>2,839,780</u>
	57,870,489	394,858
	631,260,276	2,212,838
	10,000,000	
	<u>641,260,276</u>	<u>2,212,838</u>
\$	<u>699,130,765</u>	\$ <u>2,607,696</u>

EXHIBIT - C
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Certificates of Participation - Debt Service Fund	Local Capital Improvement - Capital Projects Fund
ASSETS			
Cash	\$ 8,279,170	\$	\$
Investments	28,110,789	47,531,227	47,403,037
Interest Receivable	42,858	119,704	86,658
Due from Other Funds			432,794
Due from Other Agencies	1,874,343		26,765
Inventories	1,464,863		
TOTAL ASSETS	\$ 39,772,023	\$ 47,650,931	\$ 47,949,254
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 3,043,037	\$	\$
Payroll Deductions and Withholdings	1,328		
Accounts Payable	9,479,070		
Construction Contracts Payable			1,625,882
Construction Contracts Payable - Retainage			757,497
Due to Other Funds			
Due to Other Agencies	138,365		
Unearned Revenue			
Total Liabilities	12,661,800		2,383,379
Fund Balances:			
Reserved for State Categorical Programs	616,443		
Reserved for Encumbrances	1,987,357		24,855,080
Reserved for Inventories	1,464,863		
Reserved for Debt Service		47,650,931	
Unreserved, Reported in:			
General Fund	23,041,560		
Special Revenue Funds			
Capital Projects Funds			20,710,795
Total Fund Balances	27,110,223	47,650,931	45,565,875
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,772,023	\$ 47,650,931	\$ 47,949,254

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

EXHIBIT - C

Certificates of Participation - Capital Projects Fund	Local Sales Tax - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
165,897,294	91,141,191	14,005	8,293,175
1,218,169	254,283	49,183,707	429,267,245
		112,054	1,833,726
63,121	7,133,595	11,435,514	432,794
		2,702,002	20,533,338
			4,166,865
<u>\$ 167,178,584</u>	<u>\$ 98,529,069</u>	<u>\$ 63,447,282</u>	<u>\$ 464,527,143</u>
\$	\$	\$	\$
		206,082	3,249,119
			1,328
			9,479,070
2,397,310	4,931,884	589,341	9,544,417
1,445,069	10,663,025	167,033	13,032,624
		432,794	432,794
		187,753	326,118
		848,332	848,332
<u>3,842,379</u>	<u>15,594,909</u>	<u>2,431,335</u>	<u>36,913,802</u>
17,746,701	42,955,166	10,246,706	616,443
		2,702,002	97,791,010
		25,962,162	4,166,865
			73,613,093
			23,041,560
		5,121,027	5,121,027
<u>145,589,504</u>	<u>39,978,994</u>	<u>16,984,050</u>	<u>223,263,343</u>
<u>163,336,205</u>	<u>82,934,160</u>	<u>61,015,947</u>	<u>427,613,341</u>
<u>\$ 167,178,584</u>	<u>\$ 98,529,069</u>	<u>\$ 63,447,282</u>	<u>\$ 464,527,143</u>

**EXHIBIT - D
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

Total Fund Balances - Governmental Funds		\$ 427,613,341
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.		875,399,678
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		4,353,557
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.		(244,500)
Investment in the joint venture used in governmental activities is not a financial resource and, therefore, is not reported as an asset in the governmental funds.		10,000,000
Internal service funds are used by management to charge the costs of its self-insurance programs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		5,641,028
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	\$ 268,370,596	
Certificates of Participation Payable	307,359,568	
Compensated Absences Payable	47,902,175	(623,632,339)
Total Net Assets - Governmental Activities		\$ 699,130,765

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

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EXHIBIT - E
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	General Fund	Certificates of Participation - Debt Service Fund	Local Capital Improvement - Capital Projects Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 277,674	\$	\$
Federal Through State	1,487,444		
Federal Through Local State	46,519		
State	228,362,094		
Local	183,702,842	149,086	59,637,060
Total Revenues	413,876,573	149,086	59,637,060
Expenditures			
Current - Education:			
Instruction	269,326,286		
Pupil Personnel Services	18,508,333		
Instructional Media Services	7,256,291		
Instruction and Curriculum Development Services	6,971,407		
Instructional Staff Training Services	3,960,327		
Instruction Related Technology	4,054,046		
Board of Education	513,727		
General Administration	2,000,200		
School Administration	35,010,100		
Facilities Acquisition and Construction	898,164		7,591,838
Fiscal Services	2,679,477		
Food Services			
Central Services	5,361,354		
Pupil Transportation Services	16,159,765		
Operation of Plant	37,028,590		
Maintenance of Plant	13,985,508		
Administrative Technology Services	3,817,062		
Community Services	1,593,746		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	35,680		20,769,042
Other Capital Outlay	204,331		7,885,441
Debt Service:			
Principal		6,595,000	
Interest and Fiscal Charges		13,094,471	
Total Expenditures	429,364,394	19,689,471	36,246,321
Excess (Deficiency) of Revenues Over Expenditures	(15,487,821)	(19,540,385)	23,390,739
Other Financing Sources (Uses)			
Transfers In	11,710,087	17,554,311	
District Revenue Bonds Issued			
Premium on District Revenue Bonds			
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payment to Bond Escrow Agent for Refunded Bonds			
Certificates of Participation Issued			
Premium on Certificates of Participation			
Proceeds from Sale of Capital Assets	286,500		
Loss Recoveries	486,846		2,259,232
Transfers Out	(12,060)		(10,358,995)
Total Other Financing Sources (Uses)	12,471,373	17,554,311	(8,099,763)
Net Change in Fund Balances	(3,016,448)	(1,986,074)	15,290,976
Fund Balances, July 1, 2005	30,126,671	49,637,005	30,274,899
Fund Balances, June 30, 2006	\$ 27,110,223	\$ 47,650,931	\$ 45,565,875

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

EXHIBIT - E

<u>Certificates of Participation - Capital Projects Fund</u>	<u>Local Sales Tax - Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$	\$
		328,808	606,482
		48,386,687	49,874,131
			46,519
		10,596,172	238,958,266
<u>4,296,867</u>	<u>40,838,232</u>	<u>30,459,254</u>	<u>319,083,341</u>
<u>4,296,867</u>	<u>40,838,232</u>	<u>89,770,921</u>	<u>608,568,739</u>
		15,445,720	284,772,006
		4,386,621	22,894,954
			7,256,291
		6,797,147	13,768,554
		4,774,245	8,734,572
			4,054,046
			513,727
		1,353,907	3,354,107
		1,486,695	36,496,795
	4,088,159		12,578,161
			2,679,477
		21,724,687	21,724,687
		109,348	5,470,702
		478,428	16,638,193
			37,028,590
			13,985,508
			3,817,062
			1,593,746
18,082,695	75,410,650	7,774,520	122,072,587
	4,155,936	2,138,733	14,384,441
		23,625,700	30,220,700
		10,674,207	23,768,678
<u>18,082,695</u>	<u>83,654,745</u>	<u>100,769,958</u>	<u>687,807,584</u>
<u>(13,785,828)</u>	<u>(42,816,513)</u>	<u>(10,999,037)</u>	<u>(79,238,845)</u>
		24,558,019	53,822,417
	59,125,000		59,125,000
	1,564,570		1,564,570
		13,575,000	13,575,000
		1,321,388	1,321,388
		(14,845,313)	(14,845,313)
135,175,000			135,175,000
5,240,610			5,240,610
		28,500	315,000
		21,654	2,767,732
<u>(1,581,282)</u>	<u>(29,864,500)</u>	<u>(12,005,580)</u>	<u>(53,822,417)</u>
<u>138,834,328</u>	<u>30,825,070</u>	<u>12,653,668</u>	<u>204,238,987</u>
125,048,500	(11,991,443)	1,654,631	125,000,142
38,287,705	94,925,603	59,361,316	302,613,199
<u>\$ 163,336,205</u>	<u>\$ 82,934,160</u>	<u>\$ 61,015,947</u>	<u>\$ 427,613,341</u>

**EXHIBIT - F
VOLUSIA 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, 2006**

Net Change in Fund Balances - Governmental Funds \$ 125,000,142

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 expense in the current period.	104,181,819
The gain on the exchange of capital assets is reported in the statement of activities, whereas in the governmental funds the exchange of capital assets does not provide current financial resources. Thus, the change in net assets reflects the value of the asset acquired less the undepreciated cost of the assets disposed.	1,206,897
Proceeds from the sale of land are included in the governmental funds. However, the cost of the land sold is removed from capital assets and offset against the sale proceeds in the government-wide statements.	(28,500)
Capital assets donated to the District during the current period increase net assets on the government-wide statements, but do not provide current financial resources and are not reported as revenues in the governmental funds.	144,566
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(207,875,000)
Issuance costs for new debt issues are reported as expenditures in governmental funds, but are deferred and amortized over the life of the debt in the statement of activities.	2,268,272
Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	44,320,700
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items in the year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities.	(5,499,147)
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities.	116,437
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.	(5,965,697)

Change in Net Assets - Governmental Activities \$ 57,870,489

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

EXHIBIT - G
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 190,000	\$ 277,674	\$ 277,674	\$
Federal Through State	800,000	1,487,444	1,487,444	
Federal Through Local State	232,479,155	228,362,094	228,362,094	
Local	<u>174,175,473</u>	<u>183,702,842</u>	<u>183,702,842</u>	
Total Revenues	<u>407,644,628</u>	<u>413,876,573</u>	<u>413,876,573</u>	
Expenditures				
Current - Education:				
Instruction	274,979,827	274,251,937	269,326,286	4,925,651
Pupil Personnel Services	18,527,860	18,741,059	18,508,333	232,726
Instructional Media Services	6,278,458	7,638,364	7,256,291	382,073
Instruction and Curriculum Development Services	6,380,325	7,565,932	6,971,407	594,525
Instructional Staff Training Services	3,329,099	4,916,788	3,960,327	956,461
Instruction Related Technology		4,054,046	4,054,046	
Board of Education	511,119	514,167	513,727	440
General Administration	2,756,622	2,112,605	2,000,200	112,405
School Administration	39,103,573	36,630,755	35,010,100	1,620,655
Facilities Acquisition and Construction	1,352,087	1,235,837	898,164	337,673
Fiscal Services	3,094,198	2,951,811	2,679,477	272,334
Central Services	15,797,498	5,817,808	5,361,354	456,454
Pupil Transportation Services	17,339,579	16,404,839	16,159,765	245,074
Operation of Plant	40,101,940	37,458,481	37,028,590	429,891
Maintenance of Plant	17,189,663	14,563,950	13,985,508	578,442
Administrative Technology Services		3,817,062	3,817,062	
Community Services	133,343	1,654,236	1,593,746	60,490
Fixed Capital Outlay:				
Facilities Acquisition and Construction	317	65,725	35,680	30,045
Other Capital Outlay	<u>1,387,918</u>	<u>1,287,520</u>	<u>204,331</u>	<u>1,083,189</u>
Total Expenditures	<u>448,263,426</u>	<u>441,682,922</u>	<u>429,364,394</u>	<u>12,318,528</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(40,618,798)</u>	<u>(27,806,349)</u>	<u>(15,487,821)</u>	<u>12,318,528</u>
Other Financing Sources (Uses)				
Transfers In	11,601,516	11,710,087	11,710,087	
Proceeds from Sale of Capital Assets	300,000	286,500	286,500	
Insurance Loss Recoveries		486,846	486,846	
Transfers Out	<u>(13,000)</u>	<u>(12,060)</u>	<u>(12,060)</u>	
Total Other Financing Sources (Uses)	<u>11,888,516</u>	<u>12,471,373</u>	<u>12,471,373</u>	
Net Change in Fund Balances	<u>(28,730,282)</u>	<u>(15,334,976)</u>	<u>(3,016,448)</u>	<u>12,318,528</u>
Fund Balances, July 1, 2005	<u>30,126,670</u>	<u>30,126,671</u>	<u>30,126,671</u>	
Fund Balances, June 30, 2006	<u>\$ 1,396,388</u>	<u>\$ 14,791,695</u>	<u>\$ 27,110,223</u>	<u>\$ 12,318,528</u>

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

EXHIBIT - H
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2006

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS	
Current Assets:	
Investments	\$ 13,330,059
Interest Receivable	<u>66,311</u>
TOTAL ASSETS	<u>\$ 13,396,370</u>
LIABILITIES	
Current Liabilities:	
Salaries and Benefits Payable	\$ 508
Estimated Insurance Claims Payable	<u>2,016,257</u>
Total Current Liabilities	2,016,765
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	<u>5,738,577</u>
Total Liabilities	<u>7,755,342</u>
NET ASSETS	
Unrestricted	<u>5,641,028</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,396,370</u>

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

**EXHIBIT - I
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities - Internal Service Funds</u>
OPERATING REVENUES	
Premium Revenues	<u>\$ 2,695,372</u>
OPERATING EXPENSES	
Salaries	73,437
Employee Benefits	16,949
Purchased Services	3,052,766
Materials and Supplies	6,370
Insurance Claims	<u>136,514</u>
Total Operating Expenses	<u>3,286,036</u>
Operating Loss	<u>(590,664)</u>
NONOPERATING REVENUES	
Interest	<u>590,664</u>
Change in Net Assets	
Total Net Assets, July 1, 2005	<u>5,641,028</u>
Total Net Assets, June 30, 2006	<u><u>\$ 5,641,028</u></u>

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

**EXHIBIT - J
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Board Funds	\$ 2,695,372
Payments to Suppliers for Goods and Services	(3,059,136)
Payments to Employees	(89,878)
Payments for Insurance Claims	<u>(1,660,351)</u>
Net Cash Used by Operating Activities	<u>(2,113,993)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	1,547,877
Interest Income	<u>566,116</u>
Net Cash Provided by Investing Activities	<u>2,113,993</u>
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents, Beginning	<u> </u>
Cash and Cash Equivalents, Ending	<u>\$ 0.00</u>
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	<u>\$ (590,664)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Salaries and Benefits Payable	508
Decrease in Estimated Insurance Claims Payable	<u>(1,523,837)</u>
Total Adjustments	<u>(1,523,329)</u>
Net Cash Used by Operating Activities	<u>\$ (2,113,993)</u>
 Noncash Investing Activities:	
Net decrease in the fair value of investments	<u>\$ (19,087)</u>

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

**EXHIBIT - K
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2006**

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash	\$	\$ 2,505,697
Investments	751,912	3,617,868
Interest Receivable	3,021	
TOTAL ASSETS	\$ 754,933	\$ 6,123,565
LIABILITIES		
Deposits Held for Others		\$ 6,123,565
NET ASSETS		
Assets Held in Trust for Scholarships	\$ 754,933	

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

EXHIBIT - L
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Private-Purpose Trust Funds
ADDITIONS	
Interest Earnings	\$ 29,746
DEDUCTIONS	
Scholarship Payments	5,900
Change in Net Assets	23,846
Net Assets, July 1, 2005	731,087
Net Assets, June 30, 2006	\$ 754,933

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

EXHIBIT – M
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

On July 1, 2000, the Volusia County District School Board and the State Board of Education executed a charter school district contract that became effective July 1, 2000. The original contract was for three years, but was extended on July 1, 2003. The new contract will expire on June 30, 2008. Volusia County District School Board is the first school district in the State to be approved as a Charter School District.

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

The District considered its charter school operated by Easter Seals Educational Services, Inc., for inclusion in its reporting entity; however, because Easter Seals Educational Services, Inc., is a component unit of a nongovernmental not-for-profit organization, it does not meet the criteria for inclusion as a component unit of the District. The charter school's financial statements were audited by an independent certified public accountant and are filed in the District's administrative offices.

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 Volusia School Board Leasing Corporation, Inc., (the Corporation) was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the District 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 basic financial statements include the financial data of the District's other component units. These component units consist of the Volusia County Education Direct-Support Organization, Inc., and three of the District's charter schools: Reading Edge Academy, Inc., The Chiles Academy, Inc., and Richard Milburn Academy of Volusia County.

The Volusia County Education Direct-Support Organization, Inc., d/b/a Futures, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization

EXHIBIT – M (Continued)
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

under Section 1001.453, Florida Statutes, to provide charitable and educational aid to the District, to promote education, and to encourage research, learning, and dissemination of information. Futures, Inc., is considered to be a component unit of the District, because the District must approve all members of Futures' Board, and the District has the ability to impose its will on Futures, Inc. It is considered to be a discretely presented component unit, because the two boards are not the same and Futures, Inc., does not provide services entirely or nearly entirely to the District. An audit of the Futures, Inc., financial statements for the fiscal year ended June 30, 2006, was conducted by an independent certified public accountant and is filed in the District's administrative office.

The component units' columns in the basic financial statements, Exhibits A and B, include the financial data of the District's other component units. The District's charter schools, Reading Edge Academy, Inc., The Chiles Academy, Inc., and Richard Milburn Academy of Volusia County, are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, and the Florida Not for Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under a charter approved by their sponsor, the District School Board of Volusia County, and are considered to be component units of the District since they are fiscally dependent on the District for their tax levy and the majority of their budget. Audits of the charter schools' financial statements for the fiscal year ended June 30, 2006, were conducted by independent certified public accountants and are filed in 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.

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

Eliminations have been made to minimize the double reporting of internal service fund activities. The effects of all other 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

EXHIBIT – M (Continued)
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Certificates of Participation – Debt Service Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs on the Certificates of Participation.
- Local Capital Improvement Fund – Capital Projects Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for relocatable school buildings.
- Certificates of Participation – Capital Projects Fund – to account for the financial resources provided by the various Certificates of Participation. These funds are used for the acquisition or construction of major educational facilities.
- Local Sales Tax – Capital Projects Fund (Local Governmental Infrastructure Surtax) – to account for and report on funds received by the District from a voted one-half cent sales tax authorized under Section 212.055(6), Florida Statutes, approved by the voters, and agreed to by an interlocal agreement.

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

- Internal Service Funds – to account for the District's individual self-insurance programs.
- Private-Purpose Trust Funds – to account for the DeLand High, Spruce Creek High, and Seabreeze High Scholarship Trust Funds.
- Agency Funds – to account for resources of the school internal funds that are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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.

EXHIBIT – M (Continued)
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Governmental fund financial statements are prepared utilizing the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues that are susceptible to accrual include ad valorem taxes, reimbursable-type grants, and interest on investments. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

In applying the “susceptible to accrual” concept to revenues from the Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two methods of reporting revenues. In one, moneys must be expended for the specific purpose before the District will receive any amounts; therefore, revenues are recognized based upon the incurrence of the expenditures. In the other, moneys are virtually unrestricted as to purpose of the expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the “susceptible to accrual” criteria are met. In all cases, moneys received before the revenue recognition criteria have been met, are reported as unearned revenue.

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. The Proprietary Funds are prepared under the economic resources measurement focus and the accrual basis of accounting. 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’ principal ongoing operations. The principal operating revenues of the District’s internal service funds are charges for workers’ compensation, general liability, and property insurance. The principal operating expenses include salaries and benefits for employees, 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 Volusia County Education Direct-Support Organization, Inc., d/b/a Futures, 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

EXHIBIT – M (Continued)
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

cash flows considers cash as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts placed with the State Board of Administration in a debt service account, 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.

The State Board of Administration Local Government Surplus Funds Trust Fund 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 amortized cost.

The District's investments in the State Board of Administration Debt Service Account are administered by the State Board of Education to provide for debt service payments on bonded debt issued by the State Board of Administration for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District has no formal policy for managing interest rate risk for this account, but relies on policies developed by the State Board of Administration. Disclosures for the debt service account are included in the notes to the financial statements in the State of Florida's Comprehensive Annual Financial Report.

Investments made locally consist of obligations of United States Government Agencies and Instrumentalities, money market mutual funds, certificates of deposit, and a guaranteed investment contract, 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. Warehouse, transportation, maintenance, and purchased food inventories are valued on a moving-average basis, except for purchased food inventories at the schools which are valued at cost on the first-in, first-out basis. The 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. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District 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. Interest costs incurred during the construction of capital assets are not considered material and 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:

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<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	40 years
Furniture, Fixtures, and Equipment	5 years
Motor Vehicles	10 years
Audio Visual Materials	3 years
Computer Software	5 years

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported with the applicable bond premium. 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 and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are also reported as other financing sources. 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 is liquidated with expendable available resources and expenditures are recognized as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.

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

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program 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

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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 Volusia County Property Appraiser, and property taxes are collected by the Volusia County Finance Department.

The School Board adopted the 2005 tax levy on September 13, 2005. 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 Volusia County Finance Department at fiscal year-end but not yet remitted to the District.

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

➤ **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

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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.

➤ **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

The Board follows procedures established by Chapter 1001, Florida Statutes, and State Board of Education Administrative Rules, Chapter 6A-1, 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.
- The legal level of control is at the functional level (e.g., instruction, pupil personnel services, and school administration) with control exercised at the object level (e.g. salaries, purchased services, and capital outlay) within each function. Appropriations are amended accordingly by resolution at any School Board meeting prior to the due date of the annual financial report.
- 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, 2006, the District has the following investments and maturities:

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Investment	Fair Value	Investment Maturities - Are Less Than				
		6 Months	1 Year	2 Years	3 Years	4 Years
State Board of Administration - Local Government Surplus Trust Fund	\$ 186,455,906	\$ 186,455,906	\$	\$	\$	\$
State Board of Administration - Debt Service Account	489,901	489,901				
Obligations of United States Government Agencies and Instrumentalities (1)	121,028,376	24,387,943	22,901,036	21,661,512	49,125,695	2,952,190
Certificates of Deposit	193,229		193,229			
Guaranteed Investment Contract (2)	138,799,027				138,799,027	
Columbia Treasury Reserves - Money Market Fund	645	645				
Total Investments, Primary Government	\$ 446,967,084	\$ 211,334,395	\$ 23,094,265	\$ 21,661,512	\$ 187,924,722	\$ 2,952,190

Note (1) Includes \$47,530,653 in investments held by trustee relating to the Crossover Refunding Certificates of Participation, Series 2005B.

Note (2) Investments held by trustee relate to the unspent portion of the Certificates of Participation, Series 2006A.

Interest Rate Risk

- The District's investment policy limits investment maturities to a maximum of five years, unless specifically matched with cash flow needs as a means of managing its exposure to fair value losses arising from increasing interest rates.
- The District has \$121,028,376 in Obligations of United States Government Agencies and Instrumentalities that include some 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 July 2006 and March 2010.

As of June 30, 2006, the District had the following investments by fund and interest rate risk:

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Investment	Fair Value	Investment Maturities - Are Less Than				
		6 Months	1 Year	2 Years	3 Years	4 Years
Major Governmental Funds:						
General	\$ 28,110,789	\$ 26,148,909	\$	\$ 1,961,880	\$	\$
Debt Service Funds:						
Certificates of Participation	47,531,227	1,339,602			46,191,625	
Capital Projects Funds:						
Local Capital Improvement	47,403,037	40,288,105	259,292	4,890,640		1,965,000
Local Sales Tax	91,141,191	63,923,157	16,341,852	8,909,612	979,380	987,190
Certificates of Participation	165,897,294	27,098,267			138,799,027	
Nonmajor Governmental Funds	49,183,707	37,437,295	4,864,842	5,899,380	982,190	
Internal Service Funds	13,330,059	10,922,509	1,435,050		972,500	
Fiduciary Funds	4,369,780	4,176,551	193,229			
Total Investments, Primary Government	<u>\$ 446,967,084</u>	<u>\$ 211,334,395</u>	<u>\$ 23,094,265</u>	<u>\$ 21,661,512</u>	<u>\$ 187,924,722</u>	<u>\$ 2,952,190</u>

Credit Risk

- District 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, whose portfolios consist of investment instruments authorized by the District's Investment Policy; certificates of deposit in State qualified public depositories; as well as the Local Government Surplus Funds Trust Fund.
- As of June 30, 2006, the District's investment in the Local Government Surplus Funds Trust Fund investment pool was unrated.
- The District's investments in the Federal Home Loan Bank, the Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.
- The District, through the Trustee for Certificates of Participation project funds, holds investments in two separate investments. The first investment is the Guaranteed Investment Contract, which is unrated, but is collateralized at 104 percent of fair value. The collateral for the Guaranteed Investment Contract is held by a financial institution in the name of the District. The second investment is in the Money Market Fund of Columbia Treasury Reserves and is rated AAA by Standard & Poor's and Moody's Investors Services.

Concentration of Credit Risk

- District policy requires diversification by security type and institution as is practicable to control the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.
- As of June 30, 2006, the District's investment in various individual issuers and maturities of obligations of United States Government Agencies and Instrumentalities totaled approximately 27 percent of total investments, including a maximum concentration in any single issuer of

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approximately 14.1 percent. This includes 11 percent in escrow funds held by a trustee as legal defeasance for the crossover refunding of the 1999 Certificates of Participation.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-05	Additions	Deletions	Balance 6-30-06
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 49,826,007	\$ 5,083,954	\$ 116,602	\$ 54,793,359
Construction in Progress	164,662,288	107,170,414	23,315,423	248,517,279
Total Capital Assets Not Being Depreciated	214,488,295	112,254,368	23,432,025	303,310,638
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	37,453,108	11,120,984	940,559	47,633,533
Buildings and Fixed Equipment	699,585,146	22,710,948	2,190,835	720,105,259
Furniture, Fixtures, and Equipment	62,160,782	9,338,878	3,550,388	67,949,272
Motor Vehicles	31,199,951	4,629,030	3,376,849	32,452,132
Property Under Capital Lease	635,700		635,700	
Audio Visual Materials	135,358	1,415	2,314	134,459
Computer Software	17,519,661	1,156,393	105,537	18,570,517
Total Capital Assets Being Depreciated	848,689,706	48,957,648	10,802,182	886,845,172
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	12,256,312	2,450,304	940,558	13,766,058
Buildings and Fixed Equipment	201,124,047	18,107,011	2,190,836	217,040,222
Furniture, Fixtures, and Equipment	48,497,024	6,985,963	3,550,388	51,932,599
Motor Vehicles	16,626,703	2,721,614	3,376,849	15,971,468
Property Under Capital Lease	211,688	424,012	635,700	
Audio Visual Materials	128,137	1,068	2,314	126,891
Computer Software	14,439,194	1,585,237	105,537	15,918,894
Total Accumulated Depreciation	293,283,105	32,275,209	10,802,182	314,756,132
Total Capital Assets Being Depreciated, Net	555,406,601	16,682,439		572,089,040
Governmental Activities Capital Assets, Net	\$ 769,894,896	\$ 128,936,807	\$ 23,432,025	\$ 875,399,678

The District's capital assets serve several functions; accordingly, depreciation expense was not charged to functions but is separately reported on the statement of activities.

5. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on May 3, 2005, to advance refund the Certificates of Participation, Series 1995, maturing on and after August 1, 2006, and to pay the Series 1995 Certificates maturing on August 1, 2005, issued on behalf of the District by the Volusia School Board Leasing

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Corporation, Inc. (Leasing Corporation). The refunding issue was made pursuant to the Master Lease-Purchase Agreement dated August 1, 1991, and the Supplemental Trust Agreement dated May 3, 2005. The refunding was accomplished through the issuance of Certificates of Participation, Series 2005A, totaling \$26,730,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The term of the original lease commenced on August 1, 1991, and runs until the earlier of: (a) the date on which the Series 2005A Certificates have been paid in full, or (b) July 1, 2016. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to approximately 30 years from the date of the inception of the arrangement.

The District properties included in the ground lease under this arrangement, and supplements thereto, include Friendship Elementary School, Pine Ridge High School, Sweetwater Elementary School, Forest Lake Elementary School, Heritage Middle School, and DeBary Elementary School.

The District entered into a financing arrangement on September 1, 1999, which was characterized as a lease-purchase agreement, with the Leasing Corporation, whereby the District secured financing for the acquisition and construction of facilities and equipment in the total amount of \$65,685,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1999, to be repaid from the proceeds of rents paid by the District. The District entered into a crossover refunding arrangement on March 10, 2005, to advance refund the Certificates of Participation, Series 1999, which mature on or after August 1, 2010. Upon the crossover date of August 1, 2009 the crossover transaction will meet the definition of a defeasance and the liability for the Refunded Series 1999 Certificates will be removed from the District's government-wide financial statements. The refunding issue was made pursuant to the Master Lease-Purchase Agreement dated August 1, 1991, and the Supplemental Trust Agreement dated March 1, 2005. The refunding was accomplished through the issuance of Refunding Certificates of Participation, Series 2005B, totaling \$47,180,000.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The term of the original lease commenced on September 1, 1999, and runs until the earlier of (a) the date on which the Series 2005B Certificates (or any Certificates issued to refund the Series 2005B Certificates) have been paid in full, or (b) June 30, 2034. The

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properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to approximately 30 years from the date of the inception of the arrangement.

The District properties included in the ground lease under this arrangement, and supplements thereto, include Creekside Middle School, Maintenance Facility, Campbell Middle School, Seabreeze High School, and Deltona High School.

The District entered into a financing arrangement on June 30, 2005, which was characterized as a lease-purchase agreement, with the Leasing Corporation, whereby the District secured financing for the acquisition, construction, and installation of certain education facilities in the total amount of \$39,010,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2005C, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The term of the original lease commenced on June 1, 2005, and runs until the earlier of (a) the date on which the Series 2005C Certificates (or any Certificates issued to refund the Series 2005C Certificates) have been paid in full, or (b) July 30, 2035. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to approximately 30 years from the date of the inception of the arrangement.

The District properties included in the ground lease under this arrangement include Osteen Elementary School and New Elementary School “V”.

The District entered into a financing arrangement on January 31, 2006, which was characterized as a lease-purchase agreement, with the Leasing Corporation, whereby the District secured financing for the acquisition, construction, and installation of certain education facilities in the total amount of \$135,175,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2006A, to be repaid from the proceeds of rents paid by the District.

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As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The term of the original lease commenced on January 1, 2006, and runs until the earlier of (a) the date on which the Series 2006A Certificates (or any Certificates issued to refund the Series 2006A Certificates) have been paid in full, or (b) July 30, 2036. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to approximately 30 years from the date of the inception of the arrangement.

The District properties included in the ground lease under this arrangement include New High School “DDD”, New Middle School “DD”, and Hurst Elementary School.

The lease payments are payable by the District, semiannually, on August 1 and February 1 at interest rates ranging from 3.0 to 5.5 percent. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 21,347,781	\$ 7,025,000	\$ 14,322,781
2008	21,354,606	7,335,000	14,019,606
2009	21,349,226	7,670,000	13,679,226
2010	23,695,636	10,380,000	13,315,636
2011	23,701,749	10,845,000	12,856,749
2012-2016	107,726,005	49,585,000	58,141,005
2017-2021	107,731,450	62,210,000	45,521,450
2022-2026	98,163,150	69,790,000	28,373,150
2027-2031	83,804,000	72,590,000	11,214,000
Total Minimum Lease Payments	<u>508,873,603</u>	<u>297,430,000</u>	<u>211,443,603</u>
Plus: Unamortized Net Premiums	10,273,525	10,273,525	
Less: Deferred Amount on Refundings	<u>(343,957)</u>	<u>(343,957)</u>	
Total Certificates of Participation	<u>\$ 518,803,171</u>	<u>\$ 307,359,568</u>	<u>\$ 211,443,603</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2006, are as follows:

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Bond Type	Amount Issued	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:				
Series 1996B	\$ 500,000	\$ 65,000	4.625	2007
Series 1998A	21,000,000	1,875,000	4.5	2008
Series 1999A	3,150,000	2,025,000	4.000 - 4.750	2019
Series 2000A	280,000	60,000	5.000 - 5.125	2010
Series 2003A	560,000	515,000	3 - 5	2023
Series 2005B, Refunding	13,575,000	13,505,000	5	2020
District General Obligation Refunding Bonds:				
Series 2001	44,385,000	9,780,000	5	2007
Sales Tax Revenue Bonds:				
Series 2002	146,845,000	121,730,000	3.125 - 5.500	2017
Series 2004	57,825,000	52,595,000	2.00 - 5.25	2017
Series 2006	59,125,000	59,125,000	3.6 - 5.0	2017
Subtotal	<u>347,245,000</u>	<u>261,275,000</u>		
Plus Unamortized Net Premiums:				
Sales Tax Revenue Bonds, Series 2002	4,414,904	2,943,269		
Sales Tax Revenue Bonds, Series 2004	3,835,659	2,950,506		
Sales Tax Revenue Bonds, Series 2006	<u>1,322,003</u>	<u>1,201,821</u>		
Total Unamortized Net Premiums	<u>9,572,566</u>	<u>7,095,596</u>		
Total Bonds Payable	<u>\$ 356,817,566</u>	<u>\$ 268,370,596</u>		

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

➤ **State School Bonds**

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

➤ **Sales Tax Revenue Bonds**

Sales Tax Revenue Bonds, issued in the amount of \$146,845,000 in 2002, \$57,825,000 in 2004, and \$59,125,000 in 2006 are authorized by Chapter 1001, Florida Statutes, and secured by a one-half cent discretionary sales surtax levied pursuant to Section 212.055(6), Florida Statutes. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

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➤ **District General Obligation Refunding Bonds**

General Obligation Refunding Bonds, issued in the amount of \$44,385,000 referred to as the Refunding Bonds, Series 2001, are authorized by Article VII, Section 12, of the State Constitution, as amended, and secured by a pledge of property taxes levied, pursuant to Chapter 1011, Florida Statutes, and Sections 132.33 through 132.47, Florida Statutes.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
State School Bonds:			
2007	\$ 1,155,000	\$ 875,581	\$ 2,030,581
2008	1,205,000	824,150	2,029,150
2009	1,240,000	771,050	2,011,050
2010	1,285,000	710,981	1,995,981
2011	1,350,000	648,181	1,998,181
2012-2016	7,785,000	2,180,831	9,965,831
2017-2021	3,930,000	335,144	4,265,144
2022-2023	95,000	6,163	101,163
Total State School Bonds	18,045,000	6,352,081	24,397,081
Sales Tax Revenue Bonds:			
2007	16,875,000	9,969,663	26,844,663
2008	17,795,000	9,705,528	27,500,528
2009	18,395,000	9,040,020	27,435,020
2010	19,125,000	8,266,035	27,391,035
2011	19,945,000	7,437,516	27,382,516
2012-2016	114,765,000	21,352,265	136,117,265
2017	26,550,000	624,420	27,174,420
Total Sales Tax Revenue Bonds	233,450,000	66,395,447	299,845,447
District General Obligation Refunding Bonds:			
2007	9,780,000	244,500	10,024,500
Total District General Obligation Refunding Bonds	9,780,000	244,500	10,024,500
Subtotal	261,275,000	72,992,028	334,267,028
Plus: Unamortized Net Premiums	7,095,596		7,095,596
Total	\$ 268,370,596	\$ 72,992,028	\$ 341,362,624

Annual requirements to amortize net premiums as of June 30, 2006, are as follows:

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Fiscal Year Ending June 30	Amortized Expense
Sales Tax Revenue Bonds:	
2007	\$ 709,560
2008	709,560
2009	709,560
2010	709,560
2011	709,560
2012-2016	3,547,796
Total	<u>\$ 7,095,596</u>

7. FIXED SPREAD BASIS SWAP

Objective of Fixed Spread Basis Swap. As a means to assist the District in managing interest costs, when compared against the District’s fixed-rate debt, the District entered into a Fixed Spread Basis Swap (Swap) to take advantage of historically low interest rates without completing a refunding of any of its long-term debt.

Terms. The District entered into the swap agreement with Citigroup Global Markets Holdings Inc., formerly known as Solomon Brothers Holding Company (counterparty) on March 27, 2003, that matures on April 1, 2017, to coincide with the maturity of the Sales Tax Revenue Bonds. The notional amount of the swap agreement is \$50,000,000. The District pays the counterparty a variable rate equivalent to the Bond Market Association Municipal Swap Index (BMA), which was 3.97 percent as of June 30, 2006. The counterparty pays the District a combination of a fixed rate of 0.41 percent and a computed rate of 70 percent of the London Interbank Offered Rate (LIBOR). The LIBOR rate was 5.33 percent as of June 30, 2006.

Fair Value. Because the ratio between the BMA and LIBOR swap curves was compressed at the end of the fiscal year, the Swap has a fair value of \$885,139 as of June 30, 2006, including \$49,425 of interest accruals. The fair value was calculated by the counterparty as identified in the Schedule to the International Swap Dealers Association Master Agreement (ISDA) using the mid-market level method. This method is in accordance with market conventions, which take into consideration estimates about relevant present and future market conditions, as well as the size and liquidity of the position and related actual or potential hedging transactions.

Credit Risk. As of June 30, 2006, the Swap’s positive fair value represented the District’s exposure to the counterparty’s credit risk. Citigroup, Inc., which guarantees the obligations of the counterparty to the Swap was rated AA by Fitch Rating, AA by Standard & Poor’s, and Aa1 by Moody’s Investors Service. To

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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mitigate credit risk, the counterparty may be required to post collateral using United States Treasury securities or Obligations of the United States Government Agencies and Instrumentalities with the level of collateral set based on the counterparty's credit quality. The current fair value threshold for posting collateral is based on the counterparty's credit rating. At its current rating levels, the counterparty would not be required to post collateral until the fair value of the Swap exceeds \$20,000,000. In accordance with the agreement if collateral is required, the collateral would be posted in an account held in trust for the District.

Basis Risk. The Swap exposes the District to basis risk should the relationship between LIBOR and BMA converge and short-term interest rates rise significantly. If a change occurs that results in the rates moving to convergence, or a significant increase in short-term interest rates occurs, the expected cost savings may not be realized. At June 30, 2006, the estimated accrued interest owed to the District by the counterparty was \$49,425. The estimated net Swap payment to date is calculated below:

Notional	\$ 50,000,000
Receive 70.00% of LIBOR ⁽¹⁾	1.741%
Receive Fixed Spread (.41%)	<u>0.410%</u>
Total Received	2.151%
Pay BMA ⁽²⁾	<u>1.877%</u>
Approximate Benefit	0.274%
Approximate Total Cash Flow Benefit ⁽³⁾	\$ 460,968
Approximate FY 2006 Cash Flow Benefit ⁽⁴⁾	\$ 222,273
Mark-to-Market Value ⁽⁵⁾	\$ 885,139

(1) Approximate 1-month LIBOR average since execution (2.45245%) x 70% x 365/360 (day count adjustment)

(2) Approximate BMA average since execution

(3) Approximate actual cash flow benefit and accrued interest from effective date through 6/30/06

(4) Approximate actual cash flow benefit and accrued interest during fiscal year 2006 (7/1/05 through 6/30/06)

(5) Approximate mark-to-market value as of 6/30/06, including accruals. A positive number is in the District's favor and a negative number is in Citigroups's favor.

Termination Risk. The District or counterparty may terminate the Swap if the other party fails to perform under terms of the agreement. The Swap may be transferred to an acceptable party as outlined in the Swap agreement. If at the time of termination the Swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the Swap's fair value.

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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8. DEFEASED DEBT

The Florida Department of Education issued Capital Outlay Refunding Bonds, Series 2005B, dated July 1, 2005, with an average interest rate of 4.99 percent, to advance-refund callable portions of the District's State School Bonds, Series 1998A and 2000A. The Refunding Bonds are being issued to advance-refund the \$14,025,000 principal amount of the District's State School Bonds, Series 1998A, that mature on or after January 1, 2009, and \$75,000 principal amount of the District's State School Bonds, Series 2000A, that mature on or after January 1, 2011. The District's pro rata share of net proceeds totaling \$14,845,313 (after deduction of \$51,075 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) was placed in an irrevocable trust to provide for future debt service payments. As a result, \$14,100,000 of the State School Bonds, Series 1998A and 2000A, are considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements. The State School Bonds, Series 1998A and Series 2000A, will be refunded on January 1, 2008, and January 1, 2010, respectively, on the scheduled call dates.

The Series 2005B bonds were issued to reduce the total debt service payments over the next 15 years by approximately \$909,281 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$810,258.

In prior years, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the District's financial statements. The General Obligation Refunding Bonds, Series 1991, are considered defeased in substance with an outstanding balance of \$4,022,585 on June 30, 2006.

In prior years, the District advance refunded certain certificates of participation, which will meet the requirements of a defeasance on August 1, 2009. At that time, the liability for the refunded certificates will be removed from the District's financial statements. At June 30, 2006, the amount of refunded debt to be defeased, but still remaining on the District's financial statements, amounts to \$54,110,000.

9. CHANGES IN LONG-TERM LIABILITIES

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

EXHIBIT – M (Continued)
VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
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Description	Balance 7-1-05	Additions	Deductions	Balance 6-30-06	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 225,665,000	\$ 72,700,000	\$ 37,090,000	\$ 261,275,000	\$ 27,810,000
Plus: Unamortized Net Premium	6,811,638	2,885,958	2,602,000	7,095,596	709,560
Net Bonds Payable	<u>232,476,638</u>	<u>75,585,958</u>	<u>39,692,000</u>	<u>268,370,596</u>	<u>28,519,560</u>
Certificates of Participation Payable	168,850,000	135,175,000	6,595,000	297,430,000	7,025,000
Plus: Unamortized Net Premium	5,324,187	5,240,610	635,229	9,929,568	635,229
Net Certificates of Participation Payable	<u>174,174,187</u>	<u>140,415,610</u>	<u>7,230,229</u>	<u>307,359,568</u>	<u>7,660,229</u>
Obligation Under Capital Lease	635,700		635,700		
Compensated Absences Payable	41,936,478	10,299,679	4,333,982	47,902,175	4,333,982
Estimated Insurance Claims Payable	9,278,671	136,514	1,660,351	7,754,834	2,016,257
Total Governmental Activities	<u>\$ 458,501,674</u>	<u>\$ 226,437,761</u>	<u>\$ 53,552,262</u>	<u>\$ 631,387,173</u>	<u>\$ 42,530,028</u>

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

10. 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.

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 2006-07 fiscal year budget as a result of purchase orders outstanding at June 30, 2006.

11. ADJUSTMENT TO BEGINNING NET ASSETS

The adjustment to beginning net assets of \$10,000,000 on the statement of activities is to record the District's investment in a joint venture acquired in prior years. The adjustment represents the District's capital contribution for the construction of the joint venture facility, as further discussed in Note 17.

12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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Funds	Interfund	
	Receivables	Payables
Major Funds:		
Capital Projects:		
Local Capital Improvement	\$ 432,794	\$
Nonmajor Governmental Funds		432,794
Total	<u>\$ 432,794</u>	<u>\$ 432,794</u>

The interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 11,710,087	\$ 12,060
Debt Service:		
Certificates of Participation	17,554,311	
Capital Projects:		
Local Capital Improvement		10,358,995
Certificates of Participation		1,581,282
Local Sales Tax		29,864,500
Nonmajor Governmental Funds	<u>24,558,019</u>	<u>12,005,580</u>
Total	<u>\$ 53,822,417</u>	<u>\$ 53,822,417</u>

The transfers out of the Local Capital Improvement, Certificates of Participation, and Local Sales Tax Capital Projects Funds were to provide debt service principal and interest payments and to assist in funding maintenance operations of the District. The remaining transfers between funds were operational in nature.

13. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2005-06 fiscal year:

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 161,012,577
Categorical Educational Programs:	
Class Size Reduction	36,104,609
Transportation	11,549,719
Instructional Materials	5,926,766
Discretionary Lottery Funds	3,099,587
Other	7,330,066
Gross Receipts Tax (Public Education Capital Outlay)	5,721,539
State Grants and Other State Sources	2,569,109
Motor Vehicle License Tax (Capital Outlay and Debt Service)	2,516,052
Classrooms For Kids	1,867,621
Mobile Home License Tax	557,211
Food Service Supplement	342,115
Pari-Mutuel Tax	283,485
School Infrastructure Thrift	77,810
	<hr/>
Total	<u><u>\$ 238,958,266</u></u>

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

14. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2005 tax roll for the 2005-06 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.193	\$ 156,173,805
Basic Discretionary Local Effort	0.510	15,337,693
Supplemental Discretionary Local Effort	0.232	6,977,147
<u>DEBT SERVICE FUNDS</u>		
Voted Tax:		
Special Tax School District No. 1	0.324	9,743,946
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>60,147,816</u>
Total	<u><u>8.259</u></u>	<u><u>\$ 248,380,407</u></u>

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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15. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System. The Florida Retirement System (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 Plan vest at six years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

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, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2005-06 fiscal year, contribution rates were as follows:

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VOLUSIA COUNTY
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Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Elected County Officers	0.00	15.23
Florida Retirement System, Senior Management Service	0.00	10.45
Teachers' Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.33
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 0.05 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, 2004, June 30, 2005, and June 30, 2006, totaled \$19,904,709, \$21,497,690, and \$22,864,691, 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. There were 836 District participants in the PEORP during the 2005-06 fiscal year. Required employer contributions made to the program for the fiscal year ending June 30, 2006, totaled \$1,881,990.

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 from 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.

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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16. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
DeLand High School - New Construction and Renovation:			
Architect	\$ 1,036,985	\$ 1,036,748	\$ 237
Contractor	20,748,363	19,401,129	1,347,234
Seabreeze High School - New Construction:			
Architect	358,762	358,519	243
Contractor	6,670,716	6,321,330	349,386
Mainland High School - New Construction:			
Architect	2,642,991	2,582,611	60,380
Contractor	41,226,748	39,240,661	1,986,087
Manatee Cove Elementary School - New Construction:			
Architect	597,585	586,536	11,049
Contractor	8,242,534	7,863,717	378,817
Blue Lake Elementary School - Additions and Renovations:			
Architect	411,094	335,177	75,917
Contractor	7,646,276	3,266,159	4,380,117
New Elementary School "V" - New Construction:			
Architect	747,500	700,351	47,149
Contractor	13,132,388	7,801,227	5,331,161
Spruce Creek High School - Additions and Renovations:			
Architect	662,033	659,063	2,970
Contractor	10,263,548	9,489,596	773,952
Taylor Middle/High School - Additions and Renovations:			
Architect	1,643,474	1,559,182	84,292
Contractor	25,520,042	16,841,814	8,678,228
South Daytona Elementary School - New Construction and Renovations:			
Architect	853,594	697,097	156,497
Contractor	11,130,554	4,185,712	6,944,842
Osteen Elementary School - New Construction:			
Architect	557,350	510,146	47,204
Contractor	13,879,162	5,898,367	7,980,795
Total	<u>\$ 167,971,699</u>	<u>\$ 129,335,142</u>	<u>\$ 38,636,557</u>

17. JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement, and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain: (a) an ongoing financial interest or (b) ongoing financial responsibility. As discussed below, the District participates in a joint venture.

The District entered into an agreement with the Flagler County District School Board and the Daytona Beach Community College pursuant to Section 163.01, Florida Statutes, and Chapter 98-302, Laws of Florida, to construct and operate a charter technical career center. The charter technical career center does business as the Volusia Flagler Advanced Technology Center, Inc. (ATC), a separate legal entity, and is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, and Section 1002.34, Florida Statutes. Because the sponsoring governments (sponsors) have an ongoing financial interest and financial

EXHIBIT – M (Continued)
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responsibility, the ATC is considered a joint venture. The ATC Board of Directors, which oversees the ATC's operations, has 11 members: one member is the chief executive officer from a sponsor, and is appointed on a rotating basis from each sponsor to a one-year term; six members are appointed by the sponsors (two members are appointed by each sponsor); and four members are elected by the seven appointed board members. The agreement is effective until June 30, 2006, and was recently renewed through June 30, 2011, by mutual written agreement of the sponsors.

The District's capital contribution was \$10,000,000 as provided in the agreement and is reported as an investment in joint venture in the Statement of Net Assets. The agreement provides a vested interest for each sponsor for the purposes of recouping of investments and the allocating of assets and assuming liabilities upon termination of the agreement. In the event of termination of the agreement, the capital assets purchased by the ATC will be appraised and sold. The profits will revert to the sponsors based on their proportionate equity in the ATC as defined by the agreement. As of June 30, 2006, the District's proportionate share of profits to be distributed in the event of termination of the agreement was 58.8 percent.

The total cost to construct the ATC facility was \$25,500,000 and was financed through capital contributions from each sponsor as provided in the agreement. However, the District holds title to, and is considered the owner of, the facility and the site on which the facility is located. Pursuant to the agreement, the District must lease the facility to Daytona Beach Community College for a period of 40 years.

The agreement requires participants to make pro rata contributions for annual operating costs. Additionally, should enrollment of the ATC exceed expectations, sponsors must make additional pro rata contributions as required by the agreement. Annual required contributions by each sponsor are adjusted annually to cover the estimated annual operating costs of the ATC. The District's pro rata contributions for operating costs were \$1,717,525 for the 2005-06 fiscal year.

Daytona Beach Community College serves as the fiscal agent for the joint venture.

The ATC is accounted for as a proprietary joint venture. An audit of the ATC's financial statements was conducted by an independent certified public accountant, and copies of the audit report can be obtained from the ATC's administrative office or the District's administrative office.

18. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, general liability, and fleet liability coverage are being provided on a self-insured basis up to specified limits. The District has

EXHIBIT – M (Continued)
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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, exceed 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.

Property and casualty coverage is obtained through purchased commercial insurance. The property insurance fund is used to track premium costs and any claims expense.

A liability in the amount of \$7,754,834 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2006. The claims liability includes specific incremental claim adjustment expenses and is net of excess insurance recoverable on unpaid claims.

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
2004-05	\$ 8,466,702	\$ 2,649,590	\$ (1,837,621)	\$ 9,278,671
2005-06	9,278,671	136,514	(1,660,351)	7,754,834

Health and hospitalization coverage are being provided through purchased commercial health insurance.

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

19. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2005-06 fiscal year:

EXHIBIT – M (Continued)
VOLUSIA COUNTY
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June 30, 2006

	<u>Workers'</u> <u>Compensation</u>	<u>Property</u> <u>Insurance</u>	<u>General</u> <u>Liability</u>	<u>Fleet</u> <u>Insurance</u>	<u>Total</u>
Total Assets	\$ 6,276,099	\$ 4,000,000	\$ 1,847,568	\$ 1,272,703	\$ 13,396,370
Liabilities and Net Assets:					
Salaries and Benefits Payable	\$ 508	\$ \$	\$	\$	\$ 508.00
Estimated Insurance Claims Payable	5,709,563		1,772,568	272,703	7,754,834
Unrestricted Net Assets	<u>566,028</u>	<u>4,000,000</u>	<u>75,000</u>	<u>1,000,000</u>	<u>5,641,028</u>
Total Liabilities and Net Assets	<u>\$ 6,276,099</u>	<u>\$ 4,000,000</u>	<u>\$ 1,847,568</u>	<u>\$ 1,272,703</u>	<u>\$ 13,396,370</u>
Revenues:					
Premium Contributions	\$ 771,404	\$ 1,521,216	\$ 187,888	\$ 214,864	\$ 2,695,372
Interest Income	<u>298,862</u>	<u>148,829</u>	<u>88,059</u>	<u>54,914</u>	<u>590,664</u>
Total Revenues	1,070,266	1,670,045	275,947	269,778	3,286,036
Total Expenses	<u>1,070,266</u>	<u>1,670,045</u>	<u>275,947</u>	<u>269,778</u>	<u>3,286,036</u>
Change in Net Assets	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

20. LITIGATION AND CONTINGENCY

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.

Amounts received or receivable from grantors are subject to audit and adjustment by grantor agencies, principally, the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by grantors cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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



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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Volusia County District School Board as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Volusia County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the District's internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described 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 none of the reportable conditions referred to above is 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*.

Also, we noted certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report and a certain instance of noncompliance related to Federal programs which is 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

November 22, 2006



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

Compliance

We have audited the 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, 2006. 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 year ended June 30, 2006. However, as discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB *Circular A-133*.

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*.

We noted a certain matter, described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the District's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants.

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. Our consideration of the internal control over compliance 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 the reportable condition referred to above is not a material weakness.

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
November 22, 2006

**VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Donation	10.550(2)	None	\$ 1,298,308	\$
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	2,516,080	
National School Lunch Program	10.555	300	8,521,512	
Summer Food Service Program for Children	10.559	323	226,054	
Total Child Nutrition Cluster			11,263,646	
Child and Adult Care Food Program	10.558	302	190,464	
Total United States Department of Agriculture			12,752,418	
United States Department of Education:				
Direct:				
Fund for the Improvement of Education	84.215	N/A	328,808	1,590
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	13,367,668	
Special Education - Preschool Grants	84.173	267	478,103	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	5,038	
Total Special Education Cluster			13,850,809	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223	13,581,179	77,580
Migrant Education - State Grant Program	84.011	217	592,331	
Vocational Education - Basic Grants to States	84.048	151	774,864	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	362,324	
Education for Homeless Children and Youth	84.196	127	71,743	
Tech-Prep Education	84.243	157	453,475	81,704
Charter Schools	84.282	298	290,469	290,469
State Grants for Innovative Programs	84.298	113	208,259	
Education Technology State Grants	84.318	121	203,603	
Comprehensive School Reform Demonstration	84.332	128, 129	454,109	176,425
Transition to Teaching	84.350	227	149,124	
Reading First State Grants	84.357	211	965,761	30,000
Voluntary Public School Choice	85.361	299	92,908	
English Language Acquisition Grants	84.365	102	296,292	
Improving Teacher Quality State Grants	84.367	224	2,991,561	
Hurricane Education Recovery	84.938	None	97,125	20,805
Washington County District School Board:				
Reading First State Grants	84.357	None	45,388	
Total Indirect			35,481,324	676,983
Total United States Department of Education			35,810,132	678,573
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	39,557	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	2,767,732	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	59,400	
Total United States Department of Homeland Security			2,827,132	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	192,789	
Army Junior Reserve Officers Training Corps	None	N/A	84,885	
Total United States Department of Defense			277,674	
Total Expenditures of Federal Awards			\$ 51,706,913	\$ 678,573

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2005-06 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 2005-06 fiscal year. Commodities are valued at fair value as determined at the time of donation.

**VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 Volusia County District School Board for the fiscal year ended June 30, 2006:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be reportable conditions, though none of the reportable conditions was considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- Although not considered to be a material weakness, a certain matter was disclosed that was considered to be a reportable condition in internal control over a major Federal program.
- An unqualified opinion was issued on major program compliance.
- An audit finding on a Federal program is listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Improving Teacher Quality State Grants (CFDA No. 84.367).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$1,551,207.
- The low risk entity threshold was applied.

**VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FINDINGS AND RECOMMENDATIONS

Federal Awards Finding 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Reportable Condition and Noncompliance

Questioned Costs: \$157,830

Special Tests and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, Code of Federal Regulations (Code), requires that school districts ensure that teachers hired after the first day of the 2002-03 school year who teach core academic subjects and work in a program, such as the Title I program, be highly qualified. Title 34, Section 200.56 of the Code stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be highly qualified.

Our review of District records disclosed four teachers, who were hired during the 2005-06 fiscal year and worked as reading teachers in the District's Title I program at its middle schools, were not certified in the subject area of reading and, therefore, were not considered highly qualified. Salaries and benefits paid to these teachers during the 2005-06 fiscal year totaled \$157,830, which represents questioned costs subject to disallowance by the grantor.

Recommendation: The District should implement procedures to ensure that all teachers hired to work in the District's Title I program meet the qualification requirements. The District should also document to the grantor (Florida Department of Education) the allowability of the \$157,830 in questioned costs or those moneys should be restored to the program.

*VOLUSIA COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006*

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
Ernest & Young, LLP		There were no prior Federal audit findings.		

MANAGEMENT RESPONSE



Margaret A. Smith, D.Ed.
Superintendent of Schools

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School Board of Volusia County

Dr. Al Williams, Chairman
Ms. Judy Conte, Vice-Chairman
Ms. Candace Lankford
Mr. Stan Schmidt
Mrs. Diane Smith

November 30, 2006

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

RE: Response to preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2006.

Dear Mr. Monroe:

Enclosed you will find a written statement in response to the preliminary and tentative findings, along with corrective action, where we feel corrective action is warranted.

Sincerely,

A handwritten signature in cursive script that reads "Margaret A. Smith".

Margaret A. Smith, D.Ed.
Superintendent of Schools

Enclosures

Cc: School Board Members

An Equal Opportunity Employer

MANAGEMENT RESPONSE (CONTINUED)

November 30, 2006

Finding No. 1: Information Technology – Access Control

The district has acquired software products to address these needs and is presently in the configuration and implementation stages. Actual implementation should begin in late January 2007.

Finding No. 2: Information Technology – Software Change Management

The district has implemented a change management system and is in the process of including all major applications under this umbrella.

Finding No. 3: Information Technology – Disaster Preparedness

The district performs scheduled and off site storage of application back-ups and periodically executes restore functions. These activities will be formalized and logged for verification purposes. A process to implement scheduled testing for major systems at remote locations will be developed. This is currently being explored by the districts in the Central Florida Coalition with similar systems as a widespread sharing activity.

Finding No. 4: Student Fees – Extended Day Enrichment Program

The Extended Day Enrichment Program (EDEP) district management is currently working on procedures which will provide for reconciliations of all receipts to collections remitted for deposit, as well as procedures for an independent review of these reconciliations. All receipts, whether issued or voided, will be accounted for in the reconciliations. EDEP district management will continue to work with the EDEP facilitators to stress the timely submission of collections to the schools' bookkeepers.

Finding No. 5: Purchasing Card Administration

The Purchasing Department has implemented a new procedure to monitor more closely purchasing cards that have a request made to temporarily change either the single or monthly dollar limit amounts set on a card. The department is also working with the Management Information Services Department on the development of a mechanism or report that will notify purchasing that an employee assigned a purchasing card is terminating his employment with the district or transferring to another department.

Finding No. 6: Capital Outlay – Architect Insurance

The district will work to develop criteria for the coverage required for errors and omissions by the architect or engineer designing a specific project.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 7: Fingerprinting and Background Screening Requirements

The Division of Personnel Services has instituted a procedure by which teachers are notified during the final year of their five year certificate that they will need to be re-fingerprinted to be in compliance with the Jessica Lunsford Act. The one vendor that the audit found was printed within days of the finding. It was at the beginning of the process. Since that time, the district has fingerprinted all current vendors.

Finding No. 8: Cellular Telephones – Taxable Fringe Benefit

School officials have recently been reviewing the topic of cellular telephones. Currently, staff is in the process of making a list of all district-wide cell phones as well as school-based cell phones. Following the collection of this data, the school district will consider establishing and implementing policies and procedures in order to comply with IRS regulations.

Federal Awards Finding No. 1: Special Tests and Provisions – Highly Qualified Teachers

We will consult with the Florida Department of Education to resolve this matter. However, we offer the following explanation. Three of the teachers indicated were hired as reading teachers at Galaxy Middle School. While it is true all three teachers were not certified in the subject area of reading, they were hired after three advertisements for the positions failed to yield a teacher with the required certifications. These teachers were hired with the understanding that they would begin work toward earning reading endorsements. The endorsements require 300 hours of in-service, equal to five (5) semester hours, or about two (2) year's worth of work. The requirement for reading endorsement, along with the ESOL endorsement, is not as easily remedied, as is the case for all the other core academic subjects. In all other subject areas a teacher has the option of using the HOUSSE Plan, which for qualifying teachers provides a very quick, very easy method of meeting the highly qualified requirements of NCLB.

Each of the teachers did begin work toward their reading endorsements:

- One teacher completed competencies 1,2, 3, 4, and 5, earning 50 of the required 60 in-service points during the school year.
- The other two teachers completed competencies 1 and 2.

The fourth teacher indicated, certified in both Social Sciences and Foreign Languages, taught language arts at Southwestern Middle School. The teacher attempted to use the HOUSSE Plan but could only earn 65 of the required 100 points. The teacher recognized the need for qualified reading teachers and began work on his reading endorsement, intending to move to that content area as soon as possible. He is almost finished with the required 300 hours. He also passed the subject area exam for Middle Schools Integrated Curriculum.

Key contact: Bertie Trawick, Finance Director