



**AUDITOR GENERAL**  
WILLIAM O. MONROE, CPA



**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2006

Polk 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>Frank J. O'Reilly</i>	<i>1</i>
<i>Lori Cunningham</i>	<i>2</i>
<i>Hazel Sellers, Vice Chairman to 11-21-05, Chairman from 11-22-05</i>	<i>3</i>
<i>Dr. Brenda C. Reddout</i>	<i>4</i>
<i>Kay Fields, Chairman to 11-21-05</i>	<i>5</i>
<i>Margaret A. Lofton, Vice Chairman from 11-22-05</i>	<i>6</i>
<i>C.J. English, III</i>	<i>7</i>
 <i>Dr. Gail F. McKinzie, Superintendent</i>	

## AUDITOR GENERAL

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

POLK COUNTY DISTRICT SCHOOL BOARD

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**EXECUTIVE SUMMARY**

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**Summary of Report on Financial Statements**

We have issued an unqualified opinion on the respective financial position of the governmental activities, the aggregate discretely presented component units, and Capital Projects – Other Fund for the Polk County District School Board as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended. We have issued a qualified opinion on the General Fund financial statements referred to above because of the lack of sufficient competent evidentiary matter for inventory balances reported in the General Fund.

**Summary of Report on Internal Control and Compliance**

The District has established and implemented procedures that generally provide for internal control of District operations, except as noted below. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. Our internal control and compliance findings are summarized below.

**Summary of Audit Findings****Finding No. 1: Inventories**

The District did not have effective controls in place to accurately account for and value the amounts recorded as inventory at year-end.

**Finding No. 2: Information Technology – User Account Management**

The District could enhance controls related to requesting, approving, assigning, and removing employee access to District information systems.

**Finding No. 3: Payroll Record Keeping**

Although weaknesses in payroll record keeping were identified at schools examined by District Internal Audit staff, the District had not taken the appropriate action to communicate the importance of such requirements to the remainder of schools in the District.

**Finding No. 4: Self-Insurance Claims Disbursements**

Improvements were needed in controls over the District's self-insurance plans. Our review disclosed that the District did not provide for periodic reviews of claim payments made from its self-insurance plans.

**Finding No. 5: Fingerprinting Requirements**

The District had not performed fingerprinting and background checks for all contractual personnel as required.

**Finding No. 6: Interfund Loans**

Improvements were needed in establishing controls over interfund loans to ensure that temporary transfers between funds are properly identified and repaid within 13 months, as required by Section 1011.09(2), Florida Statutes.

**Finding No. 7: Procedures Manuals**

The District had not developed comprehensive procedures manuals pertaining to the District's financial operations and related activities. Procedures manuals are necessary to ensure appropriate training of new staff, as well as to provide an aid in bridging the transition in the event of changes in key business services or finance-related personnel.

**Finding No. 8: Internal Audit Function**

The effectiveness of the internal audit function could be enhanced by including audits of District operations and internal controls that are considered to be high risk.

**Finding No. 9: Policies for Reporting Fraud**

The District had not developed a formal fraud policy to provide guidance to employees for communicating known or suspected fraud to the appropriate level.

**Finding No. 10: School Advisory Council Allocations and School Improvement Plans**

Improvements were needed to ensure that all District schools were properly allocated enhancement trust funds and that all schools within the District prepared and submitted a school improvement plan, as required.

**Finding No. 11: Investment of Funds Policy**

Contrary to Board policy, District personnel did not perform an investment review, performance reporting, or review of compliance with controls over investments.

**Finding No. 12: Banking Services**

The District had not, of record, solicited proposals from financial institutions or prepared formal analyses to determine whether the provisions of their long-standing banking arrangement continued to be cost effective.

**Finding No. 13: Unclaimed Property**

Improvements were needed to provide for the reporting and remittance of unclaimed property to the Florida Department of Financial Services, as required by law.

**Finding No. 14: Accounts Receivable**

Improvements were needed in controls over accounts receivable. Our review disclosed that the District had not established adequate control procedures that provide for the effective monitoring, recording, collecting, and adjusting of receivable balances.

**Finding No. 15: Employee Daycare and Medical Reimbursement Program**

Improvements were needed over the District's monitoring of the flexible spending accounts to provide for reconciliations between claims payments and balances on hand; periodic reviews of claims paid; and the withdrawal of forfeitures at the end of each plan year. In addition, the contracted provider of the plan did not hold a valid certificate of authority from the Florida Office of Insurance Regulation.

**Finding No. 16: Sick Leave Pool**

Improvements were needed in the District's monitoring of the sick leave bank in order to preclude the award of sick leave from the bank when sufficient amounts are not available.

**Finding No. 17: Facility Inspections**

Improvements were needed in facility inspections for firesafety, casualty, and sanitation to ensure that the required safety inspection reports are properly completed and that appropriate corrective action has been taken.

**Finding No. 18: Construction Contracts – Change Orders**

Contrary to Board policy, construction contract change orders in excess of \$10,000 were approved by persons other than the Board. In addition, change orders approved by other authorized parties were not reported to the Board or entered into the official minutes.

**Finding No. 19: Architect Liability Insurance**

The District had not adopted policies to establish minimum insurance coverage requirements for design professionals or implemented procedures to ensure that adequate insurance is in effect prior to awarding a contract for architectural services.

**Finding No. 20: Relocatable Building Inspections**

Our review of 31 District relocatable buildings disclosed that the District had not posted annual inspection reports in 16 relocatable buildings, although required by Section 1013.20(2), Florida Statutes. Further, District staff was unable to provide duplicate copies for 9 of the 16 missing inspection reports to demonstrate that the required inspections were actually performed.

**Finding No. 21: Educational Plant Survey and Facilities Work Program**

The District had not completed an educational plant survey since the last one expired in June 2003. The District's tentative educational facilities plan did not include planning information for the 10-year period and the 20-year period and was not signed by appropriate District officials, although required.

**Finding No. 22: Budget – Capital Outlay**

The District's annual budget did not include a capital outlay budget required by Section 1013.61, Florida Statutes.

**Finding No. 23: Public Education Capital Outlay Expenditures**

The District expended \$19,251.35 from Public Education Capital Outlay Funds for items that were not allowable uses of such funds and therefore represent questioned costs.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and the Title I programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings that are summarized below.

**Federal Awards Finding No. 1: Suspension and Debarment**

The District did not have the necessary controls in place to verify that, for certain Federal transactions, vendors were not suspended or debarred.

**Federal Awards Finding No. 2: Expenditure Approvals**

Improvements were needed in controls over certain Child Nutrition Cluster grant expenditures in order to ensure that such charges are subject to oversight by persons knowledgeable of the program and limited to allowable charges.

### Audit Objectives and Scope

Our audit objectives were to determine whether the Polk 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 No. 2004-156 and the audit reports for the 2003-04 and 2004-05 fiscal years 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 Mary W. Lynn, CPA, and supervised by David A. Blanton, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at [davidmartin@aud.state.fl.us](mailto:davidmartin@aud.state.fl.us) or by telephone at (850) 487-9039.

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**FINDINGS AND RECOMMENDATIONS**

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<b>Material Weakness</b>
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**Finding No. 1: Inventories**

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At June 30, 2006, the District's General Fund reported approximately \$5.4 million in maintenance and school supplies inventories. As noted in the audit conducted for the prior fiscal year by an independent certified public accounting firm, continued improvements in internal controls are needed over inventories, as follows:

- The District uses computer software and scanning technology to perform monthly cycle counts for one-twelfth of the inventory throughout the fiscal year. The District relies on the cycle counts performed throughout the year and does not perform an inventory count at year-end which includes the entire population of inventory stock. Our review disclosed that the District relies on the same persons with authorized access to the inventories to perform the monthly cycle counts. In addition, when count differences exceed tolerable levels, recounts may be performed by the same personnel used to conduct the initial count. In these circumstances, these employees have control of the entire transaction process such that errors or fraud, should they occur, may not be timely detected.
- Adjustments noted as a result of the monthly cycle counts are downloaded into the District's information system and the amounts recorded in the District's perpetual records are adjusted accordingly. Our review disclosed that the employee responsible for posting the adjustments also had physical access to the inventory, was involved in the inventory cycle counts, and made such adjustments without approval by persons independent of the transaction process.
- In addition to the cycle counts discussed above, the District performed limited inventory procedures to ensure the validity of the inventory balances reflected at June 30, 2006. Our review disclosed that District staff performed "spot checks" on selected inventory items. Although the spot checks were performed independently of the custodians responsible for the inventory, the differences were not quantified nor were additional measures performed in light of the frequency of differences noted. For example, our review of the spot checks disclosed the following:
  - Spot checks performed at year-end for maintenance inventories indicated that differences were noted for 144 out of 191 items, or approximately 75 percent of items selected. Of the inventory items noted with differences, 59 items or approximately 31 percent had a variance in excess of 5 percent. The variance report did not quantify the value of the variances noted.
  - Spot checks performed at year-end for central warehouse supply inventories indicated that differences were noted for 54 out of 91 items, or approximately 59 percent of items selected. Of the inventory items noted with differences, 19 items or approximately 21 percent had a variance in excess of 5 percent. The variance report did not quantify the value of the variances noted.
- We were advised by District staff that the high number of exceptions from the spot counts occurred since the items were selected from the entire inventory population rather than the adjusted amounts for one-twelfth of the inventory reviewed during the last cycle count. From a practicable standpoint, perpetual inventory records are not always accurate. Variances will often occur and are dependent on the inventory item, volatility, and frequency of issues and receipts. Therefore, performing cycle counts alone may not detect material differences occurring for high-volume inventory items selected in a cycle count performed at the beginning of the fiscal year and not counted again in a later cycle which may be subsequent to year-end.
- Our test of inventory, performed subsequent to the District's adjustments, disclosed count variances for 15 percent of the items selected for testing in maintenance and 30 percent of the items selected for testing in school supplies.



- The District did not have formal written procedures associated with inventory counts and procedures. Formal written procedures are necessary to establish clear guidelines and to ensure a strong system of internal control. Such procedures should include, but not be limited to, independent responsibility for physical counts; proper cut-off for year-end valuation; safeguarding measures; appropriate controls over inventory adjustments; and the proper segregation of duties.

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**Recommendation:** To strengthen internal control over the District's inventories, physical inventory counts should be performed by someone other than the employee responsible for recorded accountability and all adjustments made to the District's computerized perpetual inventory systems should be reviewed and approved by supervisory personnel independent of the transaction process. Further, controls over inventories could be enhanced through the development of written procedures outlining proper inventory procedures. In addition, the District should consider enhancing controls over inventory in order to provide a more reliable value for inventory reported at year-end.

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<b>Reportable Conditions</b>
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**Finding No. 2: Information Technology – User Account Management**

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The District could enhance controls related to requesting, approving, assigning, and removing access to District information systems. School Board Policy 6Gx53-9.005, Controlling Access to Information and Systems, provides that access to all systems must be authorized by the owner of the system and such access, including the appropriate access rights (privileges), must be documented. Further, the policy provides that access to the resources on the network must be strictly controlled to prevent unauthorized access.

Our review disclosed that the District failed to properly document authorization for four of ten new users. In addition, our review of ten terminated employees disclosed that the access for such employees was not removed timely. Five of the ten terminated employees were removed from the system 30 days after termination and three others were removed 60 days after termination. The failure to control access to District information technology resources increases the risk of unauthorized access or modification of the District's computer resources. A similar finding was noted in the District's 2004-05 fiscal year audit.

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**Recommendation:** The District should enhance controls to ensure that access to District information technology systems is properly approved and that such approvals are properly documented. In addition, controls should be enhanced to provide for the timely removal of terminated employees.

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**Finding No. 3: Payroll Record Keeping**

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The Fair Labor Standards Act (FLSA) sets minimum wage, overtime pay, record keeping, and other labor standards which require employers to maintain certain records for each nonexempt worker. The act requires no particular form, but requires that the records include certain data about the hours worked and wages earned. Such information should include the time in for each day worked in the workweek; the time out for each day in the workweek; evidence of unpaid lunch break in the workday; and evidence of other breaks in the workday. In addition, the law requires that this information be complete, accurate, and well documented. The failure to properly document all required information in the District's time records and maintain good records could result

in the District's inability to successfully defend challenges to its compliance with the FLSA and lead to penalties for noncompliance.

In conjunction with audits of school internal accounts, the District's Internal Audit staff reviewed a sample of the payroll records at five District schools. The following exceptions, summarized below, were cited in the various school internal accounts audits conducted for these five schools:

- At all five schools, exceptions were noted in which nonexempt employees failed to record starting and ending times.
- At four of the five schools, 15 instances were noted in which the employee worked in excess of the required time without proper approval or compensation for overtime.
- At two of the five schools, timesheets were not properly signed by 14 individual employees certifying that the time recorded represented actual time worked.
- At four of the five schools, nonexempt workers did not record lunch breaks, as required by the FLSA.
- At two of the five schools, exceptions were noted related to compensatory time used. In one case, compensatory time was used by an employee who failed to complete a timesheet for several years. In the other instance, compensatory time was used by District janitorial staff that were no longer permitted to earn compensatory leave.
- At four of five schools, nine individual employees recorded time that was less than the amount required to be worked; however, the employees' pay was not adjusted. The failure to establish controls to ensure that employees work the required number of hours, or record leave for any deficiency in hours worked, results in excess costs to the District.
- At four of five schools, leave forms were not used for 101 individual employees taking approximately 112 days worth of leave. The failure to complete leave forms increases the risk that such leave may not be properly accounted for and deducted from leave balances.
- At the five schools, 34 instances were noted in which employees took leave; however, leave totaling approximately 33 days was never deducted from the employees' leave records. The failure to establish controls to ensure that employee leave balances are properly adjusted for leave used results in excess costs to the District.

Maintaining adequate controls over the District's salaries and benefits costs requires accurate payroll record keeping at each individual school. Accordingly, it is incumbent upon the District to communicate the importance of such requirements on a Districtwide basis and monitor the establishment of effective controls to ensure that the requirements are adhered to by the individual schools. Our review disclosed that, although weaknesses in payroll record keeping appeared to be prevalent among the five schools examined by the District's Internal Audit staff, the District had not, of record, taken action to communicate the importance of such issues to the remaining schools in the District although such deficiencies were noted in audits conducted for the 2004-05 and 2005-06 fiscal years.

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**Recommendation:** The District should continue its efforts to identify schools in which improvements could be made for payroll record keeping. In addition, the District should establish controls to communicate the importance of good record keeping and ensure compliance with the FLSA for all schools in the District.

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**Finding No. 4: Self-Insurance Claims Disbursements**

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Pursuant to the provisions of Section 1011.18(6), Florida Statutes, the District contracted with third party administrators (TPAs) to administer various self-insurance programs offered by the District, including the processing, investigating, and payment of such claims. Our review disclosed that the District could enhance internal controls to provide for the review of claims payments made by its TPAs and to ensure the validity of the charges incurred for the various programs, as noted below:

- The TPA for the District's Group Health Self-Insurance Plan processed approximately \$43 million in medical claims during the 2005-06 fiscal year. Our review disclosed that although the TPA maintained claim specific information for each invoiced amount, the District had not requested such information or tested specific claim payments on at least a sample basis during the 2005-06 fiscal year. Without a periodic claims review on at least a sample basis, the District has limited assurance that claims payments represented valid claims. Our test of claims documentation indicated that selected claims payments made by the TPA were supported and made to eligible participants; however, our audit procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.
- The District's Group Health Self-Insurance Plan TPA contracted with another administrator to process pharmaceutical claims on behalf of the District. During the 2005-06 fiscal year, pharmaceutical claims totaling approximately \$13.1 million were processed by the other administrator on behalf of the District. As similarly noted for the medical claims above, the District had not tested specific claim payments for these pharmaceutical claims at least on a sample basis during the 2005-06 fiscal year. Our audit test of claims documentation indicated that the selected pharmaceutical claim payments were supported and made to eligible participants; however, our audit procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.
- The TPA for the District's workers' compensation, comprehensive general liability, and fleet liability self-insurance programs processed approximately \$5.6 million in related claims during the 2005-06 fiscal year. Although detailed documentation identifying each claimant was provided in support of invoiced amounts, the District had not tested specific claim payments for these self-insurance program claims. Our audit procedures indicated that selected claim payments were supported and made to eligible participants; however, our audit procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

District personnel also advised that they did not request or obtain from any of their third-party administrators a service organization report as described in *Statements on Auditing Standards No. 70* (SAS 70). A SAS 70 (service organization) report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of operating effectiveness for a service organization.

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**Recommendation:** The District should establish procedures to periodically inspect claims documentation maintained by TPAs on at least a sample basis to ensure the validity of charges to the various self-insurance programs. Also, the District should request a service organization report covering the operating effectiveness of the TPA's internal controls over the processing of claims payments.

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<b>Additional Matters</b>
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**Finding No. 5: Fingerprinting Requirements**

Section 1012.465, Florida Statutes (2005), requires that contractual personnel who are permitted access on school grounds when students are present, who have direct contact with students or who have access to or direct control of school funds, must meet level 2 screening requirements, which includes filing a complete set of fingerprints taken by an authorized law enforcement agency or an employee of the school district who is trained to take fingerprints. In a Technical Assistance Paper, dated August 15, 2005, the Florida Department of Education (FDOE) clarified this requirement by indicating that school districts must conduct the fingerprinting and background screenings of contractual personnel at a location designated by the district using the Originating Agency Identifier (ORI) code issued to the district by the Florida Department of Law Enforcement, and determine whether the individual has been convicted of a crime of moral turpitude. Further, the FDOE guidance provides that subcontractors are considered to also be a contractor with the district for purposes of complying with these requirements.

Contrary to the law and the requirements outlined by FDOE's Technical Assistance Paper, the District required all vendors and contractors to provide for background checks rather than the District performing fingerprinting and background checks. The District's website directed vendors and contractors to self-certification instructions and a self-certification form, and provided that the self-certification process will remain in effect until May 22, 2007. We were advised by District staff that, during the 2005-06 fiscal year, their efforts were directed at fingerprinting over 11,000 employees who had direct contact with students and that the self-certification procedures for contractors were established as an alternate control measure to provide some assurance for contractors until fingerprinting could be performed by the District as required. We were also advised by District staff that subsequent to the audit period, in October 2006, the District began the process of performing the fingerprinting and background checks on contractors as required. Failure to conduct the required fingerprinting and background screenings increases the risk that contractual personnel may have backgrounds that are not suitable for direct contact with students, and exposes the District to potential litigation should a legal claim involving contractual personnel occur.

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**Recommendation:** The District should continue its efforts to ensure that the required fingerprinting and background checks are performed by the District for all contractual personnel using the ORI, as required. Documentation of these procedures should be retained to document that the required fingerprinting and background checks were performed and reviewed, as required.

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**Finding No. 6: Interfund Loans**

Pursuant to the provisions of Section 1011.09(2), Florida Statutes, the District may temporarily advance moneys from one fund to another fund when insufficient moneys are available to meet current obligations. The statute further requires that the temporary advancement be repaid within 13 months, appropriate accounting records be

maintained, and the temporary advancement should not restrict, impede, or limit implementation or fulfillment of the original purposes for which the transferred moneys were intended.

The District reported interfund loans from the Capital Projects – Local Capital Improvement Fund to the Capital Projects – Other Fund totaling \$8,770,391.77 at June 30, 2006. Such amounts were advanced to provide temporary funding for projects to be funded with Certificates of Participation (COP) proceeds until reimbursement is requested from the trustee. Although the interfund loans were accounted for in a specific account, District staff had not performed an analysis of the various individual transactions to identify amounts outstanding in excess of 13 months. Our review disclosed that interfund loans between the two funds totaled \$12,511,913.40 at the beginning of the fiscal year and repayment transactions throughout the next 13 months totaled \$11,247,458.63. Accordingly, it would appear that, at a minimum, approximately \$1,264,000 of interfund loans have remained unpaid in excess of 13 months. Such a projection does not take into consideration amounts that were advanced and repaid within the current year, which would increase the amount unpaid within the required 13 month period. District management represented that the temporary advancement of Capital Projects – Local Capital Improvement Fund moneys did not restrict, impede, or limit implementation or fulfillment of the original purposes of these transferred funds. A similar finding was noted in the District's 2004-05 fiscal year audit.

The District contracts with an independent firm to perform arbitrage calculations, which are based upon the information contained in the statement of transactions provided by the COP trustee. The failure to timely file for reimbursement of trustee funds to repay interfund loans for COP projects may result in inaccurate or excessive arbitrage liability estimates since these calculations are based on amounts on deposit with the trustee rather than the actual expenditure of such funds. The repayment of such interfund loans on a timely basis minimizes the effects of these timing differences.

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**Recommendation:** The District should enhance controls to provide for the review of interfund loan transactions to ensure that amounts are repaid prior to 13 months, as required. The District should also enhance controls to ensure that reimbursement for COP projects are timely requested and repaid to the appropriate fund advancing project moneys.

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**Finding No. 7: Procedures Manuals**

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The District could enhance its internal control system with the development and maintenance of comprehensive procedures manuals pertaining to the District's financial operations. The District has established a business services function and assigned and separated various business activities to promote a system of internal control. However, the District had not developed comprehensive procedures manuals pertaining to the District's financial operations and related financial activities. We were advised by District personnel that they are currently developing such procedures, which should be completed during the 2006-07 fiscal year. Procedures manuals are necessary to ensure appropriate training of new staff, as well as to provide an aid in bridging the transition in the event of changes in key business services or finance-related personnel. Additionally, procedures manuals serve to

document the duties of key business services and finance-related personnel and may also serve to communicate management's commitment to, and support of, a strong system of internal control.

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**Recommendation:** To enhance its internal control system, the District should continue its efforts to develop comprehensive procedures manuals for financial operations and related activities.

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**Finding No. 8: Internal Audit Function**

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The District has established an internal audit function as provided in Section 1001.42(10)(l), Florida Statutes, which states that a school board may employ an internal auditor to perform ongoing financial verification of the financial records of the school district and that the internal auditor shall report directly to the district school board or its designee. An internal audit function can provide a school district with assurance that management and internal controls are adequately designed and functioning effectively, and can evaluate compliance with school board and administrative policies and procedures, as well as with State and Federal guidelines. The District's Internal Audit Department employs 3.75 full-time equivalent staff positions and reports directly to the Board.

The Board-approved audit plan for the Internal Audit Department for the 2005-06 fiscal year included areas of high risk such as payroll/personnel audits, insurance audits, program audits, construction audits, and the evaluation of the District's internal controls; however, the majority of internal auditing resources have been directed towards school internal accounts audits and investigations. The Board also engaged an independent accounting firm to perform a review of construction auditing services for two District projects.

Our review disclosed that, in addition to other required duties, the Internal Audit Department released seven school internal accounts audits and performed nine investigations during the 2005-06 fiscal year. Further, our review disclosed that only 6 of the 16 reports issued by the Internal Audit Department during the 2005-06 fiscal year related to 2005-06 fiscal year activity and that some reports covered the 2003-04 fiscal year. Although the performance of these school internal accounts audits represent a specific need of the District, the internal audit function's effectiveness could be increased by including current audits of management and internal controls and administrative policies and procedures at the District level that are considered to be high risk. These areas of high risk have reasonable potential for cost recovery, efficiency, and savings to the District. As noted in **Finding No. 3, Payroll Record Keeping**, such efforts by the Internal Audit Department in its review of payroll have identified a potential area of significant cost control and savings to the District. Similarly, as noted in **Finding No. 4, Self-Insurance Claims Disbursements**, the District could benefit from periodic reviews of claims related to the various self-insurance programs administered by third-party administrators.

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**Recommendation:** To increase the effectiveness of the District's Internal Audit Department, the Board should consider alternate options associated with the selection of audits and the direction of auditing resources. Such options could include the use of risk-based analyses to determine those school internal accounts audits that are most susceptible to abuse or fraud and thereby enabling the internal audit function to accomplish other audits, as provided for in the Board-approved audit plan.

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**Finding No. 9: Policies for Reporting Fraud**


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The District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority. A similar finding was noted in the District's 2004-05 fiscal year audit.

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**Recommendation:** To aid in the detection and prevention of fraud, the District should develop policies for reporting fraud.

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**Finding No. 10: School Advisory Council Allocations and School Improvement Plans**


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Chapter 2005-70, Laws of Florida, Specific Appropriation 6, requires school districts to allocate education enhancement trust funds of at least \$10 per unweighted full-time equivalent (UFTE) student to each school to be used at the discretion of the individual school advisory councils. The law further states that a portion of these funds shall be used for implementing the school improvement plan. Section 1001.452, Florida Statutes, provides that the District is required to annually approve and require implementation of school improvement plans for each school in the District. Our review disclosed that improvements were needed over school advisory council allocations and related school improvement plans, as follows:

- The District allocated enhancement funds totaling approximately \$763,000 to the various schools throughout the District in the 2005-06 fiscal year; however, six District schools received no allocation. These schools included four Florida Department of Juvenile Justice facilities, which generated 595 UFTE, and the two Opportunity Schools, which generated 325 UFTE. Accordingly, these schools were entitled to an aggregate allocation of \$9,200 that was not funded.
- The two Opportunity Schools did not submit a School Improvement Plan for the 2005-06 school year, although required by Section 1001.42(16)(a), Florida Statutes.

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**Recommendation:** The District should enhance its procedures to ensure that lottery funds are properly allocated to each school in order that they may be expended in accordance with the various school improvement plans, as required. In addition, procedures should be enhanced to ensure that each school in the District prepares and submits a school improvement plan, as required.

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**Finding No. 11: Investment of Funds Policy**


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At June 30, 2006, investments totaled approximately \$355 million. School Board Policy 6Gx53-5.003, Investment of Funds, provides that the school board shall be responsible for establishing and maintaining internal controls designed to ensure that the assets of the school board are protected from loss, theft, or misuse. The policy

further provides that such controls shall include an investment review and performance reporting by the Assistant Superintendent – Business Services, or a designee, to the Board on at least an annual basis, and a review of compliance with internal controls by the Board’s Internal Audit Department at least annually. Our review disclosed that the District had not performed the investment review and performance reporting to the Board or the review of compliance with internal controls over investments, contrary to Board policy. The failure to review performance and controls associated with investments limits the Board’s assurance that investment-related activity met investment objectives and parameters set forth by the Board. A similar finding was noted in the District’s 2004-05 fiscal year audit.

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**Recommendation:** To enhance controls over investments, District staff should perform an investment review and provide a report on performance to the Board annually. In addition, the Board’s Internal Audit Department should review compliance with internal controls over investments at least annually, as required by Board policy.

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**Finding No. 12: Banking Services**

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The Board has obtained banking services from the same local financial institution for more than six years. The financial institution charged various fees for services, totaling \$129,118, during the 2005-06 fiscal year ranging from \$6,489 to \$14,684 each month.

The District did not periodically solicit proposals and prepare formal analyses to compare the provisions of its banking agreement (minimum required balances, interest earned, cost of services provided, etc.) with other available financial institutions to ensure the reasonableness of the fees charged by the financial institution. Consequently, the District cannot be assured that it is obtaining customary services at the lowest and best price.

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**Recommendation:** The District should periodically solicit proposals from several financial institutions to ensure it is obtaining banking services in the most cost effective manner.

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**Finding No. 13: Unclaimed Property**

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Sections 717.113 and 717.115, Florida Statutes, provide that intangible personal property items (including moneys, checks, drafts, stocks, etc.) that have remained unclaimed by the owner for more than one year after becoming payable or distributable are presumed unclaimed. Further, Sections 717.113, 717.117, and 717.119, Florida Statutes, require that any governmental agency holding funds or other property presumed unclaimed shall report and deliver such property to the Florida Department of Financial Services before May 1 of each year for the preceding calendar year.

On May 1, 2006, the District reported and remitted to the Florida Department of Financial Services (FDFS) certain unclaimed property over one year old as of December 31, 2005; however, contrary to Chapter 717, Florida Statutes, the District did not report or remit funds remaining on-hand, representing amounts for unclaimed payroll, accounts payable, student activities, and self-insurance checks, to the FDFS in a timely manner. Our review of 14 of 29 District bank accounts disclosed 917 checks totaling \$191,346, which had been outstanding for



one year as of December 31, 2005, and remained outstanding as of June 30, 2006, had not been reported and remitted to FDFS. Further review disclosed that 406 of the unclaimed checks, totaling \$110,167, dated as far back as June 30, 2000, and the issue date for 164 checks, totaling \$45,370, ranged from 1996 to 1999. The failure to properly identify and remit unclaimed property for excessive periods of time results in an overstatement of District assets and contributes to inefficiencies in performing reconciliations of the affected District accounts. In addition, the failure to report and remit unclaimed property could result in penalties assessed against the District.

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**Recommendation:** The District should provide for reporting and remitting unclaimed property to the FDFS, as required by the provisions of Chapter 717, Florida Statutes.

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#### **Finding No. 14: Accounts Receivable**

The District reported accounts receivable of \$2,084,918 on the balance sheet for governmental funds at June 30, 2006. Our review disclosed that the District could enhance control procedures to provide for the effective monitoring, recording, and adjusting of receivable balances, as noted below:

- Included in the accounts receivable balance at June 30, 2006, was \$190,336 related to various receivables associated with payroll overpayments. Although the District represented that such amounts were reviewed periodically, the District had not established procedures such as past-due notices or referral to collection agencies in order to notify the various parties with outstanding balances. In addition, the District had not performed an analysis to determine those accounts deemed uncollectible or established procedures to provide for the proper write-off of uncollectible accounts. As noted in the table below, 89 percent of the receivable balances were outstanding from overpayments occurring in the 2000-01 through the 2004-05 fiscal years.

<u>Fiscal Year</u>	<u>Receivables from Salary Overpayments</u>	<u>Percent of Related Receivables</u>
2000-01	\$ 70,709.93	38%
2001-02	34,156.04	18%
2002-03	34,786.35	18%
2003-04	13,994.58	7%
2004-05	15,150.63	8%
2005-06	21,538.38	11%
Total	\$ 190,335.91	

- Included in the accounts receivable balance at June 30, 2006, was \$49,462.83 recorded as a receivable from the Polk Education Foundation and Business Partnership for travel for an academic challenge that was accrued at June 30, 2005. Our review disclosed that the Foundation had reimbursed the funds on August 5, 2005; however, the District continued to report this balance in error at June 30, 2006.
- Included in the accounts receivable balance at June 30, 2006, was \$23,209 in various accounts receivables for nonsalary related items from fiscal years 2001 through 2003. The District indicated that \$10,668 of this balance was considered uncollectible; however, appropriate action had not been taken to properly adjust the District's records for uncollectible amounts or to pursue collection on the remaining items.
- Included in the accounts receivable balance at June 30, 2006, was \$210,000 receivable from Lake Region High School for stadium bleachers. The funds were loaned to the school in February 1999 and, according to District records, were expected to be repaid in three years. Our review disclosed that the

District had not established a formal contract or outlined a repayment schedule for this receivable. As a result, there have been no collections to date on the amount advanced to the school and the related receivable has been reported in the District's financial statements for the last eight years.

Many of these same amounts recorded as receivables were questioned in our report No. 2005-012 for the fiscal year ended June 30, 2003. For collection efforts to be effective, they must be both timely and progressively strengthened. Deficiencies in either area may limit the District's ability to maximize collection efforts and result in higher amounts written off. In addition, the failure to properly identify uncollectible amounts and properly adjust the District's accounting records or properly account for collected receivables results in the overstatement of related assets.

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**Recommendation:** The District should enhance procedures to provide for the mailing of past-due notices and subsequent referral of any delinquent accounts to a collection agency in a timely manner. Also, the District should establish procedures to provide for the adjustment of receivable balances to accurately reflect only those amounts deemed collectible.

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**Finding No. 15: Employee Day Care and Medical Reimbursement Program**

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During the 2005-06 fiscal year, the District contracted with a third-party administrator (TPA) to manage employee day care and medical reimbursement programs as part of the District's cafeteria (flexible spending) plan. Under the plan, enrolled employees had funds deducted from their payroll checks, which were deposited into a District bank account. During the 2005-06 fiscal year, employees participating in the plan made contributions totaling approximately \$927,000 as pre-tax deductions. Under the terms of the arrangement, any unspent claims for reimbursement revert to the District at the end of the plan year. As such, the District should establish controls to independently verify the amounts subject to reversion.

Although the TPA performed monthly bank account reconciliations of the plan bank account and provided such reconciliations to the District, we noted several deficiencies with regard to the District's cafeteria plan, as follows:

- Section 1011.18(6)(b), Florida Statutes, provides that a district school board may contract with a company or professional administrator who holds a valid certificate of authority issued by the Florida Office of Insurance Regulation of the Financial Services Commission to provide any or all services that a TPA is authorized by law to perform. Our review disclosed that the TPA for the District's flexible spending plan did not hold a valid certificate of authority with an authorized line of business as a TPA or as a flexible spending health plan provider.
- Our review disclosed that the District relied solely on an e-mail from the TPA indicating that \$11,535 in contributions had been forfeited for the plan year ending September 30, 2005. District controls should be enhanced to provide for access to listings of claims payments. Such detail is necessary to ensure that charges to the plan are for valid members of the plan and to provide the necessary information to perform reconciliations between amounts reported in the plan bank account and reimbursements made to plan participants.
- The District did not perform a review of claims paid, on at least a sample basis, to supporting documentation of claims paid by the TPA. A review of claims paid provides assurance that amounts subject to reversion are properly determined and that reimbursements made by the TPA are in compliance with Federal regulations over such plans.

- Although the TPA identified an amount subject to reversion for the plan year ending September 30, 2005, the District had not withdrawn such forfeited amounts from the bank account as of January 10, 2007. The withdrawal of forfeited balances at the conclusion of each plan year reduces the risk that such amounts will be used in error to satisfy reimbursements for subsequent plan years and provides greater accountability for plan assets.

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**Recommendation:** The District should take appropriate action to require its third-party administrator to obtain a valid certificate of authority issued by the Florida Office of Insurance Regulation, as required by law. The District should also implement controls to provide for reconciliations between claims payments and the plan bank account and to provide for the withdrawal of forfeitures at the end of each plan year. In addition, the District should establish procedures to periodically review documentation of the claims paid, on at least a sample basis, to determine whether such claims represent valid charges to the District's reimbursement plan.

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**Finding No. 16: Sick Leave Pool**

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Section 1012.61(3), Florida Statutes, provides that a Board, based on the maintenance of reliable and accurate records by the district school system showing the amount of sick leave which has been accumulated and is unused by employees, may establish plans allowing participating full-time employees of a district school system to pool sick leave accrued and allowing any sick leave thus pooled to be disbursed to any participating employee who is in need of sick leave in excess of that personally accrued. School Board Policy 6Gx53-3.007, Employee Benefits, provides for the establishment of a sick leave bank; however, this policy does not identify at what level the bank is considered depleted and subject to replenishment. Sick leave bank guidelines distributed annually to employees provide that when the bank drops to 50 percent of membership, one day shall be contributed at the beginning of the next school year, and in the event the bank is drawn to 25 percent of current membership, each member shall contribute one additional sick leave day in order to continue membership.

Our review disclosed that at the beginning of the 2005-06 fiscal year, the sick leave bank had a deficit balance of 5,044 hours and the deficit balance continued to grow through November 2005 to a deficit balance of 12,192 hours. A deposit was made in December 2005 of 25,843 hours resulting in a positive balance of 12,813 hours. However, based on past history of sick leave bank usage, this deposit was not sufficient to fund the sick leave bank through the next enrollment period. Accordingly, the sick leave bank again reached deficit balances of 1,296 hours in September 2006, and 5,980 hours at December 31, 2006.

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**Recommendation:** The District should enhance controls associated with the monitoring of the sick leave bank to ensure compliance with its policy and guidelines and to preclude the award of sick leave from the bank when sufficient amounts are not available. Additionally, the District may wish to clarify its policy and guidelines regarding the minimum balance at which the sick leave bank is to be replenished to provide for more effective controls over the sick leave bank.

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**Finding No. 17: Facility Inspections**

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Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each permanent and relocatable educational and ancillary plant facility at least once during each fiscal year to determine compliance with standards of firesafety, casualty, and sanitation prescribed in the rules of the Commissioner of

Education. Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future due to further deterioration. Section 5(1)(a)2. of the Florida Department of Education's *State Requirements for Educational Facilities – 1999*, provides that the firesafety, casualty, and sanitation reports shall be submitted to the board by June 30 of each year and further requires that each building of each facility should be accounted for on the inspection form.

Our review of the District's comprehensive firesafety, casualty, and sanitation inspection reports for the 2005-06 fiscal year for 15 selected schools and ancillary plant facilities disclosed the following:

- While inspections appear to have taken place at 14 of the 15 facilities examined, the forms used to document the inspections were incomplete. Our review disclosed that these inspection reports did not account for each building of each facility. For example, the inspection report for one middle school only identified four deficiencies occurring within one building and no reference was made to other buildings located at this facility. Also, the columns indicating "Times Cited Before" and "Fiscal Year Deficiency Status" were not completed for any of the inspection reports. As a result, it was not readily evident from the current inspection reports that each building was inspected as required, or that the District had taken appropriate action to timely resolve or correct deficiencies cited.
- For 1 of the 15 facilities selected for our review, District staff advised that they relied on a fire inspection report performed by a local fire department to ensure compliance with the required standards of firesafety, casualty, and sanitation. However, it did not appear that the fire inspection report satisfied the requirements with regard to casualty and sanitation.

Failure to provide for the required inspections could result in unsafe conditions not being corrected in a timely manner.

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**Recommendation:** The District should enhance procedures to ensure that the required inspection reports are properly completed to evidence that all buildings have been properly inspected and that appropriate corrective action has been taken.

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**Finding No. 18: Construction Contracts – Change Orders**

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Pursuant to Section 1013.48, Florida Statutes, the Board may, at its option and by written policy duly adopted and entered in its official minutes, authorize the Superintendent or other designated individual to approve construction contract change orders in the name of the Board for preestablished amounts. Approvals shall be for the purpose of expediting the work in progress and shall be reported to the Board and entered into its official minutes.

District Policy 6Gx53-6.003, Construction Projects, in certain circumstances allows the Superintendent or designee to authorize a change order up to \$10,000. Our review of nine change orders associated with the "Elementary School J" project disclosed that six change orders in excess of the \$10,000 threshold established by Board policy were approved by the Superintendent or other designated individuals and were not approved by the Board. In addition, although all nine change orders were approved by the Superintendent or other designated individuals, they were not subsequently reported to the Board and entered into the official minutes, although required.

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**Recommendation:** The Board should ensure that all change orders are reported to the Board and entered into its official minutes, as required by law.

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**Finding No. 19: Architect Liability Insurance**

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The District should adopt standard architect liability coverage requirements. Section 4.1(2)(f) of the Florida Department of Education publication, *State Requirements for Educational Facilities - 1999*, indicates that the Florida Board of Architecture, Interior Design, and Landscape Architecture does not require the design professional to carry insurance against errors and omissions or liability and, consequently, states that boards should either develop policy to provide this insurance for the design professional who does not carry insurance or require its design professional to carry insurance.

The District entered into a contract with an architectural firm to design “Elementary School J”, with an approximate construction cost of \$16 million. The District’s contract with the architect did not include a provision for insurance coverage nor did the District obtain proof of insurance at the time of the contract award to the firm hired to design the school. In response to our request, the District obtained documentation evidencing that the architect’s errors and omissions insurance coverage in effect for the \$16 million school was \$1 million per claim and \$2 million in aggregate. The insurance coverage in effect for the project may not be adequate based on the anticipated project cost. Adopting policies that establish uniform architect insurance requirements and procedures to verify those requirements would enhance the District’s protection in the event that deficiencies exist in the work performed by these professionals.

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**Recommendation:** The District should adopt policies and procedures to establish minimum insurance coverage requirements for design professionals, contractually require such coverage, and document that the insurance is in effect prior to awarding any projects.

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**Finding No. 20: Relocatable Building Inspections**

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Section 5(2) of the Florida Department of Education publication, *State Requirements for Educational Facilities – 1999* (SREF), requires annual inspections for all relocatable buildings designed as classrooms or spaces intended for student occupancy. The inspection standards for relocatable buildings require a review of the structural integrity, accessibility, and other measures to protect the welfare of occupants. Section 1013.20(2), Florida Statutes, requires that such annual inspections shall be filed with the district school board and posted in each respective relocatable building in order to facilitate corrective action.

Our review disclosed that District staff had developed a checklist, based on the SREF requirements, to be used as inspection reports for relocatable buildings within the District. However, our physical observation of 31 District relocatable buildings disclosed that 16 inspection reports were not posted in the relocatable buildings. Further, for 9 of the 16 missing inspection reports, District staff was unable to provide a duplicate copy of the inspection report to demonstrate that the required inspections were actually performed during the 2005-06 fiscal year. In addition, our review disclosed that such reports were not presented to the Board. Failure to provide for the

required inspections of relocatable buildings could result in unsafe conditions not being corrected in a timely manner.

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**Recommendation:** The District should provide for the required annual inspection of all relocatable buildings used for classroom purposes or student occupancy and ensure that such reports are submitted to the Board for their approval and posted in each building, as required by law.

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**Finding No. 21: Educational Plant Survey and Facilities Work Program**

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Section 1013.31(1), Florida Statutes, requires the District to arrange for an educational plant survey at least every five years. Also, Section 1013.64(3)(b), Florida Statutes, requires that Public Education Capital Outlay (PECO) funds be expended on needed projects as shown on the survey. As of June 2006, District records indicated that the District's last educational plant survey expired on June 30, 2003. Subsequent to our request, the District submitted the educational plant survey to the Florida Department of Education (FDOE) and it was approved on January 11, 2007, or approximately 3.5 years late. Without a properly completed five-year educational plant survey, the District is restricted from spending certain capital outlay resources, such as PECO funds, on capital outlay projects.

Section 1013.35(2)(a), Florida Statutes, requires that annually, prior to the adoption of the District budget, each district school board shall prepare a tentative district educational facilities plan that includes long-range planning for facilities needs over 5-year, 10-year, and 20-year periods. Educational facilities plans for each school district are provided to the FDOE and utilized, in part, for communicating facilities needs to the Legislature. Our review of the District's Tentative Facilities Work Program for the 2005-06 fiscal year disclosed that the District had not completed long-range planning information for the 10-year and 20-year periods. In addition, the work program on file with the District and approved by FDOE was not properly signed by the District Superintendent and Chief Financial Officer certifying the accuracy of the information contained in the work program. A similar finding was noted in the 2004-05 fiscal year audit.

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**Recommendation:** The District should implement procedures to provide for the timely preparation of the educational plant survey and an annual facilities work program, as required. These procedures should provide for the facilities work program to be submitted to the Board prior to the adoption of the annual budget.

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**Finding No. 22: Budget – Capital Outlay**

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Section 1013.61, Florida Statutes, requires each school board to annually adopt a capital outlay budget for the ensuing year so that the capital outlay needs of the District may be well understood by the public. Additionally, the capital outlay budget is to be a part of the annual budget and must be based upon and in harmony with the board's capital outlay plan (which shows proposed capital outlay expenditures for a five-year period). This budget must designate the proposed capital outlay expenditures by project for the year from all fund sources. Our review of the District's annual budget for the 2005-06 fiscal year disclosed that the Board approved a five-year capital outlay plan for the fiscal years 2005-06 through 2009-10; however, contrary to Section 1013.61, Florida Statutes, a

capital outlay budget was not included as part of the Board's annual budget for the 2005-06 fiscal year. Although the District's accounting system provides such budgetary information at the project level, that budget was not made a part of the budget information available to the Board and the public and, accordingly, does not satisfy the requirements of Section 1013.61, Florida Statutes. District finance personnel represented that the Facilities Department is responsible for the development of the District's capital outlay plan and that such information is not currently made available to the Finance Department for integration into the annual budget. The coordination of detailed project planning between finance and facilities is necessary in order to present a detailed capital outlay budget to the Board and the public, as required.

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**Recommendation:** The District should incorporate a sufficiently detailed capital outlay budget into its annual budget in order to satisfy the requirements set forth by law.

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### **Finding No. 23: Public Education Capital Outlay Expenditures**

Section 1013.64(5)(b), Florida Statutes, specifies that allocations from the Public Education Capital Outlay and Debt Service Trust Fund (PECO funds) shall not be used for the construction of football fields, bleachers, site lighting for athletic facilities, tennis courts, stadiums, racquetball courts, or any other competition-type facilities not required for physical education curriculum. Regional or intradistrict football stadiums may be constructed with these funds “. . . provided a minimum of two high schools and two middle schools are assigned to the facility and the stadiums are survey recommended.” This section also provides that local funds shall be used for the enhancement of athletic facilities. Also, Section 1013.64(5)(a), Florida Statutes, states that district school boards shall provide for landscaping by local funding sources or initiatives. Section 2.1(10), of the Florida Department of Education publication, *State Requirements for Educational Facilities - 1999*, provides that improperly expended PECO funds by a board shall be reimbursed to the State no later than the next succeeding budget year after the violation is cited.

During the 2005-06 fiscal year, the District transferred \$7,698,663 from the PECO funds to the General Fund for Special Schools Maintenance and Safety Projects. Our review of 15 expenditures maintained in support of this transfer disclosed that 4 of the items appeared to be for expenditures which are not allowable uses of PECO maintenance moneys and represent questioned costs. Such questioned costs included 2 expenditures totaling \$10,752.85 for the repair of score booths at District athletic facilities and 2 expenditures totaling \$8,498.50 for an irrigation well and sod.

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**Recommendation:** The District should restore the questioned costs totaling \$19,251.35 to the Capital Projects – PECO Fund. Further, the District should enhance controls to ensure that the transfer of PECO funds to the General Fund and the related expenditures represent allowable charges.

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### **PRIOR AUDIT FINDINGS**

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in the prior audit reports.

**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 Polk 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 84 through 90.



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**FINANCIAL SECTION**

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

***EXHIBIT – A*** *Statement of Net Assets.*

***EXHIBIT – B*** *Statement of Activities.*

***EXHIBIT – C*** *Balance Sheet – Governmental Funds.*

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

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

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

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

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

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

***EXHIBIT – J*** *Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.*

***EXHIBIT – K*** *Notes to Financial Statements.*

***OTHER REQUIRED SUPPLEMENTARY INFORMATION***

***EXHIBIT – L*** *Budgetary Comparison Schedule – General Fund.*

***EXHIBIT – M*** *Notes to Required Supplementary Information.*



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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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 Polk 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 18. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 6 percent of the assets and 12 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 funds and the aggregate discretely presented component units, is based on the reports of the other auditors.

Except as discussed in the following paragraph, 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. The financial statements of the school internal funds and of the Polk Education Foundation and Business Partnership, Inc., reported as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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.

We were unable to observe the year-end physical inventory for inventory balances in the General Fund. In addition, we were unable to obtain sufficient audit evidence regarding inventory quantities through alternate substantive procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the General Fund inventory balances, the General Fund financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund of the District as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

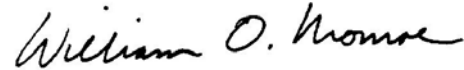
In addition, in our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, the Capital Projects – Other Fund, and the aggregate remaining fund information for the Polk County District School Board as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 Polk 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 22 through 29) and the Budgetary Comparison Schedule and Notes to Required Supplementary Information (shown as exhibits L and M) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget *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

February 9, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The management of the Polk County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements found on pages 30 through 71.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005-06 fiscal year are as follows:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$547,998,261.54 (net assets). Of this amount, \$31,385,053.37 were unrestricted net assets, a decrease from the prior year's unrestricted net assets of \$60,266,619.38.
- The government's total net assets increased by \$82,080,553.21. This increase was primarily due to an increase in property taxes, and an increase in impact fees on housing which more than doubled.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$249,838,019.50, an increase of \$38,169,732.51 in comparison with the prior year. Approximately 10.9 percent of this total amount, \$27,129,229.23, is unreserved and reported in the General Fund. At the end of the current fiscal year, unreserved fund balance for the General Fund was 4.8 percent of total General Fund revenues.
- The District's long-term liabilities increased by \$69,862,687.16 during the current fiscal year. Key factors in this increase were the issuance of Sales Tax Bonds totaling \$92,245,000 as well as increases in State Bonds, and the retirement of \$21,776,438.78 in debt.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

The District's basic financial statements comprise three components:

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

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

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide 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 government'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 and uses in future fiscal periods (e.g., due from other agencies and earned but unused vacation leave).

The government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include general government, basic instruction of K-12 students, transportation of those students, adult and career education and community service activities that promote public education awareness.

The government-wide financial statements include not only the District itself (known as the primary government), but also a legally separate foundation and legally separate charter schools 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 itself.

### **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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into 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 near-term (within the next fiscal year) 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 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 ten individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and

changes in fund balances for the General Fund and Capital Projects – Other Fund, both are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation as “nonmajor” governmental funds.

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

**Proprietary Funds.** The District maintains one proprietary fund type. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District’s various functions. The District uses internal service funds to account for its self-insurance services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within 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 proprietary fund financial statements combine each self-insurance fund into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the notes to financial statements.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds, which include the school internal 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 basic fiduciary fund financial statements can be found in the financial section 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.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceed liabilities by \$547,998,261.54 at the close of the most recent fiscal year.

The largest portion of the District’s net assets (75 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment; and vehicles), less any related debt used to acquire those assets that is still outstanding. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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:

<b>Net Assets, End of Year</b>		
	Governmental Activities	
	June 30, 2006	June 30, 2005
Current and Other Assets	\$ 405,812,653.48	\$ 329,728,377.40
Capital Assets	718,420,233.76	609,979,205.89
<b>Total Assets</b>	<b>1,124,232,887.24</b>	<b>939,707,583.29</b>
Long-Term Liabilities	474,924,598.88	398,876,555.28
Other Liabilities	101,310,026.82	71,433,867.44
<b>Total Liabilities</b>	<b>576,234,625.70</b>	<b>470,310,422.72</b>
Net Assets:		
Invested in Capital Assets - Net of Related Debt	413,427,486.22	333,000,081.65
Restricted	103,185,721.95	44,745,406.17
Unrestricted	31,385,053.37	91,651,672.75
<b>Total Net Assets</b>	<b>\$ 547,998,261.54</b>	<b>\$ 469,397,160.57</b>

A portion of the District's net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets (6 percent).

#### **Governmental Activities**

The District's net assets increased by \$82,080,553.21 during the current fiscal year. This increase was due mainly to increases in revenues as described below.

- Property taxes used for operations increased by \$15,641,096.42 (12.5 percent over 2005). Those taxes used for debt service and capital improvements increased by \$5,950,547.08 (14.8 percent over 2005). Increases are generally derived from increases in property values and population in the county.
- Operating revenues paid through the Florida Education Finance Program increased by \$20,989,400 (7.6 percent more than 2005).
- Discretionary sales taxes at a rate of 0.5 percent generated capital outlay revenues for the fiscal year totaling \$ 36,772,929.41. This represents an increase of \$2,360,085.55 (6.9 percent more than 2005).

The above funding sources make up the significant revenues for general operations. Most other funding sources are linked to expenses as addressed in the statement of activities for governmental activities. For the most part, increases in expenses closely paralleled growth in the number of students served. Expenses are comparable by function, which includes depreciation expense by function and excludes amounts paid to purchase capital assets and debt principal reductions. Unallocated depreciation expense is generated mainly by assets that have been donated through School Internal Funds.

The following is a summary of the District's governmental activities for the fiscal year ending June 30, 2006, compared to governmental activities for the fiscal year ending June 30, 2005:



<b>Operating Results</b>		
	Governmental Activities	
	June 30, 2006	June 30, 2005
Program Revenues:		
Charges for Services	\$ 17,195,619.47	\$ 11,837,178.84
Operating Grants and Contributions	98,151,549.41	125,430,828.30
Capital Grants and Contributions	12,538,630.11	47,540,360.78
General Revenues:		
Property Taxes, Levied for Operational Purposes	140,449,233.04	124,808,136.62
Property Taxes, Levied for Capital Projects and Debt Service	46,146,545.44	40,195,998.36
Local Sales Tax and Impact Fees	66,560,519.15	47,522,435.65
Grants and Contributions Not Restricted to Specific Programs	398,309,767.66	328,672,787.23
Other (Investments and Miscellaneous)	25,970,213.74	20,832,743.96
<b>Total Revenues</b>	<b>805,322,078.02</b>	<b>746,840,469.74</b>
Functions/Program Expenses:		
Instruction	423,949,682.46	381,655,765.72
Pupil Personnel Services	25,427,365.61	23,450,231.46
Instructional Media Services	10,896,640.58	10,058,836.27
Instruction and Curriculum Development Services	18,060,208.96	16,016,321.30
Instructional Staff Training Services	8,416,752.06	7,318,504.21
Instruction Related Technology	3,275,836.20	
Board of Education	2,238,538.16	1,672,025.18
General Administration	6,340,004.88	5,922,193.71
School Administration	36,739,277.33	34,465,638.33
Facilities Acquisition & Construction	19,363,266.71	4,774,349.78
Fiscal Services	2,550,491.21	2,231,011.89
Food Services	34,468,104.66	33,911,925.46
Central Services	14,252,941.47	18,136,944.42
Pupil Transportation Services	28,519,798.53	26,234,023.52
Operation of Plant	41,980,545.52	37,869,626.68
Maintenance of Plant	26,988,266.54	30,028,711.01
Administrative Technology Services	4,198,201.70	
Community Services	895,509.26	857,381.82
Interest on Long-Term Debt	14,261,611.83	14,099,815.77
Unallocated Depreciation Expenses	418,481.14	401,934.52
Loss on Disposal of Capital Assets		507,939.94
<b>Total Functions/Program Expenses</b>	<b>723,241,524.81</b>	<b>649,613,180.99</b>
<b>Increase in Net Assets</b>	<b>\$ 82,080,553.21</b>	<b>\$ 97,227,288.75</b>

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

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the District 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 a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$249,838,019.50; 10.9 percent of this total amount (\$27,129,229.23) constitutes unreserved, undesignated fund balance in General Fund, which is available for spending at the government's discretion. Total

unreserved fund balance makes up 58.9 percent (\$147,269,679.01) of the combined governmental fund balances. Most of this balance is included in capital outlay funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) reserved for state categoricals to be carried forward (\$10,070,197.84); 2) to liquidate contracts and purchase orders of the prior period (\$83,340,449.08); 3) to account for inventory on hand (\$7,139,245.19); and 4) reserved to meet future debt service requirements (\$2,018,448.38).

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 \$27,129,229.23, while total General Fund balance reached \$47,240,687.66. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance total fund expenditures. Unreserved fund balance represents 4.6 percent of total General Fund expenditures, while total fund balance represents 8 percent of that same amount.

### **Proprietary Funds**

Unrestricted net assets of the self-insurance funds at the end of the year were in a positive position of \$30,210,364.89. This represents an improvement over the prior year's balance of \$18,204,667.32 by \$12,005,697.57. Two factors contributing to this increase in net assets are the significant changes in the District's group insurance plan offered to employees, as well as increased Board contributions on behalf of employees. Of the several types of self-insurance maintained by the Board, the Workers' Compensation Self-Insurance Fund was the only fund reporting a deficit fund balance in the amount of (\$2,106,455.96).

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Many of the fluctuations between the original and amended budget are from revenues that are both unknown and not measurable at the time the original budget is adopted. These amendments to the budget are made throughout the year as they are recognized. Revenues and their corresponding appropriations are included in the budget through amendments when revenues are received. Annual salary increases are not usually available when the original budget is adopted. Once negotiations have been completed and the amounts of these increases are known, the budget is amended to reflect these additional expenditures. Variances between the budget as amended and actual revenues are usually from unused grant balances. Certain unexpended funds remain allocated and are carried forward and budgeted in the following fiscal year.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

### **Capital Assets**

The District's investment in capital assets for the governmental activities as of June 30, 2006, amounted to \$718,420,233.76 (net of accumulated depreciation). This investment in capital assets includes land; buildings and improvements; furniture, fixtures and equipment; motor vehicles; audio visual materials and computer software, and construction in progress. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 17.8 percent. This change results primarily from increases in land purchases for new schools and construction in progress. Local source revenues, including sales taxes and impact

fees, have augmented this construction, along with debt incurred. Four new schools were started during the 2005-06 fiscal year and land was purchased for two more schools. Construction in Progress at year-end totaled \$153,362,270.50, an increase of 85.5 percent over the prior year's \$82,671,647.37.

Major capital asset events during the current fiscal year included the following:

- Construction continued on several new schools and remodels during the year.
- Expenditures on capital assets increased due to increased funding.

<b>The District's Capital Assets (net of accumulated depreciation)</b>		
	Governmental Activities	
	Balance June 30, 2006	Balance June 30, 2005
Land	\$ 62,620,044.30	\$ 36,685,074.00
Construction in Progress	153,362,270.50	82,671,647.37
Improvements Other Than Buildings	15,472,798.98	15,648,887.37
Buildings and Fixed Equipment	452,601,259.25	442,773,775.22
Furniture, Fixtures, and Equipment	11,428,088.85	10,265,152.50
Motor Vehicles	18,404,609.45	16,633,030.15
Audio Visual Materials and Computer Software	4,531,162.43	5,301,639.28
<b>Total</b>	<b>\$ 718,420,233.76</b>	<b>\$ 609,979,205.89</b>

Additional information on the District's capital assets can be found in the notes to the financial statements.

**Long-Term Debt**

At the end of the current fiscal year, the District had total debt outstanding of \$409,929,067.62. Of this amount, \$9,902,817.69 relates to notes payable, \$163,092,627.24 relates to bonds payable, and \$236,933,622.69 relates to certificates of participation payable.

<b>The District's Outstanding Long-Term Debt</b>		
	Governmental Activities	
	Balance June 30, 2006	Balance June 30, 2005
Notes Payable	\$ 9,902,817.69	\$ 10,524,149.95
Bonds Payable	163,092,627.24	82,073,493.28
Certificates of Participation Payable	236,933,622.69	243,232,863.16
<b>Total</b>	<b>\$ 409,929,067.62</b>	<b>\$ 335,830,506.39</b>

The District's total debt increased by \$74,098,561.22 (22.1 percent) during the current fiscal year. The activities contributing most to this increase are \$21,776,438.78 in principal reductions, the issuance of new Sales Tax Bonds in the amount of \$92,245,000, and State School Bonds in the amount of \$3,630,000.

The District has an insured rating of "AAA" from Standard & Poor's and Fitch and an underlying COP rating of "A" with Fitch.

State statutes limit the amount of 2 mill capital improvement tax that can be used for debt service of capital lease payments (certificates of participation) at 75 percent. The District has a procedure to use not more than half of its capital improvement tax millage to satisfy these types of debt obligations. The amount (75 percent) of 2 mill taxes that was available for debt service for the fiscal year ending June 30, 2006, was \$35,801,135.58 of which \$17,780,967.15 was used for debt service.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

### **OTHER MATTERS OF SIGNIFICANCE**

#### **Economic Factors and Next Year's Budgets and Rates**

According to Stephen O. Morrell, Ph.D., with Florida Tax Watch, attention is drawn to the influence of larger global outlooks on Florida's diversified economy. No longer solely dependent on agriculture to advance the state's economy; tourism, defense, business, financial and professional services, health care and international trade and investment are now the important sectors fueling Florida's growth. Higher labor productivity, the amount produced per worker, is the key to Florida's economic growth.

The unemployment rate for Polk County is 3.4 percent as of June 30, 2006, which is lower than the rate of 3.8 percent one year prior. State and national averages, as of June 30, 2006, are 3.0 percent and 4.6 percent, respectively.

The outlook for Polk County District School Board, and for the State of Florida, continues to improve, but at a slower pace than in the prior year. In addition, the property tax base in Polk County continues to grow at a steady pace, which provides additional dollars for our budget. A discretionary sales tax of ½ cent voted into existence by the voters of Polk County to be used to build new schools became effective January 1, 2004. There are negotiations currently underway with all bargaining units that will allow for salary increases. The Board's contribution on behalf of employees' health insurance has remained mostly unchanged just as school and departmental budgets remain mostly unchanged.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Assistant Superintendent for Business Services, the District School Board of Polk County, Florida, and P. O. Box 391, Bartow, Florida 33801.

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

	Primary Government Governmental Activities	Component Units
<b>ASSETS</b>		
Cash	\$ 5,821,303.35	\$ 7,253,809.00
Cash with Fiscal Agent	1,303,054.42	
Investments	349,406,591.57	2,479,316.00
Accounts Receivable	2,179,700.66	3,403,372.00
Interest Receivable	31,584.78	
Prepaid Items	43,696.20	844,989.00
Deferred Charges	4,542,944.49	
Due from Other Agencies	35,344,532.82	47,039.00
Inventories	7,139,245.19	
Other Current Assets		95,840.00
Capital Assets:		
Land	62,620,044.30	725,000.00
Construction in Progress	153,362,270.50	
Leasehold Improvement, Net		58,558.00
Improvements Other Than Buildings, Net	15,472,798.98	
Buildings and Fixed Equipment, Net	452,601,259.25	3,557,845.00
Furniture, Fixtures, and Equipment, Net	11,428,088.85	1,829,910.00
Motor Vehicles, Net	18,404,609.45	1,034,921.00
Audio Visual Materials and Computer Software, Net	4,531,162.43	186,053.00
<b>TOTAL ASSETS</b>	<b>\$ 1,124,232,887.24</b>	<b>\$ 21,516,652.00</b>
<b>LIABILITIES</b>		
Salaries and Benefits Payable	\$ 27,245,973.23	\$ 538,310.00
Payroll Deductions and Withholdings	5,712,929.61	2,826.00
Accounts Payable	13,861,241.24	3,758,172.00
Construction Contracts Payable	7,904,487.65	
Construction Contracts Payable - Retainage	4,070,545.86	
Due to Other Agencies	17,636,131.26	
Matured Interest Payable	5,089,454.16	
Accrued Interest Payable	1,757,238.52	
Sales Tax Payable	519.68	
Deferred Revenue	8,061,629.91	280,918.00
Estimated Insurance Claims Payable	9,969,875.70	
Estimated Liability for Arbitrage Rebate	618,700.00	
Long-Term Liabilities:		
Portion Due Within One Year:		
Obligations Under Capital Lease		11,444.00
Notes Payable	754,240.60	322,498.00
Bonds Payable	9,865,000.00	
Certificates of Participation Payable	6,545,000.00	
Compensated Absences Payable	3,721,273.15	
Portion Due After One Year:		
Obligations Under Capital Lease		30,371.00
Notes Payable	9,148,577.09	4,130,053.00
Bonds Payable	153,227,627.24	
Certificates of Participation Payable	230,388,622.69	
Estimated Insurance Claims Payable	21,049,836.30	
Compensated Absences Payable	39,605,721.81	
<b>Total Liabilities</b>	<b>576,234,625.70</b>	<b>9,074,592.00</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	413,427,486.22	2,731,543.00
Restricted for:		
State Categorical Programs	10,070,197.84	2,460.00
Debt Service	2,018,448.38	
Capital Projects	91,097,075.73	527,438.00
Other Purposes		2,146,631.00
Unrestricted	31,385,053.37	7,033,988.00
<b>Total Net Assets</b>	<b>547,998,261.54</b>	<b>12,442,060.00</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,124,232,887.24</b>	<b>\$ 21,516,652.00</b>

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

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**EXHIBIT - B  
POLK 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
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 423,949,682.46	\$ 5,058,941.56	\$ 52,086,706.00	\$
Pupil Personnel Services	25,427,365.61			
Instructional Media Services	10,896,640.58			
Instruction and Curriculum Development Services	18,060,208.96			
Instructional Staff Training Services	8,416,752.06			
Instruction Related Technology	3,275,836.20			
Board of Education	2,238,538.16			
General Administration	6,340,004.88			
School Administration	36,739,277.33			
Facilities Acquisition and Construction	19,363,266.71			3,813,335.76
Fiscal Services	2,550,491.21			
Food Services	34,468,104.66	11,733,717.04	25,077,776.41	
Central Services	14,252,941.47			
Pupil Transportation Services	28,519,798.53	402,960.87	20,987,067.00	
Operation of Plant	41,980,545.52			
Maintenance of Plant	26,988,266.54			6,046,883.00
Administrative Technology Services	4,198,201.70			
Community Services	895,509.26			
Interest on Long-Term Debt	14,261,611.83			2,678,411.35
Unallocated Depreciation Expenses	418,481.14			
<b>Total Primary Government</b>	<b>\$ 723,241,524.81</b>	<b>\$ 17,195,619.47</b>	<b>\$ 98,151,549.41</b>	<b>\$ 12,538,630.11</b>
<b>Component Units</b>				
Educational Foundation	\$ 1,210,702.00	\$	\$ 1,728,009.00	\$
Charter Schools	54,083,754.00	341,043.00	2,422,335.00	3,699.00
<b>Total Component Units</b>	<b>\$ 55,294,456.00</b>	<b>\$ 341,043.00</b>	<b>\$ 4,150,344.00</b>	<b>\$ 3,699.00</b>

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

Impact Fees

Miscellaneous

**Total General Revenues**

**Change in Net Assets**

Net Assets - July 1, 2005

Adjustment to Beginning Net Assets

Net Assets - July 1, 2005, as 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>	
\$ (366,804,034.90)	\$
(25,427,365.61)	
(10,896,640.58)	
(18,060,208.96)	
(8,416,752.06)	
(3,275,836.20)	
(2,238,538.16)	
(6,340,004.88)	
(36,739,277.33)	
(15,549,930.95)	
(2,550,491.21)	
2,343,388.79	
(14,252,941.47)	
(7,129,770.66)	
(41,980,545.52)	
(20,941,383.54)	
(4,198,201.70)	
(895,509.26)	
(11,583,200.48)	
(418,481.14)	
<u>(595,355,725.82)</u>	
	517,307.00
	<u>(51,316,677.00)</u>
	<u>(50,799,370.00)</u>
140,449,233.04	
8,778,944.04	
37,367,601.40	
36,772,929.41	
398,309,767.66	53,172,787.00
13,804,151.13	84,947.00
29,787,589.74	
12,166,062.61	6,279.00
<u>677,436,279.03</u>	<u>53,264,013.00</u>
<u>82,080,553.21</u>	<u>2,464,643.00</u>
469,397,160.57	9,977,417.00
<u>(3,479,452.24)</u>	
<u>465,917,708.33</u>	<u>9,977,417.00</u>
<u>\$ 547,998,261.54</u>	<u>\$ 12,442,060.00</u>



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

	General Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 5,046,128.96	\$	\$ 775,174.39	\$ 5,821,303.35
Cash with Fiscal Agent		0.80	807,233.70	807,234.50
Investments	85,314,180.43	169,879,617.01	29,789,694.02	284,983,491.46
Accounts Receivable	1,844,250.75	75,000.00	165,667.08	2,084,917.83
Interest Receivable	11,238.92		20,251.00	31,489.92
Due from Other Funds			8,770,391.77	8,770,391.77
Due from Other Agencies	2,302,784.62	21,016,139.53	11,492,568.14	34,811,492.29
Inventories	5,532,845.95		1,606,399.24	7,139,245.19
Prepaid Items			43,696.20	43,696.20
<b>TOTAL ASSETS</b>	<b>\$ 100,051,429.63</b>	<b>\$ 190,970,757.34</b>	<b>\$ 53,471,075.54</b>	<b>\$ 344,493,262.51</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Salaries and Benefits Payable	\$ 24,493,764.31	\$	\$ 2,752,208.92	\$ 27,245,973.23
Payroll Deductions and Withholdings	4,968,402.39		744,527.22	5,712,929.61
Accounts Payable	6,486,915.69	1,108,902.21	1,948,661.98	9,544,479.88
Construction Contracts Payable	200,004.82	7,684,227.74	20,255.09	7,904,487.65
Construction Contracts Payable - Retainage	28,722.40	3,598,367.28	443,456.18	4,070,545.86
Matured Interest Payable			5,089,454.16	5,089,454.16
Sales Tax Payable			519.68	519.68
Due to Other Funds		8,770,391.77		8,770,391.77
Due to Other Agencies	16,632,932.36		1,003,198.90	17,636,131.26
Estimated Liability for Arbitrage Rebate		618,700.00		618,700.00
Deferred Revenue			8,061,629.91	8,061,629.91
<b>Total Liabilities</b>	<b>52,810,741.97</b>	<b>21,780,589.00</b>	<b>20,063,912.04</b>	<b>94,655,243.01</b>
Fund Balances:				
Reserved for State Categorical Programs	10,070,197.84			10,070,197.84
Reserved for Encumbrances	4,508,414.64	77,493,818.17	1,338,216.27	83,340,449.08
Reserved for Inventories	5,532,845.95		1,606,399.24	7,139,245.19
Reserved for Debt Service			2,018,448.38	2,018,448.38
Unreserved, Reported in:				
General Fund	27,129,229.23			27,129,229.23
Special Revenue Funds			2,879,235.53	2,879,235.53
Capital Projects Funds		91,696,350.17	25,564,864.08	117,261,214.25
<b>Total Fund Balances</b>	<b>47,240,687.66</b>	<b>169,190,168.34</b>	<b>33,407,163.50</b>	<b>249,838,019.50</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 100,051,429.63</b>	<b>\$ 190,970,757.34</b>	<b>\$ 53,471,075.54</b>	<b>\$ 344,493,262.51</b>

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

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

<b>Total Fund Balances - Governmental Funds</b>		\$	249,838,019.50
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.			718,420,233.76
Debt issuance costs and underwriter's discounts/premiums are not expensed in the government-wide statements, but are amortized over the life of the debt.			4,542,944.49
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.			(1,757,238.52)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			30,210,364.89
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:			
Notes Payable	\$		9,902,817.69
Bonds Payable			163,092,627.24
Certificates of Participation Payable			236,933,622.69
Compensated Absences Payable			43,326,994.96
			(453,256,062.58)
<b>Total Net Assets - Governmental Activities</b>		<b>\$</b>	<b>547,998,261.54</b>

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

**EXHIBIT - E**  
**POLK 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	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 618,277.64	\$	\$ 576,862.11	\$ 1,195,139.75
Federal Through State	131,435.01		82,727,669.93	82,859,104.94
State	404,930,610.32	3,539,589.00	13,403,245.85	421,873,445.17
Local	<u>156,862,672.28</u>	<u>74,463,981.74</u>	<u>64,121,382.97</u>	<u>295,448,036.99</u>
<b>Total Revenues</b>	<u>562,542,995.25</u>	<u>78,003,570.74</u>	<u>160,829,160.86</u>	<u>801,375,726.85</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	382,241,280.40		31,506,453.14	413,747,733.54
Pupil Personnel Services	21,820,894.77		3,037,452.23	24,858,347.00
Instructional Media Services	9,861,252.96		817,867.07	10,679,120.03
Instruction and Curriculum Development Services	5,169,770.83		12,479,276.31	17,649,047.14
Instructional Staff Training Services	1,263,065.64		6,880,069.51	8,143,135.15
Instruction Related Technology	3,243,632.15			3,243,632.15
Board of Education	2,168,748.99			2,168,748.99
General Administration	3,912,780.80		1,927,232.61	5,840,013.41
School Administration	35,848,668.62		36,040.54	35,884,709.16
Facilities Acquisition and Construction	4,476,423.53	4,711,328.55		9,187,752.08
Fiscal Services	2,503,801.16			2,503,801.16
Food Services			33,997,891.16	33,997,891.16
Central Services	11,326,900.56		177,646.28	11,504,546.84
Pupil Transportation Services	27,785,310.12		322,762.71	28,108,072.83
Operation of Plant	40,929,588.61		78,765.72	41,008,354.33
Maintenance of Plant	26,156,928.69		15,242.52	26,172,171.21
Administrative Technology Services	4,098,887.83			4,098,887.83
Community Services	238,466.19		622,618.61	861,084.80
Fixed Capital Outlay:				
Facilities Acquisition and Construction	2,206,996.01	115,451,083.37	20,876,251.19	138,534,330.57
Other Capital Outlay	2,698,680.67	2,620,635.19	1,220,191.14	6,539,507.00
Debt Service:				
Principal	621,332.26		17,065,000.00	17,686,332.26
Interest and Fiscal Charges	<u>624,023.43</u>		<u>17,757,299.23</u>	<u>18,381,322.66</u>
<b>Total Expenditures</b>	<u>589,197,434.22</u>	<u>122,783,047.11</u>	<u>148,818,059.97</u>	<u>860,798,541.30</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(26,654,438.97)</u>	<u>(44,779,476.37)</u>	<u>12,011,100.89</u>	<u>(59,422,814.45)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	26,295,877.71	12,126.19	31,540,984.11	57,848,988.01
Long-Term Bonds Issued		91,070,064.20	2,209,935.80	93,280,000.00
Refunding Bonds Issued			2,595,000.00	2,595,000.00
Proceeds from Sale of Capital Assets	226,050.00			226,050.00
Payment to Refunded Bonds Escrow Agent			(2,837,833.24)	(2,837,833.24)
Insurance Loss Recoveries	130,769.23		1,260.46	132,029.69
Premium on Bonds Issued		3,949,935.80	252,596.75	4,202,532.55
Discount on Bonds Issued			(5,232.04)	(5,232.04)
Transfers Out	<u>(99,704.08)</u>	<u>(14,261,676.75)</u>	<u>(43,487,607.18)</u>	<u>(57,848,988.01)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>26,552,992.86</u>	<u>80,770,449.44</u>	<u>(9,730,895.34)</u>	<u>97,592,546.96</u>
<b>Net Change in Fund Balances</b>	(101,446.11)	35,990,973.07	2,280,205.55	38,169,732.51
Fund Balances, July 1, 2005	<u>47,342,133.77</u>	<u>133,199,195.27</u>	<u>31,126,957.95</u>	<u>211,668,286.99</u>
<b>Fund Balances, June 30, 2006</b>	<u>\$ 47,240,687.66</u>	<u>\$ 169,190,168.34</u>	<u>\$ 33,407,163.50</u>	<u>\$ 249,838,019.50</u>

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

**EXHIBIT - F  
POLK 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** \$ 38,169,732.51

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. 108,603,523.88

Proceeds of refunding bonds are reported as other financing sources in the governmental funds, while payments to the escrow agent for advance refunding of outstanding bonds are shown as other financing uses. Government-wide statements are affected only to the extent these amounts differ. Other long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the net effect of these transactions. (74,563,667.74)

Premiums and discounts on bonds issued along with debt issuance costs are reported in the governmental funds, in the year debt is issued, but are deferred and amortized over the life of the debt in the statement of activities. 158,003.89

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (1,014,383.27)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (162,496.00)

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. (1,115,857.63)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. 12,005,697.57

**Change in Net Assets - Governmental Activities** \$ 82,080,553.21

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

**EXHIBIT - G**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS -**  
**PROPRIETARY FUNDS**  
*June 30, 2006*

		Governmental Activities - Internal Service Funds
		<hr/>
<b>ASSETS</b>		
Current Assets:		
Cash	\$	495,819.92
Investments		64,423,100.11
Interest Receivable on Investments		94.86
Accounts Receivable		94,782.83
Due from other Agencies		533,040.53
		<hr/>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>65,546,838.25</b>
		<hr/> <hr/>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$	4,316,761.36
Estimated Insurance Claims Payable		9,969,875.70
		<hr/>
<b>Total Current Liabilities</b>		<b>14,286,637.06</b>
		<hr/>
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		21,049,836.30
		<hr/>
<b>Total Liabilities</b>		<b>35,336,473.36</b>
		<hr/>
<b>NET ASSETS</b>		
Unrestricted		30,210,364.89
		<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>65,546,838.25</b>
		<hr/> <hr/>

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

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

	Governmental Activities - Internal Service Funds
<b>OPERATING REVENUES</b>	
Premium Revenues	\$ 83,274,717.19
Other Operating Revenues	3,808,543.39
<b>Total Operating Revenues</b>	<b>87,083,260.58</b>
 <b>OPERATING EXPENSES</b>	
Purchased Services	6,432,690.37
Insurance Claims	70,423,521.94
<b>Total Operating Expenses</b>	<b>76,856,212.31</b>
 <b>Operating Income</b>	 <b>10,227,048.27</b>
 <b>NONOPERATING REVENUES</b>	
Interest	1,778,649.30
<b>Change in Net Assets</b>	<b>12,005,697.57</b>
 Total Net Assets, July 1, 2005	 18,204,667.32
<b>Total Net Assets, June 30, 2006</b>	<b>\$ 30,210,364.89</b>

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

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

		Governmental Activities - Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Board Funds and Participants	\$	83,229,409.73
Cash Received from Other Operating Revenues		3,275,502.86
Cash Payments to Suppliers for Goods and Services		(6,320,390.58)
Cash Payments for Insurance Claims		(65,805,377.94)
		14,379,144.07
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments		(16,195,120.79)
Interest Income		1,778,632.01
		(14,416,488.78)
<b>Net Cash Used by Investing Activities</b>		
<b>Net Decrease in Cash</b>		(37,344.71)
Cash, Beginning		533,164.63
<b>Cash, Ending</b>	\$	495,819.92

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

Operating Income	\$	10,227,048.27
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(45,307.46)
Increase in Due from Other Agencies		(533,040.53)
Increase in Accounts Payable		112,299.79
Increase in Estimated Insurance Claims Payable		4,618,144.00
		4,152,095.80
<b>Total Adjustments</b>		4,152,095.80
<b>Net Cash Provided by Operating Activities</b>	\$	14,379,144.07

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

**EXHIBIT - J**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -**  
**FIDUCIARY FUNDS**  
**June 30, 2006**

		Agency Funds
<b>ASSETS</b>		
Cash	\$	1,188,040.24
Investments		6,107,718.45
Accounts Receivable, Net		5,922.87
Interest Receivable on Investments		673.89
Inventory		494,700.71
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>7,797,056.16</b>
<b>LIABILITIES</b>		
Salaries and Benefits Payable	\$	2,989.54
Payroll Deductions and Withholdings		21,344.97
Accounts Payable		182,091.39
Internal Accounts Payable		7,590,630.26
<b>Total Liabilities</b>	<b>\$</b>	<b>7,797,056.16</b>

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



**EXHIBIT – K**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Financing Corporation for the School Board of Polk County, Florida, was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Polk County District School Board and the Financing Corporation, the financial activities of the Financing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Financing Corporation are not published.
- **Discretely Presented Component Units.** The component units columns in the basic financial statements, Exhibits A and B, include the financial data of the District's other component units as follows:

The Polk Education Foundation and Business Partnership, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures for the benefit of the District. An audit of the organization's financial statements is conducted by an independent certified public accountant. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the organization for the fiscal year ended June 30, 2006, which are on file at the District's administrative offices.

The Apple School, Inc.; Berkley Elementary Charter School, Inc.; Berkley Accelerated Middle School, Inc.; Compass Charter Middle School, Inc.; Discovery Academy of Lake Alfred, Inc.; Dale R. Fair Babson Park Elementary School; Haines City Literacy Learning Academy, Inc.; Hartridge Academy; Hillcrest Elementary School; Janie Howard Wilson Elementary School; Lakeland Montessori Schoolhouse; Lake Wales High School; Life Skills Center Polk County, Inc.; McKeel Academy of Technology, Inc.; McKeel Elementary Academy, Inc.; Polk Avenue Elementary School; and Ridgeview Global Studies Academy, Inc. (Charter Schools), are separate, not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under charters approved by their sponsor, the Polk County District School Board. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the Charter Schools for the fiscal year ended June 30, 2006. The audit reports are on file at the District's administrative offices.

➤ **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. Depreciation expense is allocated to the various functions by the District's accounting software based on an assigned function for each individual asset at the time of acquisition.

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.

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

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

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.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources which are restricted for capital outlay purposes.

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

- Internal Service Funds – to account for the District's individual self-insurance programs.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

- Agency Funds – to account for resources of the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

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

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for employee health insurance premiums. Operating expenses include administrative expenses, 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 Polk Education Foundation and Business Partnership, 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.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in State Board Administration Debt Service accounts for investment of debt service moneys, 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 investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost.

Investments made locally consist of money market and bond funds and obligations of United States Government Agencies and Instrumentalities and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated on a moving-average basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. 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 and an estimated useful life of one year or more. Such assets, except land acquired prior to 1977 and buildings and fixed equipment acquired prior to 1976, are recorded at historical cost or estimated historical cost if purchased or constructed. The value of land acquired prior to 1977 is reported at the assessed value recorded as of March 10, 1977, by the Polk County Property Appraiser. Buildings and fixed equipment acquired prior to 1976 are reported at the replacement cost at June 30, 1976, as determined for insurance purposes at that time. Donated assets are recorded at fair value at the date of donation.

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

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Building Improvements	40 years
Improvements Other than Buildings	20 years
Motor Vehicles	10 years
Equipment	7 years
Furniture and Fixtures	5 years
Software	5 years
Computers	3 years
Audio Visual Materials	3 years

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums 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 net of the applicable bond premium or discount. 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, and premiums on debt issuances are 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.

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 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.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

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 also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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 Polk County Property Appraiser, and property taxes are collected by the Polk County Tax Collector.

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 Polk County Tax Collector 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 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.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

➤ **Budgetary Information**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- 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.

➤ **Deficit Net Assets in Individual Funds**

The following Internal Service Fund has a deficit net asset balance at June 30, 2006:

	Net Assets 7-1-05	Change in Net Assets Fiscal Year 2005-06	Net Assets 6-30-06
Workers' Compensation Self-Insurance Fund	\$149,269.95	\$(2,255,725.91)	\$(2,106,455.96)

The loss is primarily the result of a \$5,578,844 increase in reserves calculated by the actuary. It is the Board's intention to cure the deficit in future years through increased premiums.

**3. INVESTMENTS**

As of June 30, 2006, the District has the following investments and maturities:

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

Investment	Maturities	Fair Value
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool	27 Day Average	\$ 321,851,972.54
The Core Fund Short-Term United States Government Bond Fund	2.09 Year Average	20,977,183.58
State Board of Administration Debt Service Accounts	6 Months	884,876.12
United States Treasury Bills	August 2006	189,876.92
United States Treasury Notes	September 2007	287,562.34
United States Treasury Bonds	May 2017 - August 2026	8,117,005.15
UBS Resource Management Account - Money Market Portfolio	53 Day Average	82,545.32
STI Classic United States Government Securities Money Market Fund	47 Day Average	192,275.25
STI Classic Institutional United States Government Securities Money Market Fund	42 Day Average	2,827,776.88
Obligations of United States Government Agencies and Instrumentalities: Small Business Administration Loans	February 2010 - September 2019	<u>103,235.92</u>
Total Investments, Primary Government Component Unit:		<u>355,514,310.02</u> <u>2,479,316.00</u>
Total Investments, Reporting Entity		<u>\$ 357,993,626.02</u>

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy limits the length of investments as follows: (1) the average maturity of the portfolio should generally not exceed one year but may exceed one year when the risk reward perspective looks attractive and (2) the maturity of any individual holding should generally not exceed five years but may exceed five years when there is opportunity to achieve greater return and/or the average life is expected to be less.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments in money market funds to Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The Board has adopted an investment policy that authorizes investing in the Local Government Surplus Funds Trust Fund, direct obligations of the U.S. Government, obligations guaranteed by the U.S. Government, obligations of the Federal Farm Credit Banks, obligations of the Federal National Mortgage Association, securities fully collateralized by U.S. Government obligations, certain repurchase agreements, certain banker's acceptances, certain prime commercial paper, certain State and/or revenue bonds, and certain fixed income mutual funds.



**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

- The District's investments in the State Board of Administration Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2006, the District's investment in the Local Government Surplus Funds Trust Fund investment pool is unrated.
- The District's investment in the Core Fund Short-Term United States Government Bond Fund was rated AA Af/S1+ by Standard & Poor's.
- The District's investments in the STI Classic United States Government Securities Money Market Fund and the STI Classic Institutional United States Government Securities Money Market Fund were rated AA Am by Standard and Poor's.
- As of June 30, 2006, the District's investment in the UBS Resource Management Account – Money Market Portfolio is unrated.

**Custodial Credit Risk**

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Of the District's investments, \$8,594,444.41 in U.S. Treasury securities are held by the counterparty's trust department in the name of the District.

**Concentration of Credit Risk**

- The District's investment policy specifies certain limits by authorized investment type and provides that assets shall be diversified to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which these instruments are bought and sold.

**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

	Balance 7-1-05	Additions	Deletions	Balance 6-30-06
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 36,685,074.00	\$ 25,934,970.30	\$	\$ 62,620,044.30
Construction in Progress	82,671,647.37	102,989,957.99	32,299,334.86	153,362,270.50
<b>Total Capital Assets Not Being Depreciated</b>	<b>119,356,721.37</b>	<b>128,924,928.29</b>	<b>32,299,334.86</b>	<b>215,982,314.80</b>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	34,100,208.72	1,585,794.26		35,686,002.98
Buildings and Fixed Equipment	729,739,366.91	24,987,176.24		754,726,543.15
Furniture, Fixtures, and Equipment	69,046,421.63	5,764,151.18	8,310,735.11	66,499,837.70
Motor Vehicles	45,214,520.02	5,497,380.21	2,229,081.78	48,482,818.45
Audio Visual Materials and Computer Software	18,447,882.53	1,809,193.17	885,525.81	19,371,549.89
<b>Total Capital Assets Being Depreciated</b>	<b>896,548,399.81</b>	<b>39,643,695.06</b>	<b>11,425,342.70</b>	<b>924,766,752.17</b>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	18,451,321.35	1,761,882.65		20,213,204.00
Buildings and Fixed Equipment	286,965,591.70	15,159,692.20		302,125,283.90
Furniture, Fixtures, and Equipment	58,781,269.13	4,490,497.55	8,200,017.83	55,071,748.85
Motor Vehicles	28,581,489.87	3,709,080.05	2,212,360.92	30,078,209.00
Audio Visual Materials and Computer Software	13,146,243.25	2,544,612.16	850,467.95	14,840,387.46
<b>Total Accumulated Depreciation</b>	<b>405,925,915.30</b>	<b>27,665,764.61</b>	<b>11,262,846.70</b>	<b>422,328,833.21</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>490,622,484.51</b>	<b>11,977,930.45</b>	<b>162,496.00</b>	<b>502,437,918.96</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 609,979,205.88</b>	<b>\$ 140,902,858.74</b>	<b>\$ 32,461,830.86</b>	<b>\$ 718,420,233.76</b>

Depreciation expense was charged to functions as follows:

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$14,683,226.00
Pupil Personnel Services	871,625.85
Instructional Media Services	374,095.93
Instruction and Curriculum Development Services	618,481.50
Instructional Staff Training Services	285,460.91
Instruction Related Technology	113,151.13
Board of Education	76,084.09
General Administration	170,861.72
School Administration	1,337,063.57
Facilities Acquisition and Construction	1,028,670.18
Fiscal Services	87,894.27
Food Services	1,195,013.28
Central Services	2,919,205.73
Pupil Transportation Services	971,659.07
Operation of Plant	1,435,288.71
Maintenance of Plant	913,197.90
Administrative Technology Services	136,117.95
Community Services	30,185.68
Unallocated	<u>418,481.14</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$27,665,764.61</u></u>

**5. NOTES PAYABLE**

Notes payable are comprised of the following:

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

	<u>Balance at 6-30-06</u>
<hr/>	
<u>GE Commercial Finance - Public Finance</u>	
\$4,005,232, Borrowed 03-07-2000, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.99 Percent. Proceeds Used for Equipment Necessary for the Energy Conservation Project with Johnson Controls. Matures 11-01-2014. The Board's Intent is to Repay the Balance in 15 Annual Installments at Various Amounts According to the Payment Schedule.	\$2,895,924.74
<hr/>	
<u>GE Commercial Finance - Public Finance</u>	
\$2,306,612, Borrowed 07-10-2000, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 6.35 Percent. Proceeds Used for Retrofit Lighting Countywide Necessary for the Energy Conservation Project with Johnson Controls. Matures 06-30-2015. The Board's Intent is to Repay the Balance in 15 Semi-annual Installments at Various Amounts According to the Payment	1,845,395.77
<hr/>	
<u>GE Commercial Finance - Public Finance</u>	
\$3,613,133, Borrowed 01-15-2001, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.98 Percent. Proceeds Used for Retrofit Lighting Countywide Necessary for the Energy Conservation Project with Johnson Controls. Matures 01-15-2016. The Board's Intent is to Repay the Balance in 15 Semi-annual Installments at Various Amounts According to the Payment	3,049,116.27
<hr/>	
<u>First Municipal Credit Corporation</u>	
\$2,715,000, Borrowed 06-12-2001, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.45 Percent. Proceeds Used for Retrofit Lighting Countywide Necessary for the Energy Conservation Project with Johnson Controls. Matures 12-01-2014. The Board's Intent is to Repay the Balance in 15 Semi-annual Installments at Various Amounts According to the Payment	<u>2,112,380.91</u>
Total Notes Payable	<u><u>\$9,902,817.69</u></u>

Amounts payable for the planned extended repayment of the Section 1013.23, Florida Statutes, bank loans are as follows:

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

Fiscal Year Ending June 30	Total	Principal	Interest
2007	\$ 1,339,648.52	\$ 754,240.60	\$ 585,407.92
2008	1,360,063.21	820,187.89	539,875.32
2009	1,381,033.99	890,676.30	490,357.69
2010	1,409,698.03	973,233.48	436,464.55
2011	1,433,896.44	1,056,253.44	377,643.00
2012-2016	6,244,217.47	5,408,225.98	835,991.49
<b>Total</b>	<b>\$ 13,168,557.66</b>	<b>\$ 9,902,817.69</b>	<b>\$ 3,265,739.97</b>

**6. CERTIFICATES OF PARTICIPATION**

The District entered into a financing arrangement on January 15, 1998, which arrangement was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing of the acquisition, construction, and equipping of two middle schools within the District in the total amount of \$35,915,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1998, to be repaid from the proceeds of rents paid by the School District.

As a condition of the 1998 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on January 15, 1998, and ending on the earlier of: (a) the date on which the Series 1998 Certificates have been paid or provision for such payment has been made pursuant to the Trust Agreement or (b) January 1, 2028 (both dates inclusive). 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 to 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 inception of the arrangement.

The District properties included in the 1998 ground lease under this arrangement include sites for construction of Sleepy Hill and Ridge Middle Schools.

The Series 1998 Certificates consist of term certificates maturing from 2015 through 2023. The lease payments are payable by the District, semiannually, on the 15th day preceding each January 1 and July 1 at interest rates ranging from 4.75 to 5.00 percent.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

The District entered into a financing arrangement on February 15, 1999, which arrangement was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing for educational facilities and to advance refund \$11,835,000 of the Certificates of Participation, Series 1995. The financing was accomplished through the issuance of Certificates of Participation, Series 1999, totaling \$63,760,000, to be repaid from the proceeds of rents paid by the School District.

As a condition of the 1999 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on February 15, 1999, and ending on the earlier of: (a) the date on which the Series 1999 Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2029 (both dates inclusive). 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 to 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 inception of the arrangement.

The District properties included in the ground lease under this arrangement include lands on which the Series 1995 projects are located, (Blake Elementary School, an auditorium constructed at Auburndale High School, Lake Alfred Middle School, and expansion of Lakeland Sr. High School) and the construction of Berkley, Pinewood, Sandhill, and Ridgeview Elementary Schools.

The lease payments are payable by the District semiannually, on the 15th day preceding each January 1 and July 1 at interest rates ranging from 4.0 to 4.75 percent.

The District entered into a financing arrangement on March 21, 2001, which arrangement was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing for ten various educational facilities. The financing was accomplished through the issuance of Certificates of Participation, Series 2001A, totaling \$54,615,000, to be repaid from the proceeds of rents paid by the School District.

As a condition of the 2001 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on March 21, 2001, and ending on the earlier of: (a) the date on which the Series 2001 Certificates and all other amounts due in respect of the Trust

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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Agreement or the Lease Agreement have been paid in full or (b) January 1, 2026 (both dates inclusive). 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 to 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 25 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include lands on which the Series 2001 Projects are located. The Series 2001 Projects included the construction of R. Bruce Wagner and Dr. N. E. Roberts Elementary Schools, Lake Alfred Career Development Academy, Lake Gibson High School Auditorium, Jewett Elementary Classroom Wing, Auburndale Senior High Agri Science Center and Gym, Bartow Senior and Haines City High New Cafeteria/Remodel, Kathleen Elementary Administration Building, and Lewis Elementary Quad Classroom.

The lease payments are payable by the District, semiannually, on the 15th day preceding each January 1 and July 1 at interest rates ranging from 4.0 to 5.5 percent.

As disclosed in Note 8, the District has entered into a swaption agreement for the Series 1998, 1999, and 2001A Certificates of Participation as a means of managing interest rate cost associated with these Certificates.

The District entered into a refunding arrangement on November 13, 2002, to advance refund the Certificates of Participation, Series 1993, issued on behalf of the Financing Corporation for the School Board of Polk County, Florida. The refunding, was accomplished through the issuance of Certificates of Participation, Series 2002, totaling \$30,270,000, to be repaid from the proceeds of rents paid by the School District.

As a condition of the financing arrangement associated with the Series 2002 Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on June 1, 1993, and ending on the earlier of: (a) the date on which the Series 2002 Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2013 (both dates inclusive). If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 20 years from the date of inception of the arrangement.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

The District properties included in the ground lease under this arrangement include the lands on which the Series 1990 and 1991 Projects are located. The Series 1990 Projects included the construction of Valleyview Elementary School, Socrum Elementary School, Watson Elementary School, and a portion of Loughman Oaks Elementary School. The Series 1991 Project included the construction of George W. Jenkins Senior High School.

The Series 2002 Certificates include serial certificates maturing from 2003 through 2013. The lease payments on the Series 2002 Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3 to 4 percent.

The District entered into a financing arrangement on July 30, 2003, which arrangement was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing for various educational facilities. The financing was accomplished through the issuance of Certificates of Participation, Series 2003A, totaling \$50,355,000, to be repaid from the proceeds of rents paid by the School District.

As a condition of the 2003A financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on July 30, 2003, and ending on the earlier of: (a) the date on which the Series 2003A Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2028 (both dates inclusive). 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 to 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 25 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include lands on which the Series 2003A Projects are located. The Series 2003A Projects included the construction of Ridge Community High School, Chain of Lakes Elementary School, Sandhill Elementary Classroom Addition, Ridgeview Elementary Classroom Addition, and Haines City High School Administrative Suite.

The lease payments are payable by the District, semiannually, on the 15th day preceding each January 1 and July 1 at a fixed 3.87 percent synthetic rate pursuant to a Floating-to-Fixed Interest Rate Swap Agreement as described in Note 7.



**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

The District entered into a refunding arrangement on July 30, 2003, to advance refund the Certificates of Participation, Series 1994, issued on behalf of the Financing Corporation for the School Board of Polk County, Florida. The refunding, was accomplished through the issuance of Certificates of Participation, Series 2003B, totaling \$19,700,000, to be repaid from the proceeds of rents paid by the School District.

As a condition of the financing arrangement associated with the Series 2003B Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on July 30, 2003, and ending on the earlier of: (a) the date on which the Series 2003B Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2028 (both dates inclusive). If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include the lands on which the Series 1994 Project is located. The Series 1994 Project was for the construction of Lake Region Senior High School.

The Series 2003B Certificates include serial certificates maturing from 2004 through 2018. The lease payments on the Series 2003B Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2 to 4 percent.

**2004 QZAB**

The Series 2004-Qualified Zone Academy Bonds (QZAB) were issued under a special program whereby the certificates, bearing an original issue date of June 8, 2004, will mature on June 7, 2020, for the original \$3,561,000 issue amount. There is no interest cost for borrowing moneys under this program. The financing proceeds were used to acquire technology-related equipment at 86 schools, which are leased by the District from the Financing Corporation for the School Board of Polk County, Florida. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$403,616.85 are made for 5 consecutive years beginning on June 8, 2005. The forward delivery agreement provides a guaranteed investment return of 4.45 percent whereby the required deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement until the certificates mature.

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The Series 2004-QZAB Project is composed of technology-related equipment at 86 schools throughout the District.

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	\$ 16,956,267.39	\$ 6,545,000.00	\$ 10,411,267.39
2008	16,960,644.55	6,770,000.00	10,190,644.55
2009	16,967,062.34	7,005,000.00	9,962,062.34
2010	16,973,684.34	7,265,000.00	9,708,684.34
2011	16,979,005.10	7,510,000.00	9,469,005.10
2012-2016	85,155,215.01	42,725,000.00	42,430,215.01
2017-2021	88,982,986.16	57,601,000.00	31,381,986.16
2022-2026	86,185,768.75	69,380,000.00	16,805,768.75
2027-2028	<u>34,048,174.65</u>	<u>32,760,000.00</u>	<u>1,288,174.65</u>
Total Minimum Lease Payments	379,208,808.29	237,561,000.00	141,647,808.29
Less: Unamortized Discount	<u>(627,377.31)</u>	<u>(627,377.31)</u>	
Total Certificates of Participation	<u>\$ 378,581,430.98</u>	<u>\$236,933,622.69</u>	<u>\$ 141,647,808.29</u>

**7. FLOATING-TO-FIXED CANCELABLE INTEREST RATE SWAP**

In connection with the issuance on July 30, 2003, of the \$50,355,000 variable-rate Certificates of Participation Series 2003A, the District entered into a floating-to-fixed cancelable interest rate swap, effective through January 1, 2028, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into 25 year synthetic fixed rate debt obligations with a fixed rate of 3.87 percent. In exchange for an up front premium payment of \$3,440,000 received by the District, the swap counterparty has the right to cancel the swap on any date on or after August 1, 2008, without making a termination payment. In exchange for an additional reduction in the fixed rate paid by the District on the swap, the counterparty has the right to pay a lower Alternate Floating Rate equal to 69.5 percent one month London Interbank Offer Rate (LIBOR) rather than the actual rate on the Series 2003A Certificates. The counterparty can pay this lower Alternate Rate after July 30, 2005. In the event the swap is terminated, the District will be exposed to potentially higher interest rate payments on the Certificates which would equal prevailing interest rates less the Alternate Floating Rate paid by the counterparty. Also, if the District terminates the swap and 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. The District expects that the rate on the swap in the Alternate Rate in which the District receives 69.5 percent of LIBOR and the rate on the Series 2003A Certificates will be substantially the same

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throughout the term of the swap. The counterparty is a major municipal swap dealer and was rated AA by Fitch Rating, AA by Standard & Poors, and Aa1 by Moody’s Investors Service. As of June 30, 2006, the swap has a fair value of \$(1,979,660), as calculated by the counterparty, estimated using the mid-market level method.

**8. INTEREST RATE SWAPTION AGREEMENT**

On October 5, 2005, The District entered into a swaption whereby the counterparty has the right to enter into an interest rate swap agreement associated with the Series 1998, 1999, and 2001A Certificates of Participation (collectively referred to as the prior certificates). As an alternative to advance refunding the prior certificates, the Board approved the future current refunding of all or a portion of the outstanding prior certificates and the execution of the swaption agreement for an up front premium associated with each prior certificate. The District entered into the swaption primarily to modify its risk of interest rate changes with respect to the refunding certificates, and to lock in and receive on a current basis an amount equal to or greater than the present value savings achievable if the prior certificates were refunded. The particular terms of the underlying swap transaction to which the swaption relates are as follows:

	<u>Series 1998</u>	<u>Series 1999</u>	<u>Series 2001A</u>
Premium	\$1,417,500	\$1,735,000	\$2,041,000
Notional Amount	\$31,855,000	\$40,250,000	\$44,120,000
Option Style	Bermuda	Bermuda	Bermuda
Option Exercise Dates	Each January 1 or July 1, commencing January 1, 2008 and including January 1, 2010	Each January 1 or July 1, commencing January 1, 2009 and including January 1, 2011	Each January 1 or July 1, commencing January 1, 2011 and including January 1, 2013
Expiration Date	January 1, 2010	January 1, 2011	January 1, 2013
Termination Date	January 1, 2023	January 1, 2024	January 1, 2026
Fixed Rate	4.48 percent	4.49 percent	4.72 percent
Floating Rate Option	BMA Municipal Swap Index – 0.02 percent	BMA Municipal Swap Index – 0.02 percent	BMA Municipal Swap Index – 0.02 percent

Upon exercise by the counterparty of the swaption on any swaption exercise date under the terms of the swap agreement, the District will make semiannual payments to the counterparty based on the notional amount and a fixed rate equal to each corresponding issue as specified in the table above. The counterparty will make semi-annual payments to the District based on an amortized notional amount and a variable rate equal to the Bond Market Association Municipal Swap Index (BMA), less 0.02 percent. At June 30, 2006, the BMA Municipal Swap Index was 3.97. The underlying swap, if entered into, will be for the entire

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duration of the refunding certificates, subject to certain events of default or termination events. The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the agreement. If the District terminates the swap and 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. The counterparty is a major municipal swap dealer and was rated AA by Fitch Rating, AA by Standard & Poors, and Aa1 by Moody's Investors Service. As of June 30, 2006, the swaption has a fair value of \$(3,796,978), as calculated by the counterparty, estimated using the mid-market level method.

**9. BONDS PAYABLE**

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>State School Bonds:</b>			
Series 1998A	\$ 565,000.00	4.5	2008
Series 1999A	875,000.00	4.00 - 4.75	2019
Series 2001A	550,000.00	4.10 - 5.25	2021
Series 2001B	235,000.00	5.25	2007
Series 2002B	765,000.00	3.375 - 5.375	2015
Series 2003A	415,000.00	3.0 - 5.0	2023
Series 2004A	385,000.00	3.0 - 4.625	2024
Series 2005A	1,165,000.00	4.0 - 5.0	2025
Series 2005A, Refunding	14,020,000.00	5.0	2016
Series 2005B, Refunding	2,580,000.00	5.0	2018
Series 2006A	1,035,000.00	4.0 - 5.0	2026
<b>District Revenue Bonds:</b>			
Series 2004	48,175,000.00	2.00 - 5.25	2018
Series 2005	<u>85,980,000.00</u>	3.0 - 5.0	2019
<b>Total Bonds</b>	<b>156,745,000.00</b>		
<b>Plus: Unamortized Premium</b>	<u><b>6,347,627.24</b></u>		
<b>Total Bonds Payable</b>	<u><u><b>\$ 163,092,627.24</b></u></u>		

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

➤ **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

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requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Sales Tax Revenue Bonds**

The School Board issued Sales Tax Revenue Bonds, Series 2004, in the amount of \$54,240,000 on May 20, 2004. These bonds are authorized by Chapter 1001, Florida Statutes, and Chapter 212, Florida Statutes. These bonds are secured by a pledge of proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. Proceeds of the bonds were used to finance construction of new school facilities and renovations of existing school facilities.

The School Board issued Sales Tax Revenue Bonds, Series 2005, in the amount of \$92,245,000 on July 26, 2005. These bonds are authorized by Chapter 1001, Florida Statutes, and Chapter 212, Florida Statutes. These bonds are secured by a pledge of proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. Proceeds of the bonds were used to finance construction of new school facilities and renovations of existing school facilities.

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

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2007	\$ 2,698,282.75	\$ 1,620,000.00	\$ 1,078,282.75
2008	2,669,831.25	1,650,000.00	1,019,831.25
2009	2,631,626.25	1,690,000.00	941,626.25
2010	2,644,753.75	1,785,000.00	859,753.75
2011	2,656,791.25	1,885,000.00	771,791.25
2012-2016	13,371,433.75	11,010,000.00	2,361,433.75
2017-2021	2,467,662.50	2,040,000.00	427,662.50
2022-2026	1,018,843.75	910,000.00	108,843.75
<b>Total State School Bonds</b>	<b>30,159,225.25</b>	<b>22,590,000.00</b>	<b>7,569,225.25</b>
<b>District Revenue Bonds:</b>			
2007	13,661,711.26	8,245,000.00	5,416,711.26
2008	13,658,231.26	8,480,000.00	5,178,231.26
2009	13,657,128.76	8,720,000.00	4,937,128.76
2010	13,657,868.76	8,980,000.00	4,677,868.76
2011	13,661,702.51	9,270,000.00	4,391,702.51
2012-2016	68,295,003.16	52,435,000.00	15,860,003.16
2017-2020	40,975,868.75	38,025,000.00	2,950,868.75
<b>Total District Revenue Bonds</b>	<b>177,567,514.46</b>	<b>134,155,000.00</b>	<b>43,412,514.46</b>
<b>Total</b>	<b>\$ 207,726,739.71</b>	<b>\$ 156,745,000.00</b>	<b>\$ 50,981,739.71</b>

**EXHIBIT – K (Continued)**  
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**10. 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. The Refunding Bonds are being issued to advance-refund the \$2,720,000 principal amount of the District's State School Bonds, Series 1998A, that mature on or after January 1, 2009. The District's pro rata share of net proceeds totaling \$2,837,833.24 (after deduction of \$9,763.51 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) were placed in an irrevocable trust to provide for future debt service payments. As a result, \$2,720,000 of the State School Bonds, Series 1998A are considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 2005B bonds were issued to reduce the total debt service payments over the next 15 years by approximately \$200,643 and to obtain an economic gain of \$154,066.

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

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

Description	Balance 7-1-05	Additions	Deductions	Balance 6-30-06	Due in One Year
GOVERNMENTAL ACTIVITIES					
Notes Payable	\$ 10,524,149.95	\$	\$ 621,332.26	\$ 9,902,817.69	\$ 754,240.60
Bonds Payable	82,073,493.28	95,875,000.00	14,855,866.04	163,092,627.24	9,865,000.00
Certificates of Participation Payable	243,232,863.16		6,299,240.47	236,933,622.69	6,545,000.00
Estimated Insurance Claims Payable	26,401,568.00		5,351,731.70	21,049,836.30	
Compensated Absences Payable	42,211,137.33	5,336,534.24	4,220,676.61	43,326,994.96	3,721,273.15
Total Governmental Activities	<u>\$ 404,443,211.72</u>	<u>\$ 101,211,534.24</u>	<u>\$ 31,348,847.08</u>	<u>\$ 474,305,898.88</u>	<u>\$ 20,885,513.75</u>

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

**12. ADJUSTMENTS TO BEGINNING NET ASSETS**

The adjustment to net assets, shown on Exhibit B in the amount of \$(3,479,452.24), was to correct for the presentation for debt premiums, discounts, and issuance costs associated with bond issues refunded in prior years and for other debt-related adjustments.

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**13. RESERVE FOR ENCUMBRANCES**

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

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.

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Funds	Interfund	
	Receivables	Payables
Major Fund:		
Capital Projects - Other	\$	\$ 8,770,391.77
Nonmajor Governmental	8,770,391.77	
Total	\$ 8,770,391.77	\$ 8,770,391.77

The interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 26,295,877.71	\$ 99,704.08
Capital Projects - Other	12,126.19	14,261,676.75
Nonmajor Governmental	31,540,984.11	43,487,607.18
Total	\$ 57,848,988.01	\$ 57,848,988.01

The transfers out of the Capital Projects Funds were primarily to provide debt service principal and interest payments and to assist in funding repairs and maintenance. The remaining transfers between funds were operational in nature.

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**15. SCHEDULE OF STATE REVENUE SOURCES**

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 298,628,613.00
Categorical Educational Programs:	
Class Size Reduction	49,166,392.00
Transportation	20,987,067.00
Instructional Materials	9,503,659.00
Discretionary Lottery Funds	4,184,050.00
School Recognition Funds	2,920,314.00
Excellent Teaching Program	2,026,207.68
Other	3,185,227.00
Workforce Development Program	11,477,342.00
Gross Receipts Tax (Public Education Capital Outlay)	9,277,126.00
Classrooms for Kids	3,539,589.00
Capital Outlay and Debt Service	3,242,074.18
Alternative Schools Program	1,225,000.00
Mobile Home License Tax	876,811.62
Food Service Supplement	717,836.00
Charter School Capital Outlay	230,155.00
Other	<u>685,981.69</u>
 Total	 <u><u>\$ 421,873,445.17</u></u>

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

**16. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 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	5.318	\$ 126,926,959.35
Basic Discretionary Local Effort	0.510	12,172,386.10
Supplemental Discretionary Local Effort	0.250	5,966,855.93
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>47,734,847.44</u>
Total	<u><u>8.078</u></u>	<u><u>\$ 192,801,048.82</u></u>



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**17. STATE RETIREMENT PROGRAM**

**Defined Benefit Plan.** All regular employees of the District are covered by the Florida Retirement System (FRS). 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 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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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
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 \$24,195,729, \$25,907,725, and \$27,758,745, 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, Elected County Officers 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 1,052 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 \$2,262,373.

**Pension Reporting.** The financial statements and other supplemental information of FRS are included in the comprehensive annual financial report of the State of Florida which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplemental information, actuarial report, and other relevant information, may be obtained from the Florida Department of Management Services, Division of Retirement.

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**18. EARLY RETIREMENT PROGRAM**

The Board has established an early retirement program as authorized by Section 1012.685, Florida Statutes, which it offers on a year-to-year basis. Under this program, the Board purchased annuities for employees with at least 25 years of creditable service but less than 30 years, as of June 30, 2006, who have reached the age of 55 but are less than age 62 at the date of retirement and have applied for retirement under the Florida Retirement System (described in Note 17). The annuities provide for early retirees to receive additional income after retirement, not to exceed the difference between their Florida Retirement System early retirement benefits and the benefits that would have been received had they been eligible for full Florida Retirement System benefits at June 30, 2006, reduced by 5 percent for each year prior to age 62. Five employees elected to participate in the early retirement program during the 2005-06 fiscal year. The District purchased single premium annuities for the individuals at a cost of \$205,803.38. The Board did not cover the full amount by which the pensions were reduced by the State Division of Retirement and did not guarantee that an early retirement program would be offered in future years.

**19. 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
Harrison Arts Center for the Performing Arts	\$ 1,056,081.78	\$ 3,605.00	\$ 1,052,476.78
Lawton Chiles Middle Academy	1,799,789.72	230,664.79	1,569,124.93
Combee Elementary School	2,143,537.87	153,331.14	1,990,206.73
Southwest Elementary School	2,040,000.00	230,625.10	1,809,374.90
Winter Haven Senior High School	3,093,790.30	731,436.48	2,362,353.82
Westwood Middle School	1,697,898.63	838,363.00	859,535.63
Jewett School of the Arts	2,048,505.32	876,408.08	1,172,097.24
Fort Meade Middle-Senior High School	2,079,678.55	215,728.71	1,863,949.84
Ridge Community Senior High School	38,917,165.50	37,695,299.10	1,221,866.40
Bartow Elementary Academy Magnet School	3,295,492.03	229,030.78	3,066,461.25
Gibbons Street Elementary School	794,046.00	82,301.40	711,744.60
Senior High School "BBB"	47,190,224.63	7,289,736.18	39,900,488.45
Kathleen Senior High School	3,675,410.61	132,556.93	3,542,853.68
Kathleen Elementary School	3,040,535.76	570,259.96	2,470,275.80
Griffin Elementary School	994,972.03	81,475.81	913,496.22
Lake Marion Creek Middle School	32,268,309.99	7,507,495.93	24,760,814.06
Sleepy Hill Elementary School	17,055,402.53	2,760,133.74	14,295,268.79
Highlands Grove Elementary School	17,728,128.53	5,566,013.71	12,162,114.82
Elementary School "A"	1,050,087.91	317,603.32	732,484.59
Crystal Lake Middle School	1,931,351.22	84,071.57	1,847,279.65
Scott Lake Elementary School	2,486,647.51	1,593,089.39	893,558.12
Lake Wales Senior High (Conv.) School	1,724,158.31	630,333.15	1,093,825.16
Stephens Elementary School	2,403,586.92	171,981.08	2,231,605.84
Haines City Senior High School	2,607,736.24	2,098,984.73	508,751.51
Frostproof Middle-Senior High School	6,131,464.17	4,495,373.66	1,636,090.51
Lake Marion Creek Elementary School	11,431,739.14	7,790,942.99	3,640,796.15
Churchwell Elementary School	3,115,971.03	309,028.44	2,806,942.59
Countywide	14,923,226.83	13,137,883.32	1,785,343.51
Superintendent's Office	8,938,353.69	7,793,926.30	1,144,427.39
<b>Total</b>	<b>\$ 237,663,292.75</b>	<b>\$ 103,617,683.79</b>	<b>\$ 134,045,608.96</b>

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**20. OPERATING LEASE COMMITMENTS**

Expenditures for operating leases during the 2005-06 fiscal year totaled \$4,821,260. These leases are generally for a one-year period, but for the most part are automatically renewable unless notice is given to the contrary. The leases cover copy machines, computer software, land, data processing equipment, facility rentals, and other miscellaneous items. While the approximate cost of operating leases for the 2006-07 fiscal year is \$4,850,000, the amount in later years is indeterminate because of plans to replace rental portables with permanent facilities.

**21. 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. The Board has established an individual self-insurance program to provide workers' compensation insurance to its employees. The Board's liability is limited to \$750,000 per claim with excess insurance coverage up to the statutory maximum per occurrence. As part of the self-insured workers' compensation plan, the District authorized a letter of credit be issued in the amount of \$2,330,000 for the benefit of United States Fidelity and Guarantee Company c/o Discovery Managers, Ltd. on behalf of the District. The letter of credit is automatically renewable until it is either replaced or no longer needed by the workers' compensation plan. The letter of credit obligation will only be used if the District cannot fund its claims responsibility for the workers' compensation plan, which is and has been funded from premiums. The letter of credit is not expected to be used or impact the District's financial position.

The Board has also established self-insurer programs for comprehensive general liability, fleet liability, professional (errors and omissions) liability, and boiler and machinery coverages. The Board's liability under these programs is limited by State statute to \$100,000 per claim and \$200,000 per accident. A service agent (claims adjustment service) receives and reviews claims and advises the Board of amounts to be disbursed for workers' compensation, general liability, and fleet liability. The various self-insurer plans were accounted for in the Internal Service Funds.

The Board has also established a self-insurance plan for medical coverage for its regular current employees and retirees. The Board's liability is limited to \$350,000 per individual. The District has purchased excess loss coverage up to an additional \$220,000 per individual, and excess insurance coverage up to \$5,000,000 maximum lifetime reimbursement per individual. A service agent (claims adjustment service) receives and reviews claims and advises the Board of amounts to be disbursed for medical claims. The group medical self-insurer plan was accounted for in the Internal Service Funds.

**EXHIBIT – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

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

Total liabilities in the amount of \$31,019,712 were actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2006. Certain liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value. Workers' compensation liabilities totaled \$29,043,152 and are discounted using an investment yield rate of 5 percent. These liabilities are reported at their present value of \$23,388,707 at June 30, 2006.

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

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2004-05	\$ 24,404,671.00	\$ 71,940,641.51	\$ (69,943,744.51)	\$ 26,401,568.00
2005-06	26,401,568.00	70,423,521.94	(65,805,377.94)	31,019,712.00

Property and related casualty insurance is being provided through purchased commercial insurance, with a \$100,000 deductible for each loss occurrence, plus two percent of the replacement value of the building.

**22. 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 – K (Continued)**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

	Total	Workers' Compensation	General Liability	Fleet Liability	Boiler & Machinery and Errors & Omissions	Group Medical
Total Assets	<u>\$ 65,546,838.25</u>	<u>\$ 21,305,396.28</u>	<u>\$2,736,337.77</u>	<u>\$2,069,707.67</u>	<u>\$ 880,830.00</u>	<u>\$38,554,566.53</u>
Liabilities and Net Assets:						
Accounts Payable	\$ 4,316,761.36	\$ 23,145.24	\$	\$ 2.00		\$ 4,293,614.12
Estimated Insurance Claims Payable	31,019,712.00	23,388,707.00	1,218,363.00	1,124,642.00		5,288,000.00
Unrestricted (Deficit) Net Assets	<u>30,210,364.89</u>	<u>(2,106,455.96)</u>	<u>1,517,974.77</u>	<u>945,063.67</u>	<u>880,830.00</u>	<u>28,972,952.41</u>
Total Liabilities and Net Assets	<u>\$ 65,546,838.25</u>	<u>\$ 21,305,396.28</u>	<u>\$2,736,337.77</u>	<u>\$2,069,707.67</u>	<u>\$ 880,830.00</u>	<u>\$38,554,566.53</u>
Revenues:						
Premium Contributions	\$ 83,274,717.19	\$ 8,778,768.84	\$ 873,231.10	\$ 666,884.43	\$ 99,523.18	\$72,856,309.64
Interest Income	1,778,649.30	440,122.12	90,846.02	67,588.86	53,569.82	1,126,522.48
Other	<u>3,808,543.39</u>	<u>1,839,017.70</u>	<u>1,545.60</u>	<u>4,238.98</u>		<u>1,963,741.11</u>
Total Revenues	88,861,909.88	11,057,908.66	965,622.72	738,712.27	153,093.00	75,946,573.23
Total Expenses	<u>76,856,212.31</u>	<u>13,313,634.57</u>	<u>738,743.27</u>	<u>635,498.86</u>	<u>611,150.00</u>	<u>61,557,185.61</u>
Change in Net Assets	<u>\$ 12,005,697.57</u>	<u>\$ (2,255,725.91)</u>	<u>\$ 226,879.45</u>	<u>\$ 103,213.41</u>	<u>\$ (458,057.00)</u>	<u>\$14,389,387.62</u>

**23. LITIGATION**

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel, the resolution of these matters will have no material adverse affect on the financial condition of the District.

**EXHIBIT - L**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2006**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 525,000.00	\$ 525,000.00	\$ 618,277.64	\$ 93,277.64
Federal Through State	1,152,243.21	1,175,169.83	131,435.01	(1,043,734.82)
State	396,390,655.00	410,161,363.62	404,930,610.32	(5,230,753.30)
Local	142,081,678.49	142,857,431.45	156,862,672.28	14,005,240.83
<b>Total Revenues</b>	<b>540,149,576.70</b>	<b>554,718,964.90</b>	<b>562,542,995.25</b>	<b>7,824,030.35</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	376,753,071.97	398,511,500.47	382,241,280.40	16,270,220.07
Pupil Personnel Services	18,065,544.35	22,212,194.53	21,820,894.77	391,299.76
Instructional Media Services	8,553,476.58	10,559,768.78	9,861,252.96	698,515.82
Instruction and Curriculum Development Services	4,960,808.63	5,444,405.51	5,169,770.83	274,634.68
Instructional Staff Training Services	1,164,163.81	2,211,621.20	1,263,065.64	948,555.56
Instruction Related Technology	3,274,295.59	3,484,853.01	3,243,632.15	241,220.86
Board of Education	2,046,267.46	2,287,639.94	2,168,748.99	118,890.95
General Administration	2,936,948.90	3,911,937.65	3,912,780.80	(843.15)
School Administration	29,915,140.42	35,923,070.15	35,848,668.62	74,401.53
Facilities Acquisition and Construction	20,226,831.20	9,956,008.79	4,476,423.53	5,479,585.26
Fiscal Services	2,449,361.75	2,647,809.66	2,503,801.16	144,008.50
Central Services	11,502,343.86	11,920,656.26	11,326,900.56	593,755.70
Pupil Transportation Services	23,448,429.54	27,703,595.61	27,785,310.12	(81,714.51)
Operation of Plant	34,417,259.11	41,078,289.11	40,929,588.61	148,700.50
Maintenance of Plant	21,785,130.49	30,495,718.70	26,156,928.69	4,338,790.01
Administrative Technology Services	7,636,070.19	5,519,369.82	4,098,887.83	1,420,481.99
Community Services	159,366.60	369,554.65	238,466.19	131,088.46
Fixed Capital Outlay:				
Facilities Acquisition and Construction		6,050,867.92	2,206,996.01	3,843,871.91
Other Capital Outlay		3,970,020.46	2,698,680.67	1,271,339.79
Debt Service:				
Principal	621,332.26	621,332.26	621,332.26	
Interest and Fiscal Charges	624,023.43	624,023.43	624,023.43	
<b>Total Expenditures</b>	<b>570,539,866.14</b>	<b>625,504,237.91</b>	<b>589,197,434.22</b>	<b>36,306,803.69</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>(30,390,289.44)</b>	<b>(70,785,273.01)</b>	<b>(26,654,438.97)</b>	<b>44,130,834.04</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	35,861,942.12	39,277,847.57	26,295,877.71	(12,981,969.86)
Proceeds from Sale of Capital Assets			226,050.00	226,050.00
Insurance Loss Recoveries		140,872.78	130,769.23	(10,103.55)
Transfers Out		(99,704.08)	(99,704.08)	
<b>Total Other Financing Sources (Uses)</b>	<b>35,861,942.12</b>	<b>39,319,016.27</b>	<b>26,552,992.86</b>	<b>(12,766,023.41)</b>
<b>Net Change in Fund Balances</b>	<b>5,471,652.68</b>	<b>(31,466,256.74)</b>	<b>(101,446.11)</b>	<b>31,364,810.63</b>
Fund Balances, July 1, 2005	47,342,133.77	47,342,133.77	47,342,133.77	
<b>Fund Balances, June 30, 2006</b>	<b>\$ 52,813,786.45</b>	<b>\$ 15,875,877.03</b>	<b>\$ 47,240,687.66</b>	<b>\$ 31,364,810.63</b>

**EXHIBIT – M**  
**POLK COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2006**

**1. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS**

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations for the following individual funds:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
General Administration	\$ 3,911,937.65	\$ 3,912,780.80	\$ (843.15)
Pupil Transportation Services	27,703,595.61	27,785,310.12	(81,714.51)



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FEDERAL REPORTS AND SCHEDULES

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

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

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*

*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS*



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street  
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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 Polk 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 because we were unable to obtain sufficient audit evidence regarding inventory balances reported in the General Fund and also 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 Polk 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. The financial statements of the school internal funds and the Polk County Education Foundation and Business Partnership, Inc., were not audited in accordance with *Government Auditing Standards*.

### ***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, of the reportable conditions referred to above, we did note a certain matter involving internal control that we considered to be a material weakness. This material weakness is described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

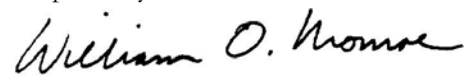
#### ***Compliance and Other Matters***

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

We noted certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report and certain instances of noncompliance related to Federal programs which are discussed in the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** section of this audit report.

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

Respectfully submitted,



William O. Monroe, CPA  
February 9, 2007



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
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The President of the Senate, the Speaker of the  
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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 (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 *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 some instances of noncompliance with those requirements which are required to be reported in accordance with OMB *Circular A-133*.


### ***Internal Control Over Compliance***

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*.

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

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

Respectfully submitted,



William O. Monroe, CPA

February 9, 2007

**POLK 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
<b>United States Department of Agriculture:</b>				
Indirect:				
Florida Department of Agriculture and Consumer Services: Food Donation	10.550(2)	None	\$ 1,685,178.25	\$
Florida Department of Education: Child Nutrition Cluster:				
School Breakfast Program	10.553	321	4,564,629.66	
National School Lunch Program	10.555	300	17,341,441.94	
Summer Food Service Program for Children	10.559	323, 324, 325	497,412.18	
			<u>22,403,483.78</u>	
<b>Total Child Nutrition Cluster</b>			<u>22,403,483.78</u>	
<b>Total United States Department of Agriculture</b>			<u>24,088,662.03</u>	
<b>United States Department of Labor:</b>				
Indirect:				
Florida Department of Education: Migrant and Seasonal Farmworkers	17.264	405	250,687.07	
<b>United States Department of Education:</b>				
Direct:				
Federal Pell Grant Program	84.063	N/A	576,862.11	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	18,359,274.05	29,495.00
Special Education - Preschool Grants	84.173	266, 267	414,771.03	45,505.00
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	8,790.97	
			<u>18,782,836.05</u>	<u>75,000.00</u>
<b>Total Special Education Cluster</b>			<u>18,782,836.05</u>	<u>75,000.00</u>
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191, 193	628,473.20	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	19,777,155.78	588,551.60
Migrant Education - State Grant Program	84.011	217	815,487.82	
Title I Program for Neglected and Delinquent Children	84.013	216	77,416.00	
Vocational Education - Basic Grants to States	84.048	151, 152	1,326,473.05	
Safe and Drug-Free Schools and Communities - National Programs	84.184	107	41,023.50	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	485,146.89	
Education for Homeless Children and Youth	84.196	127	82,697.27	
Even Start - State Educational Agencies	84.213	219	715,275.81	502,381.82
Tech-Prep Education	84.243	157	131,561.10	
Charter Schools	84.282	298	2,333,232.02	2,333,232.02
Twenty-First Century Community Learning Centers	84.287	244	2,091,486.70	293,346.15
State Grants for Innovative Programs	84.298	112, 113	271,637.03	
Education Technology State Grants	84.318	121	274,228.58	
Advanced Placement Program	84.330	160	19,339.53	
Transition to Teaching	84.350	227	148,025.34	
School Renovation Grants	84.352	146	9,006.31	
Reading First State Grants	84.357	211	3,289,641.92	323,991.89
Voluntary Public School Choice	84.361	299	82,697.27	
English Language Acquisition Grants	84.365	102	998,878.63	
Improving Teacher Quality State Grants	84.367	224	4,812,483.16	
Hurricane Education Recovery	84.938	None	126,435.01	
			<u>57,320,637.97</u>	<u>4,116,503.48</u>
<b>Total Indirect</b>			<u>57,320,637.97</u>	<u>4,116,503.48</u>
<b>Total United States Department of Education</b>			<u>57,897,500.08</u>	<u>4,116,503.48</u>
<b>Corporation for National and Community Service:</b>				
Indirect:				
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	234	99,863.15	
<b>United States Department of Defense:</b>				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	474,197.99	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	42,346.81	
Air Force Junior Reserve Officers Training Corps	None	N/A	49,782.30	
Navy Junior Reserve Officers Training Corps	None	N/A	51,950.54	
			<u>618,277.64</u>	
<b>Total United States Department of Defense</b>			<u>618,277.64</u>	
<b>Total Expenditures of Federal Awards</b>			<u>\$ 82,954,989.97</u>	<u>\$ 4,116,503.48</u>

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.

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

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

- A qualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be reportable conditions, one of which was considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- No reportable conditions in the internal control over major Federal programs were reported.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Child Nutrition Cluster [National School Lunch Program (CFDA No. 10.555), School Breakfast Program (CFDA No. 10.553), and Summer Food Service Program for Children (CFDA No. 10.559)].
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$2,488,649.70.
- The low risk entity threshold was not applied.

**POLK 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 No. 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:** Noncompliance

**Questioned Costs:** Not Applicable

**Suspension and Debarment.** The United States Office of Management and Budget (OMB) *Circular A-133* requires the District to determine that entities receiving subawards of any value and entities receiving procurement contracts equal to or exceeding \$25,000 are not suspended or debarred. The District may make this determination by checking the Excluded Parties Listing System (EPLS) issued by the General Services Administration (GSA), obtaining a written certification from the vendor, or by inserting a clause in the agreement with the entity.

Contrary to the requirements of OMB *Circular A-133*, the District did not require the entity to certify they were not suspended or debarred from receiving Federal funds, nor did the District verify the entity's suspension or debarment status by checking the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* issued by the General Services Administration. A similar finding was noted in the District's 2004-05 fiscal year audit.

**Recommendation:** **The District should enhance controls to ensure that all procurement transactions in excess of the covered transaction threshold are not made with parties that are suspended or debarred. Also, documentation of such verification should be maintained to demonstrate compliance.**

District Contact Person: Ed Flood, Accounting Director

**Federal Awards Finding No. 2:**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Florida Department of Education

**Program:** Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

**Finding Type:** Noncompliance

**Questioned Costs:** Not Applicable

**Allowable Costs/Cost Principles.** Title 2, Part 225, Code of Federal Regulations, Appendix A, Section C.1., provides in part that, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be authorized or not prohibited under State or local laws or regulations, and be adequately documented. Our review of food service expenditures disclosed that the approval of expenditures for food service items and related supplies by District food service personnel was



not adequately documented. In addition, such expenditures were not approved, of record, by District accounting personnel. Our inquiry indicated that the District has established purchasing controls and procedures for review and approval of invoices and other documents submitted for payment; however, such approvals were not documented. The proper authorization of transactions associated with Federal funds provides assurance that such expenditures are properly limited to allowable charges. Our test of expenditures disclosed that expenditures were adequately supported and for allowable activities; however, our audit test cannot substitute for management's responsibility to establish and maintain an adequate system of internal control and records to evidence that such controls are in operation.

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**Recommendation: The District should enhance controls to document the approval of expenditures by persons knowledgeable of grant requirements.**

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District Contact Person: Ed Flood, Accounting Director

**POLK 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
Ernst & Young LLP 2004-05 Report Finding 05-04	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, 10.559) - Special Tests/ Verification	An instance was noted in which a student's parents did not respond to the District's verification request and the student's status was not changed to ineligible.	Corrected.	No such instances noted during the current review of verification.
Ernst & Young LLP 2004-05 Report Finding 05-05	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Special Tests/ Schoolwide Programs	One School Improvement Plan did not include a transition plan for assisting preschool children in the successful transition to the schoolwide program.	Corrected.	
Ernst & Young LLP 2004-05 Report Finding 05-06	Public Assistance Grants (CFDA No. 97.036) - Special Tests	The District did not certify that reported costs were incurred in performance of eligible work, that the approved work was completed or that the contract was in accordance with A-102 Common Rule's payment procedures.	Corrected.	An official from the Florida Department of Community Affairs, Division of Emergency Management, has since certified that the District has complied with all necessary compliance requirements.
Ernst & Young LLP 2004-05 Report Management Letter	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, 10.559) - Reporting	There was no secondary review of reimbursement requests sent to the State on a monthly basis.	Corrected.	
Ernst & Young LLP 2004-05 Report Management Letter	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Cash Management	There was no approval of the amounts drawn down from the Federal cash advance system.	Corrected.	The District represents that corrective measures were implemented in the 2006-07 fiscal year.
Ernst & Young LLP 2004-05 Report Management Letter	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Suspension and Debarment	The District did not have adequate controls in place to ensure that vendors are not suspended or debarred.	Not corrected.	

MANAGEMENT RESPONSE



SCHOOL BOARD OF POLK COUNTY

P.O. BOX 391  
BARTOW, FLORIDA 33831

1915 SOUTH FLORAL AVENUE  
BARTOW, FLORIDA 33830

(863) 534-0500 • SUNCOM 515-1321 • FAX (863) 519-8231

**Board Members**

BOARD CHAIRMAN  
MARGARET A. LOFTON  
DISTRICT 6

FRANK J. O'REILLY  
DISTRICT 1

LORI CUNNINGHAM  
DISTRICT 2

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DISTRICT 3

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DISTRICT 4

KAY FIELDS  
DISTRICT 5

TIM HARRIS  
DISTRICT 7

C. WESLEY BRIDGES, II  
General Counsel

**Administration**  
GAIL F. MCKINZIE, Ph.D.  
Superintendent of Schools

*Polk County Schools-  
an equal opportunity  
institution for education  
and employment*

March 13, 2007

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

Dear Mr. Monroe:

Pursuant to the provisions of Section 11.45(4)(d), Florida Statutes, we are providing this response to the findings cited in the audit of the Polk County School Board for the fiscal year ending June 30, 2006.

**Finding No. 1: Inventories**

The District has conducted a complete physical inventory of the warehouse. The District has modified the monthly cycle counting process to strengthen controls over the validity of those counts. Adjustments made as a result of the cycle counting process are being reviewed by the Warehouse Manager and Purchasing Director prior to posting in our system. The District is continuing to review this process to further enhance the process. Written procedures will be developed for the inventory process including cycle counts.

**Finding No. 2: Information Technology – User Account Management**

Information Systems and Technology continually strives to enhance controls related to requesting, approving, assigning and removing access to District Information Systems. A new SAP Actions Report is produced on a daily basis which reports to IST any employee changes including title changes, terminations, and resignations. Accounts are now updated and/or disabled on a daily basis for these employees.

**Finding No. 3: Payroll Record Keeping**

The District will continue to look for ways to strengthen the payroll record keeping including the development of written procedures. These procedures will be clearly communicated to all locations.

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**MANAGEMENT RESPONSE (CONTINUED)**

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**Finding No. 4: Self-Insurance Claims Disbursements**

The District will develop procedures to test claims documentation used by TPA's to pay claims on behalf of the school board. The procedures are being developed with the test samples being reviewed on a monthly basis. The District will request a report covering the operating effectiveness of the internal controls of the TPA's.

**Finding No. 5: Fingerprinting Requirements**

The law requires that we develop a process for fingerprinting and process those files, thereby allowing access to our campuses. The self-certification process was put in place to add an additional step in the clearance process so that convicted sexual predators or offenders would be identified prior to applying to the district for clearance.

We were notified in August of 2005, that all school employees hired before July 2004 and all vendors and contractors would have to be fingerprinted to meet the requirements of the level 2 screening process. Recognizing the district had over 11,000 employees to be re-fingerprinted, the district developed a plan that would focus on fingerprinting individuals who have the most unsupervised contact with our students first. Our plan from the very beginning has been to fingerprint the personnel that have the greatest amount of unsupervised time with our students, without totally ignoring those with the least amount of unsupervised access to our students. Logic dictates that you eliminate the greatest risk first.

Recognizing it would take a significant amount of time to fingerprint the estimated 18-20,000 individuals, we felt it necessary to provide a higher level of security for our students and implemented a process by which individuals not currently fingerprinted would be screened before allowing access. We chose not to wait until the end of the process to verify and clear vendors and contractors. Instead, we developed a process by which vendors and contractors were required to complete a self-certification process.

This process required the vendor or contractor to develop a list of all employees, contractors, or sub contractors that would be performing work or services on their behalf on our campuses while students were present. Further, the vendor was required to conduct a sexual predator/offender background review using the FDLE's sexual predator/offender database on all submitted individuals. The vendor/contractor was required to provide documentation to the district certifying that all employees had been checked against the FDLE database and they had to certify that no personnel had any matches against the database. Once this self-certification was completed, it was transmitted to the Office of Safe Schools for the Polk County School Board for final approval. All individuals submitted as being self-certified were then checked against the FDLE sexual predator/offender database once again by a district Safe Schools employee.

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**MANAGEMENT RESPONSE (CONTINUED)**

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Only after our independent verification were contractors or vendors entered into our Vendor/Contractor database, giving them temporary access to our campuses. All access to our campuses via this process was under the supervision of the Office of Safe Schools and the applicable school staff.

At no time has it been the intent of the district to use the self-certification process to circumvent the requirements of the statute, but instead provide a temporary immediate authorization until the fingerprinting process can be completed. Our goal continues to be to get all vendors and contractors fingerprinted as soon as possible.

We must keep in mind that while the law permits agencies such as law enforcement agencies to conduct the fingerprinting services, we are currently the only agency in Polk County that uses digital technology and the ability to transmit them electronically, as required by law.

During the period of August 2005 through September 2005, we ordered equipment, hired and trained staff and began actively fingerprinting staff on October 1, 2005.

We completed the fingerprinting of our district staff, new employees, and potential employees as of September 30, 2006, and had fingerprinted 11,916 individuals.

Beginning October 1, 2006, we began the second phase of the fingerprinting process. We concentrated on the vendors and contractors that were screened through the process identified above and who are currently working on construction projects or accessing campuses requiring student contact. Further, we currently continue to fingerprint all new employees, and new vendors and contractors. To date, we have fingerprinted 1,220 vendors and contractors.

Our goal has been, and continues to be, to fully implement the requirements of the fingerprint legislation. Staff has made great strides in completing this monumental task.

Our development of the self-certification process provided us a better understanding of who was gaining access to our campuses and, in our opinion, provided a greater level of security for our students and staff members during the implementation process.

**Finding No. 6: Interfund Loans**

The District is developing written procedures for reviewing interfund loans. These procedures will include the reimbursement process for COP's or other financing programs. The District will review the processes to make sure that transfers are conducted in a proper manner.

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**MANAGEMENT RESPONSE (CONTINUED)**

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**Finding No. 7: Procedures Manuals**

The staff of Business Services is working on developing written procedures for all areas. These procedures have been started and continue to be worked on. Additionally resources will be placed on this project to get these procedures developed as quickly as possible.

**Finding No. 8: Internal Audit Function**

The Board, Audit Committee and Internal Audit Management acknowledges that the effectiveness of the Internal Audit Department could be increased by Internal Audit performing additional audits in areas other than internal accounts. The audit of school internal accounts is required by the state. Internal Audit does currently use risk-based analysis to determine those school internal account audits that are most susceptible to fraud. Internal Audit's goal is to provide better documentation of this risk-based analysis in the future.

The one school internal account audit report that covered the 2003-04 year also reported on 2005-06 internal account activities. There was a specific need on that one audit to cover the 2003-04 year, but 2005-06 activity was reviewed for all audits.

Internal Audit has expanded their function beyond internal accounts. Audits and monitoring have included payroll record keeping, procurement card activity, inventory count observations, coordinating the Construction Management agreed upon procedures, cafeteria deposits and payroll disbursement audits. Some of these activities began in the 2006-07 year. It seems counterproductive to evaluate internal controls until Business Services has completed their realignment process and has implemented and documented their new procedures.

Internal Audit continues to evaluate all the areas where is it required and/or desired to focus our limited resources. The Internal Audit Manager will discuss the best use of her department's resources with the Board at work session in the near future.

**Finding No. 9: Policies for Reporting Fraud**

The District will develop a policy for reporting fraud. This policy is being developed currently with the support of our legal department.

**Finding No. 10: School Advisory Council Allocations and School Improvement Plans**

In response to the aforementioned report, the inquiry discovered the following information. Finance Department did not allocate 2005-06 Discretionary Lottery funds to the four Department of Juvenile Justice Centers and the two specialized centers, Bill Duncan and Don E. Woods. A telephone conversation with Finance stated that their belief was that these were contracted-schools and therefore, did not receive Discretionary Lottery funds. However, the auditor's

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**MANAGEMENT RESPONSE (CONTINUED)**

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response was that regardless of being special-contract schools, they still should have received these funds according to Florida Statute, Section 1001.42(16)(a). The auditor informed me that she had talked with Finance, and they agreed these funds would be provided for these schools in the 2007-08 school year. I confirmed this with Finance Department on today's date.

Since the amount is rather small (\$10/student), Finance has suggested that a single countywide account be established just for these funds. Their proposal is that the office of Senior Coordinator, Alternative Education would oversee the administration of these funds. Thus, Finance Department, Senior Coordinator, Accountability and Senior Coordinator, Alternative Education would work together to make certain that these alternative schools and centers would receive their Discretionary Lottery funds.

Concerning the second area of concern, this situation was rectified for the present academic year, 2006-07. Even though this office did not have 2005-06 School Improvement Plans for these two Opportunity schools, a similar plan was on file with Mr. Jerome Corbett, Senior Director of Specialized Services. These two schools were contracted out to ACS in the year of 2005-06. Subsequently, ACS was sold out to a company named Excel. This independent contractor must complete an application indicating academic, discipline and attendance goals. Besides the application process, Excel also submits a site-based improvement plan. This plan consists of goals in the areas of: Academic Rigor, School Safety and Security, Information Management, Parent Involvement, Customer Service/Discipline, and Project Manager Signature Project Focus.

In conclusion, I maintain that these two concerns have already been rectified or plans have already been put in place to correct these errors.

**Finding No. 11: Investment of Funds Policy**

Business Services staff will perform a review and provide a report to the School Board annually on the investments of the district.

**Finding No. 12: Banking Services**

The District will solicit proposals for banking services to ensure it is obtaining the most cost effective services for the District's needs.

**Finding No. 13: Unclaimed Property**

The District will review the reporting and remitting process of unclaimed property to comply with Florida Statutes. This process is currently being revised in order make sure reporting is done timely.

**Finding No. 14: Accounts Receivable**

The District is reviewing the procedures for pursuing any and all receivables that are past due. Additionally, the District is seeking a licensed collection

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**MANAGEMENT RESPONSE (CONTINUED)**

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agency in order to turn over delinquent accounts. The District will develop guidelines and procedures for adjusting accounts receivable deemed uncollectible.

**Finding No. 15: Employee Day Care and Medical Reimbursement Program**

The District will take the needed action to make sure it's third-party administrator has a valid certificate of authority issued by the Florida Office of Insurance Regulation. The District will develop a process to reconcile the claims payments and the plan bank account. The District is in the process of developing a monthly sample of claims paid to determine that the claims paid are valid for our plan.

**Finding No. 16: Sick Leave Pool**

The District has revised the procedures for monitoring the balance in the sick leave bank. The District will review the policy and procedures for awards from the sick leave in order to verify that sufficient amounts are available prior to awards being made.

**Finding No. 17: Facility Inspections**

Because of the increased number of schools, the District has been unable to keep up with all required fire and safety inspections. The District plans to add a second safety inspector to insure that all buildings are inspected as required and that reports and properly completed.

**Finding No. 18: Construction Contracts – Change Orders**

The Superintendent will request specific Board approval to approve change orders \$ 25,000 or less, and will periodically submit a list of those change orders to the Board for the minutes.

**Finding No. 19: Architect Liability Insurance**

Such a policy will be developed and procedures will be implemented to insure adequate coverage.

**Finding No. 20: Relocatable Building Inspections**

Because of the increased number of schools, the District has been unable to keep up with all required fire and safety inspections. The District plans to add a second safety inspector to insure that all buildings are inspected as required and that reports and properly completed.

**Finding No. 21: Educational Plant Survey and Facilities Work Program**

Due to the additional reporting requirements from the D.O.E. and due to legislation which mandates school concurrency, the District is establishing a

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**MANAGEMENT RESPONSE (CONTINUED)**

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Department of Planning and Concurrency and adding additional staff in order to meet the requirements.

**Finding No. 22: Budget – Capital Outlay**

Business Services will work with the Facilities Division to obtain this detailed information so it may be included in the annual budget.

**Finding No. 23: Public Education Capital Outlay Expenditures**

The District will restore the funding requested to the Capital Projects – PECO Fund. The District will review the procedures for allocating these funds to projects.

**Federal Awards Finding No. 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: Noncompliance  
Questioned Costs: Not Applicable

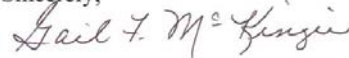
The District will modify the procedures for procurement in excess of the thresholds to ensure the transactions are not conducted with any parties that may be suspended or disbarred.

**Federal Awards Finding No. 2:**

Federal Agency: United States Department of Education  
Pass-Through Entity: Florida Department of Education  
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)  
Finding Type: Noncompliance  
Questioned Costs: Not Applicable

The District will review and modify the approval procedures to properly document the process. The District will continue the approval process for expenditures of grant funds by knowledgeable personnel.

Sincerely,



Gail F. McKinzie, Ph.D.  
Superintendent of Schools

Cc: David Blanton, Auditor General, Lakeland Office

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