



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



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

For the Fiscal Year Ended June 30, 2006

Broward 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>Carole L. Andrews</i>	<i>1</i>
<i>Beverly Ann Gallagher, Vice Chair from 11-22-05</i>	<i>2</i>
<i>Maureen S. Dinnen</i>	<i>3</i>
<i>Stephanie Arma Kraft, Esq., Chair to 11-21-05</i>	<i>4</i>
<i>Benjamin J. Williams, Chair from 11-22-05, Vice Chair to 11-21-05</i>	<i>5</i>
<i>Martin Rubinstein</i>	<i>6</i>
<i>Dr. Robert D. Parks</i>	<i>7</i>
<i>Darla L. Carter</i>	<i>At-Large</i>
<i>Robin Bartleman</i>	<i>At-Large</i>

Dr. Frank L. Till, Jr., Superintendent

AUDITOR GENERAL

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

BROWARD COUNTY DISTRICT SCHOOL BOARD

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
FINDINGS AND RECOMMENDATIONS.....	1
FINANCIAL SECTION	9
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS.....	10
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	12
BASIC FINANCIAL STATEMENTS	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION.....	69
FEDERAL REPORTS AND SCHEDULE	71
MANAGEMENT RESPONSE.....	80

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Broward County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2006, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

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

Summary of Audit Findings**Finding No. 1: Budget Administration**

Final budget overexpenditures were noted in the District's General and Special Revenue funds for the 2005-06 fiscal year.

Finding No. 2: Tangible Personal Property

Deficiencies were noted in the tangible personal property controls relating to annual physical counts, tagging of property items, updating necessary fields in the property records for acquisitions and dispositions, and monitoring of surplus property.

Finding No. 3: Internal Audit Function

To enhance independence, Board policies should allow for the District's internal auditor to independently report instances of suspected fraud, abuse, and improper acts and expenditures to the appropriate law enforcement agencies.

Finding No. 4: Land Acquisitions

Documentation relating to pricing notification to the Board for land acquisitions and signed negotiating parameters forms were not maintained by the District staff.

Finding No. 5: Monitoring of Charter Schools

The insurance coverage required in the District's standard charter school agreements was not always maintained by the individual charter schools. Multiple charter schools managed by a single organization used the same insurance policy. The language in the Board Policy and standard charter school agreement was inconsistent regarding the District being named as an additional insured.

Finding No. 6: Annual Facility Inspections

Deficiencies reported in the annual facilities inspections were not always timely corrected. Communication issues between the affected departments delayed some of the corrections.

Finding No. 7: Relocatable Buildings

Structural integrity inspections were not conducted for all District relocatable buildings during the 2005-06 fiscal year.

Finding No. 8: Fingerprinting Requirements

The District was not following the Florida Department of Education guidance regarding procedures for background screenings of instructional employees.

Finding No. 9: Sick Leave Banks

The District did not follow its sick leave bank guidelines regarding replenishment of the banks, resulting in three of the five sick leave banks having deficit balances at June 30, 2006.

Finding No. 10: Salary Overpayments

As of June 30, 2006, cumulative payroll exceptions analyzed and determined to be salary overpayments totaled \$2,289,665, of which \$1,849,775 has been collected and \$439,890 remains uncollected. The overpayments were the result of errors associated with employee terminations, leaves of absence, changes in pay, and addition/deletion of hours.

Finding No. 11: Overtime Payment Monitoring

Overtime payments made by the District for the 2005-06 fiscal year totaled approximately \$11.9 million. Detailed overtime reports are available for review and analysis by supervisory level staff; however, there is no Board policy or procedure requiring a review or analysis of overtime payment information by supervisory level staff to ensure staffing levels are adequate and timely detect any errors, waste, or fraud that may occur.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Food Donation, Child Nutrition Cluster, Vocational Education, Twenty-First Century Community Learning Centers, Disaster Grants, and Student Financial Assistance Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed in our report Nos. 2004-173 and 2005-020, and in the report of other auditors for the 2004-05 fiscal year.

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 Clare Waters, CPA, and Enrique A. Alonso, CPA, and supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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

FINDINGS AND RECOMMENDATIONS

Reportable Conditions

Finding No. 1: Budget Administration

The process for adopting and amending the budget should afford a governmental entity with a mechanism to plan a level of expenditures to meet its obligations while remaining within available financial resources. If the budget is not properly monitored and amended to meet changing financial circumstances, there is an increased risk that an entity's expenditures will exceed available resources. Our review of the District's budget process indicated that the original budget was prepared and approved in accordance with applicable laws and rules; however, our review disclosed that subsequent to Board approval of the final budget amendments, the District had General Fund overexpenditures, totaling \$32,305,004, in six functional expenditure categories and the operating transfers out category, and Special Revenue Funds overexpenditures, totaling \$5,191,680, in eight functional expenditure categories and the operating transfers out category.

Section 1011.06(2), Florida Statutes, provides that a school board may establish policies which allow expenditures to exceed the amount budgeted by function and object, provided that the school board approves the expenditure and amends the budget within timelines established by school board policies. School Board Policy 3203 states that "expenditures may exceed the amount budgeted in individual functions and objects until such time as the monthly budget amendment is submitted to the School Board for approval." However, the final budget amendments submitted to the Board for approval on September 7, 2006, did not resolve all budget overexpenditures.

Recommendation: The Board should enhance its procedures to ensure that expenditures are limited to budgeted amounts as required by State laws, rules, and Board policy.

Finding No. 2: Tangible Personal Property

As similarly noted in our report No. 2005-020, improvements were needed in internal controls over tangible personal property (furniture, fixtures, and equipment; assets under capital lease; audio video equipment; and motor vehicles). The District reported approximately \$578.4 million of tangible personal property at June 30, 2006. The Office of the Chief Auditor (OCA) performs significant management functions in the area of tangible personal property, including performing physical inventories, reconciling physical counts to property records, and permanently marking property items.

Chapter 274, Florida Statutes, and Chapter 10.400, Rules of the Auditor General, establish the control procedures and record requirements necessary to achieve accountability for tangible personal property. Similar to findings presented in our report No. 2005-020, our review of the District's asset management records and related controls over property disclosed the following deficiencies:

- During the 2005-06 fiscal year, physical inventories of the District's tangible personal property were completed for approximately \$102 million of the total \$578.4 million tangible personal property. Upon audit inquiry, OCA personnel cited lack of staffing as the reason for the District's inability to comply with the annual inventory requirements.
- Our tests of 20 property items selected from the detailed property records for physical observation disclosed 6 items (3 computers, a camcorder, a projector, and a specialized chair) costing \$9,278, which were not tagged. Additionally, our physical observation test of 20 items disclosed 12 items (8 computers, a printer, a projector, and 2 video conference systems) which were not tagged. Of these 12 items, 5 could be traced to the property records using serial numbers, but no matching serial numbers were found for the 7 remaining items. Effective controls over tangible personal property require that detailed property records be maintained and property items be promptly tagged.
- The serial number field is not a required field for Schools/Departments to complete when recording receipt of property items into the system; thus some serial numbers were not entered into the records. Property items will not be tagged by the OCA unless the serial number entered on-line matches the serial number on the property item to ensure the tag is placed on the correct item. A report generated by the OCA staff indicated that 6,357 property items, with acquisition costs totaling approximately \$19.8 million, did not have a serial number entered into the system. Lack of detailed property records and untagged items limit the effectiveness of controls over tangible personal property should a loss occur.
- During the 2005-06 fiscal year, the District declared property with acquisition costs totaling approximately \$41.6 million as surplus. Of the 15 items in our test of deletions, 9 were for surplus property. Our review of authorized approvals for the 9 items disclosed one Surplus Declaration form with an unauthorized signature and one with an undeterminable signature. We also noted there is no documentation evidencing comparison of items removed from the sites to the Surplus Declaration forms. Additionally, the manner of disposition (sold, donated, cannibalized, scrapped, etc.) is not documented in the property records. Items classified as missing or stolen are held on the property records for two years and deleted without Board approval. Effective controls over the surplus property process is necessary to ensure lawful disposal and accountability for any proceeds from such disposals.

Pursuant to Chapter 2006-122, Laws of Florida, rulemaking authority for local government-owned tangible personal property was transferred from the Auditor General to the State Chief Financial Officer, effective July 1, 2006. In the future, the District should consider the rules issued by the State Chief Financial Officer in maintaining adequate accountability for tangible personal property.

Recommendation: To improve accountability and safeguarding of the District's assets, the District should strengthen procedures to provide for complete annual physical inventories of all tangible personal property, prompt tagging of items upon receipt, timely updating of all necessary fields in the individual property records for acquisitions and dispositions, and monitoring of surplus property.

Additional Matters

Finding No. 3: Internal Audit Function

Section 1001.42(10)(l), Florida Statutes, provides that a school board may employ an internal auditor to perform ongoing financial verification of the financial records of the school district and provides that the internal auditor shall report directly to the school board or its designee. The Office of the Chief Auditor (OCA) is responsible for the District's internal audit function. Pursuant to Board Policy 1002.1, the Executive Director (Chief Auditor) of the OCA reports administratively to the Superintendent. However, an audit committee has oversight

responsibility over the District's internal audit function. Completed OCA reports are first presented to the audit committee and then submitted to the Board and Superintendent simultaneously.

According to the above policy, instances of suspected fraud, abuse, and improper or illegal acts and expenditures noted by the OCA are to be brought to the attention of the Superintendent. Upon receiving the Superintendent's approval, the OCA is responsible for making necessary referrals to the District's Special Investigative Unit (SIU) and the appropriate law enforcement agencies. We recognize that it may be desirable for the OCA to discuss significant audit findings (e.g., suspected fraud, abuse, and improper or illegal acts) with management before referring District employees to the appropriate law enforcement agencies. However, requiring that the OCA obtain the Superintendent's approval prior to taking action on these items may place the OCA in a position where its independence and objectivity may be compromised, in fact or in appearance. A similar finding was noted in our report No. 2005-020.

Recommendation: To further enhance the independence of the internal audit function, and avoid placing the OCA in a position where its independence and objectivity may be compromised, in fact or appearance, the Board policies should be revised to allow the OCA to independently report instances of suspected fraud, abuse, and improper or illegal acts and expenditures to the appropriate law enforcement agencies without the required approval by the Superintendent.

Finding No. 4: Land Acquisitions

Section 1013.14(1)(b), Florida Statutes, states in part that "If the agreed to purchase price exceeds the average appraised value, the board is required to approve the purchase by an extraordinary vote" meaning majority plus one. During the 2005-06 fiscal year, the District purchased four land parcels. One of the parcels was purchased at above the average appraised value. The parcel was purchased for \$25,000,000 which was 12.5 percent above the average appraisal of \$22,212,700. While the Board voted unanimously for the land acquisition, District personnel were not able to document that the Board was advised that the recommended purchase price exceeded the average of the appraisals.

The District's Facilities Management Operating Procedure 3-1(3)(d) states, in part, that the Real Estate and Environmental Planning Director will indicate the negotiating parameters on the Negotiating Parameters Committee form (called the Real Estate Acquisition Negotiation form) and obtain the signatures of each committee member or representative. The Negotiating Parameters Committee consists of certain upper level management knowledgeable in the area of property purchases, who analyze all aspects of potential property purchases and set minimum and maximum offer limits. For two land purchases, the District was unable to provide a signed Real Estate Acquisition Negotiation form for our review.

Recommendation: The District should enhance procedures to maintain documentation relating to pricing notification to the Board and signed negotiating parameters forms used to evidence the land acquisition process.

Finding No. 5: Monitoring of Charter Schools

During the 2005-06 fiscal year, the District sponsored 38 charter schools. The charter school agreements required, in part, that the charter schools provide the District with evidence of insurance for:

- General liability of \$1 million per occurrence/\$2 million annual aggregate, and a maximum deductible of \$1,000, with the School Board named as the additional insured, except schools operated by cities should have an annual aggregate of \$1 million;
- Automobile liability of \$1 million per occurrence/\$3 million aggregate, if subject to an annual aggregate;
- Workers' compensation of \$1 million per occurrence/\$2 million annual aggregate;
- Errors and omissions of \$1 million per claim/annual aggregate with a maximum deductible of \$25,000;
- Fidelity bond of \$1 million; and
- A 60 day cancellation provision.

Our review of insurance certificates for 15 charter schools disclosed the following:

- General Liability: Coverage for one charter school was not in effect for 3.5 months of the fiscal year. Policy limits for another charter school of \$100,000 per claim/\$200,000 each occurrence were below those required by the charter school agreement.
- Automobile Liability: Coverage for one charter school of \$500,000 was below those required by the charter school agreement.
- Errors and Omissions: Coverage for one charter school was not in effect for three months of the fiscal year. Policy limits for another charter school of \$100,000 per claim/\$200,000 each occurrence were below those required by the charter school agreement.
- Fidelity Bonds: Coverage for four charter schools was not in effect for 10 to 12 months of the fiscal year. Policy limits for another charter school of \$100,000 per claim/\$200,000 each occurrence were below those required by the charter school agreement.
- Cancellation Provision: All 15 of the charter schools tested had cancellation provisions ranging from 0 to 45 days, which is not in compliance with the charter school agreement.

Additionally, we noted some charter schools that were managed by the same charter school organization used insurance certificates referencing the same policy to document that required insurance coverage was in effect. For example, one charter school organization managing four charter schools had an insurance certificate that listed the organization as the insured and the four charter schools as additional named insured on the certificate. As such, the minimum insurance limits established by the charter school agreement may not be in place at each of the four charter schools.

We also noted that Board Policy 1163 requires naming the School Board as additional named insured on commercial general liability, automobile liability, workers' compensation, and professional liability; however, the standard charter school agreement only requires the District to be named as additional insured on the commercial general liability. District staff noted that naming another party as "additional insured" on automobile, professional liability, and workers' compensation policies is not a standard practice in the industry.

Recommendation: The District should ensure that its charter schools provide for and maintain the insurance coverages required in the charter school agreements; seek clarification regarding the adequacy of coverage when multiple charter schools use the same policy; and provide for consistent language between Board Policy and standard charter school agreement.

Finding No. 6: Annual Facility Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. In addition, firesafety inspections are required to be made annually by persons certified by the Division of State Fire Marshal to be eligible to conduct firesafety inspections in public and ancillary plants. During our review of the 2005-06 fiscal year safety inspections reports issued for 18 schools and 2 centers, we noted instances in which 8 to 287 deficiencies cited in the safety inspection reports remained uncorrected up to 13 previous times (years). The deficiencies included exit obstructions, missing smoke or heat detectors, missing battery lighting, missing exhaust fans, and improper storage of combustible materials. Failure to timely correct deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future. A similar finding was included in our report No. 2005-020.

For each facility, the inspector completed a comprehensive safety inspection report that recorded the types of deficiencies, locations, estimated costs, and prioritization. This information is provided to the Maintenance Department for follow-up. We noted instances in which the work orders cited in connection with current deficiencies on the inspection reports had a status of either “corrected” or “canceled” in the work order system. In our review of 20 such work orders, both the Maintenance Department and Safety Department agreed that 13 items had been corrected, but did not explain why the deficiency remained on the inspection report. There was no agreement for the other 7 items, so the Safety Department indicated they would reissue the work orders to correct the deficiencies. Better communication between the two departments would help ensure that deficiencies are timely corrected.

Recommendation: The District should ensure that deficiencies and facility maintenance needs noted in the annual inspection reports are timely corrected.

Finding No. 7: Relocatable Buildings

Section 5(2) of the Florida Department of Education publication *State Requirements for Educational Facilities (SREF) – 1999*, requires additional annual inspections for all relocatables designed as classrooms or spaces intended for student occupancy. The inspection standards for relocatable buildings require a review of the structural integrity, accessibility, firesafety, and other measures to protect the welfare of occupants. Guidance by the Florida Department of Education, in DPBM Memo No. 02-46, further provides that a certified Uniform Building Code Inspector should conduct the inspection of relocatables for building construction.

The relocatable buildings were inspected for comprehensive safety and firesafety during the District's annual inspections of the school sites; however, no action had been taken to obtain inspections of the structural integrity of the relocatable buildings. District staff indicated that in the year 2001, the District contracted with outside vendors to review all of the District's existing relocatable buildings for compliance with the standards for existing "satisfactory" relocatable classroom buildings per the SREF. The District does not reinspect relocatable buildings for compliance with these standards unless the building is moved to a different location. Without the annual inspections to address the applicable construction requirements of the SREF, the District has limited assurance that the relocatable buildings met the inspection standards regarding structural integrity.

Recommendation: The District should provide for timely inspections of its relocatable buildings to address all of the components required by the *State Requirements for Educational Facilities - 1999*.

Finding No. 8: Fingerprinting Requirements

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

We noted nine of ten instructional employees tested whose teaching certificate was up for renewal who had not been fingerprinted during the 2005-06 fiscal year. District records indicated seven of the nine instructional employees were last fingerprinted from 1985 to 2000, while the other two had been fingerprinted subsequent to the 2005-06 fiscal year end. District staff indicated they are performing the background screenings based on employee geographic work area rather than teaching certificate renewal periods. Without following the guidance provided by FDOE to conduct the required background screening checks on a timely basis, there is an increased risk that instructional staff may have backgrounds that are not suitable for direct contact with students.

Recommendation: The District should follow the FDOE guidance provided regarding the background screenings for employees who are renewing their teaching certificate.

Finding No. 9: Sick Leave Banks

Per Section 1012.61(3), Florida Statutes, the District has established plans allowing participating full-time employees 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 amount he or she has personally accrued. During the

2005-06 fiscal year, the District operated five sick leave banks, three of which had deficit balances at June 30, 2006, as follows:

Bank Classification	Balance at 6-30-06
Administrators/Confidential	\$ (15,378.25)
Maintenance, Facilities, Security, Transportation	(2,537.37)
Secretarial/Clerical	22,735.65
Teacher	643,367.46
Paraprofessional	(29,930.59)

For the Administrators/Confidential and the Maintenance, Facilities, Security, and Transportation classifications, the sick leave bank guidelines note that when the bank is depleted to a point where only \$5,000 or less remains, all members of the sick leave bank shall automatically have another day of sick leave subtracted from their personal accumulated total and transferred to the sick leave bank. For the Paraprofessional classification, the depletion point is \$4,000. As of January 4, 2007, the transfer of sick days from the members had not occurred and the deficit balances remained.

Recommendation: The District should follow its sick leave bank guidelines to ensure the sick leave banks remain properly funded.

Finding No. 10: Salary Overpayments

The District salary expenditures for the 2005-06 fiscal year totaled approximately \$1.3 billion. As similarly noted in our report No. 2005-020, errors associated with employee terminations, leaves of absence, changes in pay, and addition/deletion of hours resulted in payroll exceptions leading to salary overpayments. Various payroll reports were generated weekly and used to analyze the exceptions, identify salary overpayments, and initiate collection efforts when necessary. As of June 30, 2006, cumulative payroll exceptions analyzed and determined to be salary overpayments totaled \$2,289,665 for the 2005-06 fiscal year. The District had collected \$1,849,775 of salary overpayments, with \$439,890 remaining uncollected.

Although the District is committed to resolve payroll exceptions and salary overpayments, existing bargaining agreements play a significant role in the process of collecting overpayments. For example, the bargaining agreement with the teachers' union specifies that no repayment shall exceed \$200 per paycheck. For retired or terminated employees, overpayment notices are mailed and settlements and repayment schedules are established. For former employees that fail to take action on the notices, the accounts are forwarded to a collection agency or the Board's attorney for legal action.

The District's procedures include the designation of an individual known as "payroll contact," at each location/department to enter the employees' work/leave hours into the System Application Processes (SAP), and time management and earnings reports are generated for the supervisors to approve the employees' pay. Personnel Action Forms (PAFs) are electronically prepared by the payroll contacts when changes are made to an employee's status, (e.g. terminations). These control procedures, if effectively implemented, would reduce the risk

of salary overpayments. However, as demonstrated by the amount of payroll exceptions, these procedures were not consistently and effectively applied.

Recommendation: The District should strengthen procedures in the payroll processing function to reduce the risk of future salary overpayments and continue collection efforts for existing salary overpayments.

Finding No. 11: Overtime Payment Monitoring

Overtime payments made by the District for the 2005-06 fiscal year totaled approximately \$11.9 million. Detailed overtime reports are available on the District's Intranet for review by department heads and supervisory staff; however, no Board Policy or procedure requires the review and analysis of these reports. Board Policy 4300.1 - Overtime Pay for Noninstructional Employees, last amended in August 1998, does not address the issue of monitoring overtime payments. As similarly noted in our report No. 2005-020, given the amount of overtime expenditures incurred, management controls in this area should be enhanced to allow for the evaluation of District staffing and personnel utilization. When overtime is not effectively monitored, there is an increased risk that errors, waste, or fraud may occur and not be timely detected.

Recommendation: The District should implement procedures to strengthen controls over monitoring overtime payments.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in our report Nos. 2004-173 and 2005-020, and in the report of other auditors for the 2004-05 fiscal year.

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 Broward 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 80 through 90.

FINANCIAL SECTION

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

EXHIBIT – A *Statement of Net Assets.*

EXHIBIT – B *Statement of Activities.*

EXHIBIT – C *Balance Sheet – Governmental Funds.*

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

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

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

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

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

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

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

EXHIBIT – K *Notes to Financial Statements.*

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Broward 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 9. 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 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 discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Broward 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 Broward 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 12 through 21) and the Budgetary Comparison Schedule (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 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The School Board of Broward County, Florida (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. The narrative is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify individual fund issues or concerns. As with other sections of this financial report, the information contained within this narrative should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the footnotes and other required supplementary information.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements:

- The District's financial status, as reflected in total net assets, increased by \$34 million, or 2.0 percent, to \$1.71 billion as of June 30, 2006, from \$1.67 billion as of June 30, 2005, presenting a stronger financial condition as of the end of the 2005-06 fiscal year. The increase in total net assets reflects increases in capital assets of \$251.9 million, and increases in current and other assets of \$45.4 million, offset by an increase in liabilities of \$263.3 million. The investment made in capital assets and the net debt issued was used for new schools, replacement schools, and numerous major expansion and renovation projects to meet the planned needs for facility growth and improvement.
- General revenues account for \$2.3 billion, or 93.0 percent, of all revenues, an increase of \$179.7 million, or 8.5 percent, from \$2.1 billion for the 2004-05 fiscal year. The increase in general revenue is principally the result of increases in funding to hire new teachers for class size reduction, increases in investment earnings, and increases in ad valorem taxes due to higher required local effort contributions in order to participate in the Florida Education Finance Program (FEFP).
- The District has \$2.4 billion in expenses related to programs, an increase of \$135 million, or 5.9 percent, from the 2004-05 fiscal year. The increase in expenses results from increases in salaries, cost of employee benefits, number of teachers and other staff, and other expenses.
- The District's debt (bonds payable, certificates of participation and capital leases) increased by \$253 million, or 17.2 percent, to \$1.72 billion from \$1.47 billion in the 2004-05 fiscal year. The increase is principally due to the issuance of \$273.8 million in certificates of participation (COPs), offset by scheduled debt repayments.

Government Fund Financial Statements

- The overall General Fund fund balance (the primary operating fund) decreased by \$2.6 million, or 2.2 percent, to \$116.8 million from \$119.4 million in the prior year. Expenditures and other financing uses exceed revenues and other financing sources principally due to insufficient funding to cover increases in salaries and related fringe benefits. The General Fund fund balance is comprised of \$15.7 million in funds committed or designated for specific purposes and uncommitted/unreserved funds of \$101.1 million that can be used at the discretion of the District. On June 30, 2005, the reserved fund balance for the General Fund was \$26.0 million, and the unreserved fund balance was \$93.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The governmental fund

financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the governmental fund financial statements focus on major funds rather than fund types. The proprietary fund statements offer short-term and long-term financial information about the activities the District operates like businesses, such as printing services and self-insurance programs. The remaining statements, the fiduciary funds statements, provide financial information for those activities in which the District acts solely as a trustee or agent for the benefit of others. The accompanying notes provide essential information that may not be readily available on the face of the basic financial statements. Consequently, these notes form an integral part of the basic financial statements.

Government-Wide Financial Statements

Government-wide financial statements incorporate governmental and business-type activities, as well as nonfiduciary component units. They contain various adjustment, elimination, and reclassification entries, such as the recording of depreciation, the recognition of other revenues, and the recognition of long-term liabilities. The government-wide financial statements are designed to provide the readers with a view of the District as a whole. While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities, and use the economic resources measurement focus and the accrual basis of accounting similar to the accounting used by most private-sector companies, matching the financial impact of long-term financial decisions to the period in which the expense or revenue is more properly attributed. In short, the financial impact of long-term decisions is promptly recorded as the transaction occurs, as opposed to recording it when paid. A good example of this is the recording of compensated absences, such as vacation and sick leave. In the fund financial statements, vacation and sick leave are expensed when used, not when accrued, with the unused hours accumulating over time. Consequently, the reader of the fund financial statements would never see the potential financial impact the accumulated leave would have on the District's financial health. In the government-wide financial statements, vacation and sick leave are expensed when accrued, allowing the reader to see the full financial impact.

The statement of net assets combines and/or consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. The statement of net assets also provides information about the nature and amounts of investment of resources and obligations to creditors.

The statement of activities provides 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 in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The difference between assets and liabilities, as reported in the statement of net assets, is one way to measure the District's financial health or financial position. A reader can think of the District's net assets as the difference between what the District owns (assets) and what the District owes (liabilities). Over time, the increase or decrease in the District's net assets, as reported in the statement of activities, is another indicator of whether its financial health is improving or deteriorating. The difference between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. To fully assess the financial health of any governmental entity, the reader must also consider other nonfinancial factors such as the quality of education provided, the safety of the schools, fluctuations in the local economy, state-mandated program administrative changes, and the physical condition of the District's capital assets.

Fund Financial Statements

Fund financial statements are generally presented on a modified accrual basis, using the current financial resources measurement focus, and report expenditures rather than expenses as used in the government-wide financial statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, the Debt Service - Certificates of Participation Series Fund, the Capital Projects - Public Education Capital Outlay Fund (PECO), the Capital Projects - Local Millage Capital Improvement Fund, and the Capital Projects - Other Capital Improvements Fund. Data from the other ten governmental funds are combined into a single, aggregated presentation.

Governmental Funds. Most of the District's activities are reported in governmental funds which describe how money flows into and out of those funds and the balances remaining at year-end that are available for spending in future periods. These funds are reported using an accounting method called "modified accrual accounting," which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and services. Governmental fund information helps determine what financial resources will be available in the near future to support educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds. Proprietary funds are used to report the activities in the District's internal service funds. Internal service funds are used to record the financing of goods or services provided by one department to another on a cost reimbursement basis, such as general and automobile liability self-insurance, workers' compensation self-insurance, and other services.

Proprietary funds are reported in the same way as government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Proprietary funds are included in the governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The District's fiduciary funds consist of agency funds used for its student activity funds.

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

The analysis below focuses on the Net Assets (Table 1) and Changes in Net Assets (Table 2) of the District's governmental activities.

TABLE 1
Net Assets, End of Year
(in thousands)
Governmental
Activities

	6-30-06	6-30-05	Increase (Decrease)
Current and Other Assets	\$ 1,398,024	\$ 1,352,599	\$ 45,425
Capital Assets	<u>2,520,559</u>	<u>2,268,706</u>	<u>251,853</u>
Total Assets	<u>3,918,583</u>	<u>3,621,305</u>	<u>297,278</u>
Long-Term Liabilities	1,984,424	1,725,662	258,762
Current and Other Liabilities	<u>227,229</u>	<u>222,672</u>	<u>4,557</u>
Total Liabilities	<u>2,211,653</u>	<u>1,948,334</u>	<u>263,319</u>
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	1,371,836	1,292,131	79,705
Restricted	341,332	386,736	(45,404)
Unrestricted Deficit	<u>(6,238)</u>	<u>(5,896)</u>	<u>(342)</u>
Total Net Assets	<u>\$ 1,706,930</u>	<u>\$ 1,672,971</u>	<u>\$ 33,959</u>

The District's net assets were \$1.7 billion at June 30, 2006, representing a \$34 million, or 2.0 percent, increase from June 30, 2005. By far, the largest portion of the District's net assets (80.4 percent) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not liquid and available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The second largest portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. Of the \$341.3 million in restricted net assets, \$316 million are restricted for capital projects. The District will use these resources to meet the needs for facility growth and improvement.

The District reports a deficit in unrestricted net assets of \$6.2 million at June 30, 2006. The negative unrestricted net assets represent an obligation against the District's future tax resources. The decrease is primarily due to a decrease in the General Fund fund balance at June 30, 2006, and an increase in long-term compensated absences. The increase in long-term compensated absences is primarily due to a change in Florida Statutes which removed the limitations on the amount of sick leave payments an employee could receive upon retirement.

As shown in Table 2, governmental activities increased the District's net assets by \$67.7 million from the 2004-05 fiscal year. Key highlights are as follows:

TABLE 2
Summary Statement of Changes in Net Assets
(in thousands)

	Governmental Activities		Increase (Decrease)
	6-30-06	6-30-05	
Program Revenues:			
Charges for Services	\$ 43,995	\$ 43,619	\$ 376
Operating Grants and Contributions	81,455	85,086	(3,631)
Capital Grants and Contributions	46,829	20,546	26,283
General Revenues:			
Ad Valorem Taxes	1,026,386	907,392	118,994
Other General Revenue	1,262,362	1,201,687	60,675
Total Revenues	2,461,027	2,258,330	202,697
Functions/Program Expenses:			
Instruction	1,391,571	1,304,527	87,044
Instructional Support Services	251,724	228,344	23,380
Operation and Maintenance of Plant	233,472	222,763	10,709
School Administration	121,995	119,513	2,482
Food Services	90,871	89,662	1,209
Facilities Acquisition and Construction	85,380	88,443	(3,063)
General Administration	89,612	87,172	2,440
Pupil Transportation Services	83,456	81,628	1,828
Interest Expense	63,954	54,952	9,002
Total Functions/Program Expenses	2,412,035	2,277,004	135,031
Increase (Decrease) in Net Assets	\$ 48,992	\$ (18,674)	\$ 67,666

Program revenues for Capital Grants and Contributions for the 2005-06 fiscal year are \$46.8 million, an increase of \$26.3 million from the 2004-05 fiscal year. The increase is primarily a result of additional funding in facilities acquisition and construction from the Public Education Capital Outlay (PECO), netted with a decrease of state funding for the Classrooms for Kids program (Capital Outlay Class Size Reduction).

Ad valorem taxes (property taxes) increased \$119 million primarily due to an increase in the taxable assessed values.

Other general revenues increased by \$60.7 million. This includes a Florida Education Finance Program (FEFP) revenue decrease of \$39.8 million due to growing State effort to increase local funding and therefore reduce State

FEFP funding, increases of \$53.4 million in funding received to hire additional teachers to reduce class size, \$31.6 million increase in hurricane reimbursement revenue, and \$14.0 million increase in net investment earnings.

Total expenses increased \$135 million, or 5.9 percent. For the most part, increases in expenses related to additional funding received to hire more teachers to reduce class size, annual salary increases, and increases in the cost of employee benefits.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As was noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at the funds aids in determining if the District is being accountable for the resources taxpayers and others provide, and may also give more insight into the District's overall financial health. In particular, the 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.

Governmental Funds. As of June 30, 2006, the District's governmental funds report a combined fund balance of \$1.02 billion, which is an increase of \$35.7 million, or 3.6 percent, from the 2004-05 fiscal year. The increase is principally due to an increase of \$65.6 million in the Capital Projects - Other Capital Improvements Fund related to the issuance of the Certificates of Participation Series 2006A and 2006B. This increase was offset primarily with a decrease in the following funds: \$10.0 million in the Special Revenue - Food Service Fund, \$2.6 million in General Fund due to higher costs of salaries and benefits for employees, and \$15.0 million adjustment to the Debt Service - Certificates of Participation Series Fund.

Proprietary Funds. As of June 30, 2006, the District's proprietary funds, nongovernmental internal service funds, report net assets of \$16.5 million, a decrease of \$0.3 million from the 2004-05 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its budget to deal with unexpected changes in revenues and expenditures. The District's original and final budget amounts compared with actual amounts is shown below in Table 3.

Table 3

Summary Schedule of Revenues, Expenditures and Changes in Fund Balance of General Fund Budget and Actual (Budgetary Basis)				
(in thousands)				
	Budget		Actual	Variance
	Original	Final		Positive (Negative)
Revenues:				
Local Sources	\$ 792,989	\$ 803,603	\$ 812,343	\$ 8,740
State Sources	1,031,244	1,006,769	1,004,706	(2,063)
Federal Direct	1,628	11,286	1,780	(9,506)
Federal Through State	7,000	7,000	10,145	3,145
Total Revenues	1,832,861	1,828,658	1,828,974	316
Expenditures:				
Instructional	1,182,777	1,135,345	1,146,668	(11,323)
Pupil Personnel Services	105,840	108,826	100,625	8,201
Instructional Media Services	32,744	31,420	29,997	1,423
Instruction and Curriculum Development	29,876	33,519	30,659	2,860
Instructional Staff Training Services	14,536	18,720	10,519	8,201
Instruction Related Technology	475	12,696	19,753	(7,057)
Board of Education	2,680	2,882	2,730	152
General Administration	11,055	11,064	10,767	297
School Administration	118,484	118,343	117,163	1,180
Facilities Acquisition and Construction	695	252	1,171	(919)
Fiscal Services	9,589	9,789	9,280	509
Central Services	52,840	53,248	54,484	(1,236)
Pupil Transportation Services	68,271	70,799	78,296	(7,497)
Operation of Plant	149,854	161,133	165,366	(4,233)
Maintenance of Plant	57,254	60,119	59,076	1,043
Administrative Technology Services	39,531	38,867	9,689	29,178
Community Services	24,348	19,870	16,098	3,772
Fixed Capital Outlay:				
Facilities Acquisition and Construction		18	18	
Other Capital Outlay		14,804	14,804	
Total Expenditures	1,900,849	1,901,714	1,877,163	24,551
Other Financing Sources (Uses)	53,674	55,529	45,618	(9,911)
Net Change in Fund Balances	\$ (14,314)	\$ (17,527)	\$ (2,571)	\$ 14,956

There were revisions made to the 2005-06 General Fund original budget. Final budgeted revenues and other financing sources compared to the original budget, in aggregate, decreased by \$2.3 million principally as a result of a decrease of \$23.6 million in the District's allocation of FEFP revenues due to a lower student enrollment than was originally projected. However, in anticipation of such a reduction, the District reserved sufficient funds from the anticipated revenues to cover this deficit. This decrease was offset primarily through increases in local revenue of \$10.6 million for ad valorem taxes and other miscellaneous local revenue, additional capital lease proceeds of \$1.9 million, and an increase in Federal revenues of \$9.7 million.

The final budgeted expenditures and other financing uses increased \$0.9 million from the original budget. The decrease in instructional services in the amount of \$47.4 million is primarily due a decrease of FEFP allocation as

a result of fewer students and a decrease in allocation of funds for Headstart, Family Counselors, Medicaid, and Teacher Training programs. Increases in operation and maintenance of plant of \$14.1 million are primarily due to a recovery effort as a result of Hurricane Wilma.

Actual revenues and other financing sources are approximately \$9.6 million less than the final budget. Actual expenditures are lower than the final budget by \$24.6 million. This is primarily due to unspent state categorical funds and reserves that will be carried over into the 2006-07 fiscal year.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets. As shown in Table 4, at June 30, 2006, the District had \$2.5 billion invested in a broad range of capital assets. This amount represents a net increase (including additions, deletions, and depreciation) of \$251.8 million from the 2004-05 fiscal year.

Table 4

Capital Assets at Year-End
(in thousands)

	2005-06	2004-05	Increase/ (Decrease)
Land	\$ 204,344	\$ 165,330	\$ 39,014
Land Improvements	196,620	153,320	43,300
Construction In Progress	252,465	265,457	(12,992)
Broadcast License Intangible	3,600	3,600	
Buildings and Fixed Equipment	2,407,936	2,183,903	224,033
Furniture, Fixtures and Equipment	394,660	432,716	(38,056)
Assets Under Capital Leases	114,071	39,476	74,595
Audio Visual	1,625	1,832	(207)
Computer Software	34,251	39,612	(5,361)
Motor Vehicles	65,074	64,900	174
Less: Accumulated Depreciation	(1,154,087)	(1,081,439)	(72,648)
Total Capital Assets, net	\$ 2,520,559	\$ 2,268,707	\$ 251,852

The 2005-06 fiscal year capital additions include construction activities on nine new schools and full replacement school projects, three of which opened in the 2005-06 fiscal year. In addition, there are numerous phased and concurrent replacement school projects and major expansion and renovation projects.

For the 2006-07 fiscal year, the District expects to open several more schools. The District anticipates capital additions will continue to increase due to the effort being made to reduce class size and replace outdated facilities. See Note 5 of the Notes to Financial Statements for more information.

Debt Administration. As shown in Table 5, below, at the end of the 2005-06 fiscal year the District has \$1.72 billion in debt outstanding compared to \$1.47 billion in the 2004-05 fiscal year, an increase of \$253 million, or 17.2 percent, from the 2004-05 fiscal year. The increase is the result of the net issuance of \$227.4 million in

COPs and \$59.1 million in capital leases, offset by a net reduction in general obligation bond issues (GOBI) and capital outlay bond issues (COBI) of \$31 million.

Table 5

Debt Outstanding at Year-End			
(in thousands)			
	2005-06	2004-05	Increase/ (Decrease)
State School Bonds	\$ 85,085	\$ 92,105	\$ (7,020)
General Obligation Debt	55,061	81,210	(26,149)
Certificates of Participation	1,496,701	1,269,308	227,393
Capital Leases	86,013	26,902	59,111
Total	\$ 1,722,860	\$ 1,469,525	\$ 253,335

The District's GOBI debt and COPs are rated Aa3 and A1 by Moody's Investors Service and AA minus and A plus by Standard and Poor's Corporation and AA minus and A plus by Fitch Ratings, respectively, and are among the highest ratings held by a Florida school district.

The District is subject to State laws that limit the amount of COBI and GOBI bonds outstanding to 10 percent of the nonexempt assessed valuation. At June 30, 2006, the statutory limit for the District is approximately \$13.4 billion, an increase of \$1.8 billion, or 15.5 percent, from the 2004-05 fiscal year. The increase is a result of an increase in the net assessed taxable property value from \$116.1 billion in January 2004 to \$133.6 billion in January 2005.

Other obligations include accrued vacation pay and sick leave. See Notes 6 through 11 of the Notes to Financial Statements for more information.

OTHER MATTERS OF SIGNIFICANCE

The State of Florida, by constitution, does not have a State personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. State funds to school districts are provided primarily by legislative appropriations from the State's general revenue funds under the FEFP. The level of tourism in the State heavily influences the amount collected. Any change in the anticipated amount of revenues collected by the State would directly impact the revenue allocation to the District. In addition, funds from other sources are appropriated to school districts as categorical funds to offset student transportation and technology. Included in these funds are a limited number of recurring and nonrecurring (one-time) grants from both the State and Federal governments.

On October 24, 2005, the District suffered the effects of Hurricane Wilma. The estimated damage to the District's infrastructure and clean up cost is projected to be at \$67.2 million. Funding for the repairs will be provided by the Federal Emergency Management Agency (FEMA), by the State, proceeds from insurance claims and capital ad valorem taxes. Roof damage has been the single largest expense to date. The process of closing

out over 600 Project Worksheets and completing over 251 necessary restoration projects to the permanent facilities are nearing completion. It will take approximately two to three years to repair facilities that require new roofs.

As a result of the implementation of Statement No. 42 of the Governmental Accounting Standards Board, and the significant physical damage to the permanent facilities caused by Hurricane Wilma, the District has written off \$6.0 million of the historical capital asset cost. The impairment losses had a direct impact on the government-wide financial statements.

REQUESTS FOR INFORMATION

The District's financial statements are designed to present users (participants, investors, creditors, and regulatory agencies) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report should be addressed to the Director of Financial Reporting, The School Board of Broward County, Florida, 1643 North Harrison Parkway, Building H, Sunrise, Florida, 33323.

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	\$ 29,844,830.12	\$ 5,119,119.00
Investments	547,375,899.08	654,241.00
Investments with Fiscal Agent	681,376,094.63	
Accounts Receivable	5,332,043.65	2,161,447.00
Interest Receivable	3,965,330.81	
Deposits Receivable	747,691.43	438,639.00
Prepaid Items	1,466,745.04	4,862,703.00
Due from Other Agencies	105,009,208.93	166,679.00
Inventories	14,105,171.77	379,436.00
Deferred Changes	8,801,545.57	
Capital Assets:		
Land	204,344,452.42	
Land Improvements - Nondepreciable	61,273,949.47	
Construction in Progress	252,465,873.53	577,531.00
Intangible Asset	3,600,000.00	
Improvements Other Than Buildings, Net	102,714,035.85	5,046,781.00
Buildings and Fixed Equipment, Net	1,696,744,836.59	180,672.00
Furniture, Fixtures, and Equipment, Net	98,574,884.33	2,748,142.00
Motor Vehicles, Net	9,360,648.74	89,852.00
Property Under Capital Leases, Net	76,599,963.12	162,448.00
Audio Visual Materials and Computer Software, Net	14,880,319.89	214,901.00
	<u>\$ 3,918,583,524.97</u>	<u>\$ 22,802,591.00</u>
TOTAL ASSETS		
LIABILITIES		
Salaries and Benefits Payable	\$ 30,091,901.88	\$ 1,069,642.00
Payroll Deductions and Withholdings	14,048,130.02	
Accounts Payable	36,783,506.44	8,027,307.00
Construction Contracts Payable	17,160,829.98	
Construction Contracts Payable - Retainage	23,925,547.28	
Due to Other Agencies	4,106,430.61	25,892.00
Accrued Interest Payable	769,050.00	
Deposits Payable	283,831.52	7,200.00
Sales Tax Payable	44,404.46	
Estimated Liability for Arbitrage	62,659.27	
Deferred Revenue	20,909,465.11	274,360.00
Matured Bonds Payable	45,146,499.84	
Matured Interest Payable	26,589,978.83	
Liability for Compensated Absences	7,307,097.43	
Long-Term Liabilities:		
Portion Due Within One Year:		
Obligations Under Capital Leases	23,270,757.67	277,628.00
Notes Payable		282,870.00
Bonds Payable	34,260,844.71	
Certificates of Participation Payable	49,172,916.30	
Estimated Insurance Claims Payable	34,094,000.00	
Compensated Absences Payable	9,258,940.23	
Portion Due After One Year:		
Obligations Under Capital Leases	62,742,727.15	217,792.00
Notes Payable		3,257,447.00
Bonds Payable	105,885,586.45	
Certificates of Participation Payable	1,447,527,946.59	
Estimated Insurance Claims Payable	78,383,000.00	
Compensated Absences Payable	139,827,034.44	
	<u>2,211,653,086.21</u>	<u>13,440,138.00</u>
Total Liabilities		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,371,836,286.29	10,365,075.00
Restricted for:		
State Categorical Programs	9,613,370.25	938.00
Debt Service	10,961,248.61	
Capital Projects	316,009,900.84	
Other Purposes	4,747,901.64	4,444,133.00
Unrestricted	(6,238,268.87)	(5,447,693.00)
	<u>1,706,930,438.76</u>	<u>9,362,453.00</u>
Total Net Assets		
TOTAL LIABILITIES AND NET ASSETS		
	<u>\$ 3,918,583,524.97</u>	<u>\$ 22,802,591.00</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

Functions/Programs	Expenses	Program Revenues		
	_____	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
		_____	_____	_____
Primary Government				
Governmental Activities:				
Instruction	\$ 1,349,296,720.41	\$ 7,419,622.02	\$	\$
Pupil Personnel Services	115,371,439.45			
Instructional Media Services	31,105,693.60			
Instruction and Curriculum Development Services	58,893,000.78			
Instructional Staff Training Services	24,740,849.41			
Instruction Related Technology	21,610,762.71			
Board of Education	2,870,548.79			
General Administration	9,712,026.45			
School Administration	121,995,373.64			
Facilities Acquisition and Construction	85,387,129.26			37,561,571.10
Fiscal Services	10,043,321.39			
Food Services	90,870,086.99	24,335,042.89	49,144,568.48	
Central Services	60,495,448.42			
Pupil Transportation Services	83,454,208.83	838,344.57	32,310,231.00	
Operation of Plant	166,887,076.74			
Maintenance of Plant	66,581,608.74			
Administrative Technology Services	10,206,445.78			
Community Services	38,557,051.77	11,402,454.98		
Interest on Long-Term Debt	63,420,500.82			9,267,086.12
Amortization Expense	536,449.98			
	_____	_____	_____	_____
Total Primary Government	\$ 2,412,035,743.96	\$ 43,995,464.46	\$ 81,454,799.48	\$ 46,828,657.22
Component Units				
Educational Foundation	\$ 1,514,214.00	\$ 29,448.00	\$ 2,428,133.00	\$
Charter Schools	58,994,111.00	1,979,508.00	3,444,603.00	2,748,539.00
	_____	_____	_____	_____
Total Component Units	\$ 60,508,325.00	\$ 2,008,956.00	\$ 5,872,736.00	\$ 2,748,539.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Debt Service				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Special Item				
Total General Revenues and Special Item				
Change in Net Assets				
Net Assets - July 1, 2005				
Adjustment to Beginning Net Assets				
Net Assets - July 1, 2005, Restated				
Net Assets - June 30, 2006				

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

EXHIBIT - B

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Units</u>
<u>Activities</u>	
\$ (1,341,877,098.39)	\$
(115,371,439.45)	
(31,105,693.60)	
(58,893,000.78)	
(24,740,849.41)	
(21,610,762.71)	
(2,870,548.79)	
(9,712,026.45)	
(121,995,373.64)	
(47,825,558.16)	
(10,043,321.39)	
(17,390,475.62)	
(60,495,448.42)	
(50,305,633.26)	
(166,887,076.74)	
(66,581,608.74)	
(10,206,445.78)	
(27,154,596.79)	
(54,153,414.70)	
<u>(536,449.98)</u>	
<u>(2,239,756,822.80)</u>	
	943,367.00
	<u>(50,821,461.00)</u>
	<u>(49,878,094.00)</u>
743,610,517.62	
28,189,284.56	
254,585,972.94	
360.00	
1,176,864,436.46	48,153,435.00
40,209,184.21	120,886.00
45,288,509.99	1,819,295.00
	<u>2,631,854.00</u>
<u>2,288,748,265.78</u>	<u>52,725,470.00</u>
<u>48,991,442.98</u>	<u>2,847,376.00</u>
1,672,970,928.50	6,515,077.00
<u>(15,031,932.72)</u>	
<u>1,657,938,995.78</u>	<u>6,515,077.00</u>
<u>\$ 1,706,930,438.76</u>	<u>\$ 9,362,453.00</u>

**EXHIBIT - C
BROWARD COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS**

	General Fund	Debt Service - Certificates of Participation Series Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS			
Cash	\$ 5,648,754.17	\$ 6,981.34	\$ 450,920.93
Investments	130,965,212.40	162,181.16	10,475,187.24
Investments with Fiscal Agent		73,300,915.85	
Interest Receivable	1,711,440.19		26,583.60
Accounts Receivable	1,634,385.35		
Deposits Receivable			
Prepaid Items	1,466,745.04		
Due from Other Funds	12,852,466.85		
Due from Other Agencies	29,086,973.15		36,319,823.58
Inventories	10,656,461.71		
	<u>\$ 194,022,438.86</u>	<u>\$ 73,470,078.35</u>	<u>\$ 47,272,515.35</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 30,091,901.88	\$	\$
Payroll Deductions and Withholdings	14,048,130.02		
Accounts Payable	21,521,599.62	10,142.50	655,609.12
Matured Bonds Payable		45,131,499.84	
Matured Interest Payable		26,584,002.58	
Construction Contracts Payable			3,709,558.94
Construction Contracts Payable - Retainage			1,601,514.31
Due to Other Funds			
Due to Other Agencies	3,337,001.58		
Deposits Payable	283,831.52		
Estimated Liability for Arbitrage			
Sales Tax Payable	44,404.46		
Deferred Revenue	670,786.32		19,625,741.00
Liability for Compensated Absences	7,208,726.23		
	<u>77,206,381.63</u>	<u>71,725,644.92</u>	<u>25,592,423.37</u>
Total Liabilities			
Fund Balances:			
Reserved for State Categorical Programs	9,613,370.25		
Reserved for Encumbrances	4,023,846.54		13,180,566.79
Reserved for Inventories			
Reserved for Debt Service		1,744,433.43	
Unreserved:			
Designated, Reported in General Fund:			
Designated for Student Enrichment Programs	2,103,117.93		
Undesignated, Reported in:			
General Fund	101,075,722.51		
Special Revenue Funds			
Capital Projects Funds			8,499,525.19
	<u>116,816,057.23</u>	<u>1,744,433.43</u>	<u>21,680,091.98</u>
Total Fund Balances			
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 194,022,438.86</u>	<u>\$ 73,470,078.35</u>	<u>\$ 47,272,515.35</u>

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

EXHIBIT - C

Capital Projects - Local Millage Capital Improvement Fund	Capital Projects - Other Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ 7,877,444.28	\$ 9,422,674.26	\$ 1,109,160.61	\$ 24,515,935.59
182,998,165.56	70,427,161.88	28,554,297.62	423,582,205.86
	608,075,178.78		681,376,094.63
790,362.06	443,209.54	404,782.21	3,376,377.60
1,298,000.00	1,743,435.78	648,416.64	5,324,237.77
	747,691.43		747,691.43
			1,466,745.04
			12,852,466.85
7,562,290.67	6,935,404.52	11,553,522.57	91,458,014.49
		3,428,398.74	14,084,860.45
<u>\$ 200,526,262.57</u>	<u>\$ 697,794,756.19</u>	<u>\$ 45,698,578.39</u>	<u>\$ 1,258,784,629.71</u>
\$	\$	\$	\$ 30,091,901.88
			14,048,130.02
4,405,123.75	7,278,887.74	2,715,707.49	36,587,070.22
		15,000.00	45,146,499.84
		5,976.25	26,589,978.83
2,236,678.74	11,173,177.61		17,119,415.29
7,971,833.80	14,352,199.17	41,414.69	23,966,961.97
		12,102,776.10	12,102,776.10
107,068.41		22,578.22	3,466,648.21
			283,831.52
	62,659.27		62,659.27
			44,404.46
495,000.00		941,792.43	21,733,319.75
		98,371.20	7,307,097.43
<u>15,215,704.70</u>	<u>32,866,923.79</u>	<u>15,943,616.38</u>	<u>238,550,694.79</u>
74,972,811.46	225,030,268.07	9,389.48	9,613,370.25
		3,428,398.74	317,216,882.34
		6,699,101.24	3,428,398.74
			8,443,534.67
			2,103,117.93
			101,075,722.51
		1,314,534.11	1,314,534.11
<u>110,337,746.41</u>	<u>439,897,564.33</u>	<u>18,303,538.44</u>	<u>577,038,374.37</u>
<u>185,310,557.87</u>	<u>664,927,832.40</u>	<u>29,754,962.01</u>	<u>1,020,233,934.92</u>
<u>\$ 200,526,262.57</u>	<u>\$ 697,794,756.19</u>	<u>\$ 45,698,578.39</u>	<u>\$ 1,258,784,629.71</u>

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

Total Fund Balances - Governmental Funds \$ 1,020,233,934.92

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 2,520,558,963.94

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. 16,426,439.54

Debt issuance costs are expensed as paid in the governmental funds, but must be capitalized and amortized in the government-wide presentation. 8,801,545.57

Certain revenues are not considered as "available" revenues at year-end, and, therefore, are not reported in the governmental funds. 13,625,358.33

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. (769,050.00)

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

Obligations Under Capital Leases	\$	86,013,484.82	
Bonds Payable		140,146,431.16	
Certificates of Participation Payable		1,496,700,862.89	
Compensated Absences Payable		149,085,974.67	
		(1,871,946,753.54)	

Total Net Assets - Governmental Activities \$ 1,706,930,438.76

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

THIS PAGE INTENTIONALLY LEFT BLANK.

EXHIBIT - E
BROWARD 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	Debt Service - Certificates of Participation Series Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 1,779,999.66	\$	\$
Federal Through State	10,145,284.20		
State	1,004,706,605.74		36,048,151.00
Local	812,342,591.18	337,759.84	113,816.86
Total Revenues	1,828,974,480.78	337,759.84	36,161,967.86
Expenditures			
Current - Education:			
Instruction	1,146,668,228.90		
Pupil Personnel Services	100,624,905.00		
Instructional Media Services	29,997,415.52		
Instruction and Curriculum Development Services	30,659,466.99		
Instructional Staff Training Services	10,518,609.43		
Instruction Related Technology	19,753,110.10		
Board of Education	2,729,823.30		
General Administration	10,767,383.18		
School Administration	117,162,853.22		
Facilities Acquisition and Construction	1,170,841.35		14,479,762.10
Fiscal Services	9,279,864.65		
Food Services			
Central Services	54,483,959.64		
Pupil Transportation Services	78,296,222.43		
Operation of Plant	165,365,784.72		
Maintenance of Plant	59,076,065.35		
Administrative Technology Services	9,689,548.27		
Community Services	16,097,778.85		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	17,914.00		29,751,928.11
Other Capital Outlay	14,804,091.11		
Debt Service:			
Principal		65,990,722.93	
Interest and Fiscal Charges		60,970,736.23	
Miscellaneous			
Total Expenditures	1,877,163,866.01	126,961,459.16	44,231,690.21
Excess (Deficiency) of Revenues Over Expenditures	(48,189,385.23)	(126,623,699.32)	(8,069,722.35)
Other Financing Sources (Uses)			
Transfers In	41,003,704.84	126,469,057.75	
Inception of Capital Leases	5,540,107.34		
Bonds Issued			
Discount on Bonds			
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Escrow Agent for Refunded Bonds			
Certificates of Participation Issued			
Premium on Certificates of Participation			
Proceeds from Sale of Capital Assets			
Insurance Loss Recoveries			
Transfers Out	(925,394.14)		
Total Other Financing Sources (Uses)	45,618,418.04	126,469,057.75	
Net Change in Fund Balances	(2,570,967.19)	(154,641.57)	(8,069,722.35)
Fund Balances, July 1, 2005	119,387,024.42	16,931,007.72	29,749,814.33
Adjustment to Beginning Fund Balance		(15,031,932.72)	
Revised Fund Balance, July 1, 2005	119,387,024.42	1,899,075.00	29,749,814.33
Fund Balances, June 30, 2006	\$ 116,816,057.23	\$ 1,744,433.43	\$ 21,680,091.98

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

EXHIBIT - E

Capital Projects - Local Millage Capital Improvement Fund	Capital Projects - Other Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ 473,005.51	\$ 6,491,784.73	\$ 22,784,231.73	\$ 24,564,231.39
25,989.32	1,437,211.55	194,516,606.24	211,626,680.68
262,690,219.74	33,711,445.63	12,445,272.35	1,054,663,229.96
		56,315,625.30	1,165,511,458.55
263,189,214.57	41,640,441.91	286,061,735.62	2,456,365,600.58
		104,965,670.36	1,251,633,899.26
		9,383,497.07	110,008,402.07
		202,623.85	30,200,039.37
		21,878,036.57	52,537,503.56
		12,426,380.09	22,944,989.52
		42,175.29	19,795,285.39
			2,729,823.30
		6,883,317.11	17,650,700.29
		974,787.97	118,137,641.19
45,308,088.46	34,352,873.50	28,155.42	95,339,720.83
			9,279,864.65
		84,373,544.65	84,373,544.65
		394,113.70	54,878,073.34
		1,668,870.16	79,965,092.59
		497,052.73	165,862,837.45
		15,776.92	59,091,842.27
		267,012.54	9,956,560.81
		6,084,082.54	22,181,861.39
65,276,194.23	274,125,914.67	2,339,718.81	371,511,669.82
		3,684,809.89	18,488,901.00
		31,370,000.00	97,360,722.93
	2,739,258.61	6,688,063.15	70,398,057.99
		540.00	540.00
110,584,282.69	311,218,046.78	294,168,228.82	2,764,327,573.67
152,604,931.88	(269,577,604.87)	(8,106,493.20)	(307,961,973.09)
		125,101.00	167,597,863.59
	75,815,030.11		81,355,137.45
		460,000.00	460,000.00
		(2,325.35)	(2,325.35)
		4,165,000.00	4,165,000.00
		405,420.22	405,420.22
		(4,554,749.69)	(4,554,749.69)
	267,105,000.00		267,105,000.00
	6,741,847.50		6,741,847.50
228,232.66	28,746.80		256,979.46
250,000.00	2,499,964.00		2,749,964.00
(148,620,946.42)	(17,047,818.19)	(1,003,704.84)	(167,597,863.59)
(148,142,713.76)	335,142,770.22	(405,258.66)	358,682,273.59
4,462,218.12	65,565,165.35	(8,511,751.86)	50,720,300.50
180,848,339.75	599,362,667.05	38,266,713.87	984,545,567.14
			(15,031,932.72)
180,848,339.75	599,362,667.05	38,266,713.87	969,513,634.42
\$ 185,310,557.87	\$ 664,927,832.40	\$ 29,754,962.01	\$ 1,020,233,934.92

EXHIBIT - F
BROWARD 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 **\$ 50,720,300.50**

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. 251,852,101.98

Long-term debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of activities, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of activities. (252,051,996.63)

Internal service funds are used by the District to charge the costs of services, such as workers' compensation insurance and printing services, to individual funds. The net loss of the internal service funds is reported on the statement of activities. (260,495.85)

In the statement of activities, certain operating expenses - compensated absences (vacation and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount actually paid), and for new retirees, the amount expected to be paid out for terminal sick leave over the next year. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (7,820,753.19)

The District has recorded the following revenue for the government-wide statements:

Miscellaneous Revenue	\$	495,000.00	
Medicaid Revenue		328,854.64	
Federal Emergency Management Agency		12,801,503.69	13,625,358.33

Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.

Interest on long-term debt prior year	\$	1,187,000.00	
Interest on long-term debt current year		(769,050.00)	417,950.00

Revenues in the governmental fund statements that related to the prior year are not reported in the statement of activities:

Medicaid	\$	(5,400,000.00)	
Ad Valorem Taxes		(2,517,000.00)	
Miscellaneous Revenues		(495,000.00)	(8,412,000.00)

Premiums and debt issuance costs are reported in the governmental funds in the year debt is issued, but are capitalized and amortized in the statement of activities.

920,977.84

Change in Net Assets - Governmental Activities **\$ 48,991,442.98**

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

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

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	5,328,894.53
Investments		123,793,693.22
Interest Receivable		588,953.21
Accounts Receivable		7,805.88
Inventories		20,311.32
		129,739,658.16
Total Current Assets		129,739,658.16
Noncurrent Assets:		
Furniture, Fixtures, and Equipment, Net		26,897.25
		26,897.25
TOTAL ASSETS	\$	129,766,555.41
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$	196,436.22
Due to Other Agencies		639,782.40
Estimated Insurance Claims Payable		34,094,000.00
		34,930,218.62
Total Current Liabilities		34,930,218.62
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		78,383,000.00
		78,383,000.00
Total Liabilities		113,313,218.62
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		26,897.25
Unrestricted		16,426,439.54
		16,453,336.79
Total Net Assets		16,453,336.79
TOTAL LIABILITIES AND NET ASSETS	\$	129,766,555.41

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

**EXHIBIT - H
BROWARD 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
OPERATING REVENUES		
Charges for Services	\$	71,875,550.89
Charges for Sales		1,003,989.91
Premium Revenues		43,959,443.66
Total Operating Revenues		116,838,984.46
OPERATING EXPENSES		
Salaries		57,673,188.97
Employee Benefits		15,847,309.69
Purchased Services		20,146,700.19
Materials and Supplies		264,025.68
Capital Outlay		86,610.55
Insurance Claims		23,327,358.47
Other Expenses		3,102,594.79
Depreciation		2,386.80
Total Operating Expenses		120,450,175.14
Operating Loss		(3,611,190.68)
NONOPERATING REVENUES		
Interest		3,350,694.83
Change in Net Assets		(260,495.85)
Total Net Assets, July 1, 2005		16,713,832.64
Total Net Assets, June 30, 2006	\$	16,453,336.79

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

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

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Services	\$ 116,831,178.58
Cash Payments to Suppliers for Goods and Services	(22,856,819.56)
Cash Payments to Employees for Services	(73,520,498.66)
Cash Payments for Insurance Claims	(20,125,358.47)
	328,501.89
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(10,867,003.91)
Interest Income	3,669,282.54
	(7,197,721.37)
Net Cash Provided by Operating Activities	328,501.89
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(10,867,003.91)
Interest Income	3,669,282.54
	(7,197,721.37)
Net Cash Used by Investing Activities	(7,197,721.37)
Net Decrease in Cash and Cash Equivalents	(6,869,219.48)
Cash and Cash Equivalents, Beginning	12,198,114.01
Cash and Cash Equivalents, Ending	\$ 5,328,894.53

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

Operating Loss	\$ (3,611,190.68)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	2,386.80
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(7,805.88)
Decrease in Inventory	2,703.89
Increase in Due to Other Agencies	639,782.40
Increase in Accounts Payable	100,625.36
Increase in Estimated Insurance Claims Payable	3,202,000.00
	3,939,692.57
Total Adjustments	3,939,692.57
Net Cash Provided by Operating Activities	\$ 328,501.89

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 7,505,765.46
Investments	6,244,075.07
Interest Receivable	78,221.39
TOTAL ASSETS	\$ 13,828,061.92
LIABILITIES	
Accounts Payable	\$ 374,296.55
Due to Other Funds	749,690.75
Internal Accounts Payable	12,704,074.62
TOTAL LIABILITIES	\$ 13,828,061.92

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

EXHIBIT – K
BROWARD 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 Broward County School District is considered part of the Florida system of public education. The governing body of the school district is the Broward County District School Board which is composed of nine elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Broward 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 Broward School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the Broward County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the basic financial statements, Exhibits A and B, include the financial data of the District's other component units. The Broward Education Foundation (Foundation), a nonprofit direct-support organization of the District, is included as a discretely presented component unit in the accompanying basic financial statements. The purpose of the Foundation is exclusively educational and charitable, namely, to receive, hold, invest, and administer property and to make expenditures on behalf of the District. In addition, the Foundation is fiscally dependent on the District to provide financial support for its ongoing expenses. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2006, was conducted by an independent certified public accountant and is on file at the District's administrative office.

Additionally, in accordance with Section 1002.33, Florida Statutes, district school boards are authorized to approve charter school applications. Charter schools are public schools operating under a performance contract with the local school district and are fiscally dependent on the District for a majority of their funding. Revenues such as Florida Education Finance Program (FEFP), State Categoryals, and other State and Federal revenue sources are received by the District on behalf of the charter schools and then remitted to them. As such, charter schools are funded on the same basis and are subject to the same financial reporting requirements as the District. Additionally, all students enrolled in charter schools are included in the District's total enrollment. To date, the District has approved the establishment of forty-eight charter schools, of which, thirty-eight were operating sites in fiscal year 2005-06. All of the charter schools are

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

considered component units of the District or another legal entity. For financial reporting purposes, twenty-seven of the charter schools are included in the basic financial statements of the District as discretely presented component units. Audits of the charter schools' financial statements for the fiscal year ended June 30, 2006, were conducted by independent certified public accountants and are on file at the District's administrative office.

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense on school buses was allocated to the pupil transportation function on the statement of activities. All other depreciation expense was ratably allocated to the various functions based on an analysis of the use of each room in the District and its relative square footage.

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.
- Debt Service – Certificates of Participation Series Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs on the long-term certificates of participation (COP).
- Capital Projects – Public Education Capital Outlay Fund – to account for resources received through the Public Education and Capital Outlay (PECO) to be used for maintenance and other capital outlay needs, including new construction and renovation and remodeling projects.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

- Capital Projects – Local Millage Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Other Capital Improvements Fund – to account for other capital improvement funds, including the Certificates of Participation Series, Classrooms First, Effort Index Grant, and Impact Fee Funds. These funds are used for planned improvements of property and equipment that meet the specific restrictions of those funding sources and are authorized by statute.

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

- Internal Service Funds – to account for the financing of goods or services provided by one department to another on a cost reimbursement basis. These funds are used to account for general and automobile liability self-insurance, workers' compensation self insurance, and other services provided to other District funds.
- 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'

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

principal ongoing operations. The principal operating revenues of the District's internal service funds are for commercial insurance, graphics and printing, maintenance services, and facility construction provided to other funds. Operating expenses include salaries, employee benefits, purchased services, supplies, materials, administrative expenses, and depreciation on capital assets. 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 Broward Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. For the Internal Service Funds, the statement of cash flows considers cash as those accounts used as demand deposit accounts and considers cash equivalents as highly liquid investments with a maturity date of three months or less at the date of purchase.

Investments consist of amounts placed in State Board of Administration Debt Service Accounts for investment of debt service moneys, amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment 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 government securities, corporate notes, and money accounts 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 at cost on the first-in, first-out basis or moving weighted average cost 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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

more than \$1,000 and an initial useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 - 35 years
Buildings and Fixed Equipment	7 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Motor Vehicles	10 - 15 years
Audio Visual Materials and Computer Software	5 years

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

In November 2003, the GASB issued Statement No. 42 (GASB 42), *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

The District is required to evaluate prominent events or changes in circumstances effecting capital assets to determine whether the impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of a capital asset, and construction stoppage.

On October 24, 2005, the District suffered the effects of Hurricane Wilma. After applying the GASB 42 recommended approach to the 239 facilities impacted, 31 were determined to be significantly damaged. The District utilized the restoration cost approach (the amount of impairment is derived from the estimated cost to restore the utility of the capital asset) to measure the impairment loss. As of June 30, 2006, the impairment loss for the District was \$6,015,109 and was reported as program expenses in the statement of activities.

Impairment loss due to Hurricane Wilma was allocated based on a square footage of the District's facilities as follows:

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

<u>Function</u>	<u>GASB 42 IMPAIRMENT LOSS</u>
Instruction	\$ 3,814,180.62
Pupil Personnel Services	201,506.15
Instructional Media Services	32,481.59
Instruction and Curriculum Development Services	252,634.58
Instructional Staff Training Services	70,978.29
Instruction Related Technology	70,978.29
Board of Education	5,413.60
General Administration	28,271.01
School Administration	137,144.49
Fiscal Services	29,474.03
Food Services	259,852.71
Central Services	73,384.33
Pupil Transportation Services	34,887.63
Operation of Plant	27,067.99
Maintenance of Plant	296,544.87
Administrative Technology Services	9,624.17
Community Services	670,684.65
Total	\$ 6,015,109.00

➤ **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 effective interest 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 is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District 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. The District recognizes the allocation of Public Education Capital Outlay 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 Broward County Property Appraiser, and property taxes are collected by the Broward County Tax Collector.

The School Board adopted the 2005 tax levy on September 8, 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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Broward 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.

2. ADJUSTMENT TO NET ASSETS/FUND BALANCE

The adjustment for \$15,031,932.72 corrects beginning net assets on the statement of activities and beginning fund balances on the statement of revenues, expenditures, and changes in fund balances – governmental funds for a journal entry error relating to amounts placed in escrow from the Refunding Certificates of Participation, Series 2004.

3. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

4. INVESTMENTS

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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Investment	Maturities	Governmental Funds	Internal Service Funds	Total Government-wide	Agency Funds
Fixed Investments - Federal Treasuries & Agency Securities & Corporate Notes	August 2007 - May 2009	\$ 166,771,185.24	\$ 49,078,500.97	\$ 215,849,686.21	\$ 2,475,488.34
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool	27 Day Average	211,873,305.19	62,351,443.76	274,224,748.95	3,144,967.13
Wachovia Money Market	60 Day Average	11,457,990.52	3,371,931.41	14,829,921.93	170,078.07
Certificates of Deposits	August 2006	30,554,641.39	8,991,817.08	39,546,458.47	453,541.53
State Board of Administration Debt Service Accounts	6 months	2,925,083.52		2,925,083.52	
Funds held by the Trustee for Certificates of Participation for Debt Service	(1)	73,300,915.85		73,300,915.85	
Funds held by the Trustee for Certificates of Participation	(1)	608,075,178.78		608,075,178.78	
Total Investments, Primary Government		<u>\$ 1,104,958,300.49</u>	<u>\$ 123,793,693.22</u>	1,228,751,993.71	<u>\$ 6,244,075.07</u>
Component Units:				<u>654,241.00</u>	
Total Investments, Reporting Entity				<u>\$ 1,229,406,234.71</u>	

Note: (1) Funds held by Trustee for Certificates of Participation are primarily invested in State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool and in money market mutual funds.

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 is to manage its exposure to rising interest risk in fair value by forecasting cash outflows and inflows, and to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months. Investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate to the needs for funds and in accordance with debt covenants, but in no event shall exceed five (5) years.

Credit Risk

- The District has adopted an investment policy that authorizes the District to participate in the State Board of Administration Investment Pool (SBA). The policy also authorizes the District to invest in interest-bearing time deposits or savings accounts, direct obligations of the United States Treasury, Federal Agencies, and money market funds with highest credit quality rating from nationally recognized statistical rating organizations and registered with the Securities and Exchange Commission. The policy also requires State and/or local government taxable and/or tax exempt debt, general obligation and/or revenue bonds to be rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long-term debt, or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short-term debt. Banker's acceptances issued by a domestic bank or a Federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short term paper must be rated, at a minimum, "P-1" by Moody's Investors Service and "A-1" by Standard & Poor's. Additionally, the bank shall not be listed with any recognized credit watch information service.

Commercial paper of any United States company that is rated, should be rated at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Additionally, the company shall not be listed with any recognized credit watch information service. Corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

purchase, should be rated at a minimum “Aa” by Moody’s and a minimum long term debt rating of “AA” by Standard & Poor’s. Additionally, the company shall not be listed with any recognized credit watch information service.

As of June 30, 2006, the District’s investment securities had the following ratings as shown in the chart below:

Investments	Fair Value	S&P Rating
Short-term Portfolio:		
State Board of Administration	\$ 277,369,716	Not rated
Money Market	15,000,000	Not rated
Certificates of Deposit	40,000,000	Not rated
Federal Agency Bond/Notes	9,987,500	AAA
Long-term Portfolio:		
General Electric - corporate notes	6,798,351	AAA
Wells Fargo - corporate notes	9,754,320	AA-
Federal Agency bond/notes	113,848,397	AAA
Federal Agency mortgage backed securities	15,705,231	AAA
U. S. Treasury bonds/notes	62,231,376	AAA

- The District’s \$277.4 million investment deposit in the Local Government Surplus Funds Trust Fund investment pool is not rated at 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.
- The District’s investments are in accordance with investment policies at June 30, 2006.

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.
- Pursuant to Section 218.415(10), Florida Statutes, securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by, and all collateral

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

obtained by the District is properly designated as an asset of the District. The securities are held in an account separate and apart from the assets of the financial institution in the District's name.

Concentration of Credit Risk

- The District's investment policy has established asset allocation and issuer limits on the following investments, which are designed to reduce concentration of credit risk of the District's Investment portfolio.
- The Florida Government Surplus Funds Trust Fund (SBA) – A maximum of 100 percent of available funds may be invested by the District's Treasurer (Treasurer) in the SBA. Funds deposited with the SBA are invested in the pooled investment account, and external investment pool administration by the State of Florida and operated in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940.
- U.S. Government Securities – The Treasurer may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. A maximum of 100 percent of available funds may be invested in these securities; the maximum length to maturity is 5 years from the date of purchase.
- U.S. Government Agencies – The Treasurer may invest in bonds, debentures, notes or callables issued or guaranteed by the United State Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government. A maximum of 50 percent of available funds may be invested in U.S. government agencies. A maximum of 25 percent of available funds may be invested in individual U.S. government agencies. The maximum length to maturity is 5 years from the date of purchase.
- Federal Instrumentalities (U.S. Government sponsored agencies) – The Treasurer may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Government sponsored Agencies (Federal Instrumentalities), which are nonfull faith. A maximum of 80 percent of available funds may be invested in Federal Instrumentalities. A maximum of 40 percent may be invested in any one issuer. The maximum length to maturity is 5 years from the date of purchase.
- Interest Bearing Time Deposit or Saving Account – Funds can be invested in non-negotiable interest bearing time certificates of deposit or saving accounts in banks organized under the laws of this State and/or in National Banks organized by the law of the United of States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposit Act, Chapter 280, Florida Statutes. A maximum of 25 percent of available funds may be invested in nonnegotiable interest-bearing time certificates of deposit. A maximum of 15 percent of available funds may be deposited with any one issuer. The maximum maturity on any certificate is one year from date of purchase.
- Corporate Notes – The Treasurer may invest in Corporate Notes issued by corporations organized and operating with the United States or by depository institutions licensed by the United States that have a long-term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long-term debt rating of "AA" by Standard's & Poor's. A maximum of 15 percent of available funds may be invested in corporate notes. Only 5 percent may be invested with one issuer. Length of maturity shall be 3 years from date of purchase.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-05	Additions	Deletions	Balance 6-30-06
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 165,330,242.55	\$ 39,014,209.87	\$	\$ 204,344,452.42
Land Improvements - Nondepreciable	47,109,024.73	14,164,924.74		61,273,949.47
Intangible Asset	3,600,000.00			3,600,000.00
Construction in Progress	265,457,106.67	216,918,593.96	229,909,827.10	252,465,873.53
Total Capital Assets Not Being Depreciated	481,496,373.95	270,097,728.57	229,909,827.10	521,684,275.42
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	106,210,944.05	29,135,351.10		135,346,295.15
Buildings and Fixed Equipment	2,183,902,963.09	224,032,810.27		2,407,935,773.36
Furniture, Fixtures, and Equipment	432,716,313.56	25,223,492.13	63,281,141.50	394,658,664.19
Motor Vehicles	64,899,968.27	1,263,390.40	1,089,210.96	65,074,147.71
Property Under Capital Leases (1)	39,476,132.63	74,595,190.45		114,071,323.08
Audio Visual Materials and Computer Software	41,442,771.35	6,080,824.81	11,647,970.01	35,875,626.15
Total Capital Assets Being Depreciated	2,868,649,092.95	360,331,059.16	76,018,322.47	3,152,961,829.64
Less Accumulated Depreciation for:				
Improvements Other Than Buildings (2)	25,622,275.04	7,009,984.26		32,632,259.30
Buildings and Fixed Equipment (2)	648,413,954.85	62,776,981.92		711,190,936.77
Furniture, Fixtures, and Equipment	313,891,484.45	45,473,436.91	63,281,141.50	296,083,779.86
Motor Vehicles	52,430,572.30	4,372,137.63	1,089,210.96	55,713,498.97
Property Under Capital Leases	17,835,096.16	19,636,263.80		37,471,359.96
Audio Visual Materials and Computer Software	23,245,222.14	9,398,054.13	11,647,970.01	20,995,306.26
Total Accumulated Depreciation	1,081,438,604.94	148,666,858.65	76,018,322.47	1,154,087,141.12
Total Capital Assets Being Depreciated, Net	1,787,210,488.01	211,664,200.51		1,998,874,688.52
Governmental Activities Capital Assets, Net	\$ 2,268,706,861.96	\$ 481,761,929.08	\$ 229,909,827.10	\$ 2,520,558,963.94

Notes: (1) Differs from Property Under Capital Leases in Note 6 due to \$6,770,617.34 in equipment encumbered, but not received, as of June 30, 2006.
(2) Includes adjustments totaling \$6,015,109 relating to GASB 42 Impairment Loss as a result of Hurricane Wilma.

The classes of property under capital leases are presented in Note 6.

Depreciation expense was charged to functions as follows:

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 88,974,679.98
Pupil Personnel Services	4,700,602.08
Instructional Media Services	757,708.99
Instructional and Curriculum Development Services	5,893,292.16
Instruction Staff Training Services	1,655,734.46
Instruction Related Technology	1,655,734.46
Board of Education	126,284.83
General Administration	659,487.46
School Administration	3,199,215.74
Fiscal Services	687,550.75
Food Services	6,061,671.94
Central Services	1,714,247.86
Pupil Transportation Services	3,146,718.41
Operation of Plant	631,424.16
Maintenance of Plant	6,917,602.46
Administrative Technology Services	224,506.37
Community Services	15,645,287.54
GASB 42 Impairment Loss	<u>6,015,109.00</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 148,666,858.65</u></u>

6. OBLIGATIONS UNDER CAPITAL LEASES

The classes and amounts of property being acquired under capital leases are as follows:

	<u>Asset Balance</u>
Furniture, Fixtures, & Equipment	\$ 82,332,751.42
Motor Vehicles	<u>38,509,189.00</u>
 Total	 <u><u>\$120,841,940.42</u></u>

Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 27,134,166.48	\$ 23,270,757.67	\$ 3,863,408.81
2008	24,852,115.04	21,984,059.41	2,868,055.63
2009	24,852,115.06	23,086,374.47	1,765,740.59
2010	7,820,015.05	7,115,087.78	704,927.27
2011	4,411,822.76	3,983,712.13	428,110.63
2012-2014	<u>7,049,757.38</u>	<u>6,573,493.36</u>	<u>476,264.02</u>
 Total Minimum Lease Payments	 <u><u>\$ 96,119,991.77</u></u>	 <u><u>\$ 86,013,484.82</u></u>	 <u><u>\$ 10,106,506.95</u></u>

The imputed interest rates range from 4.02 to 7.51 percent.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

7. CERTIFICATES OF PARTICIPATION

Certificates of Participation outstanding as of June 30, 2006, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1997A - Refunding	\$ 33,305,000	4.8 - 5.0	2011	\$ 60,730,000
Series 1997B - Refunding	21,835,000	4.80 - 5.25	2012	34,530,000
Series 1997C	5,115,000	4.8	2007	109,230,000
Series 2001A	201,100,000	4.0 - 5.5	2026	241,765,000
Series 2001B	119,300,000	3.450 - 5.375	2026	176,730,000
Series 2003A	193,395,000	2.20 - 5.25	2028	209,195,000
Series 2003B - Refunding	21,950,000	2.0 - 5.0	2010	37,120,000
Series 2004A - Refunding	69,000,000	2.00 - 5.25	2017	69,960,000
Series 2004B - Refunding	71,920,000	5.00 - 5.25	2017	71,920,000
Series 2004C	99,535,000	2.50 - 5.25	2020	110,460,000
Series 2004D	113,825,000	(1)	2029	113,825,000
Series 2005A	193,245,000	3.0 - 5.0	2030	198,130,000
Series 2005B	44,460,000	(2)	2021	44,460,000
Series 2006A	202,105,000	4.00 - 5.25	2028	202,105,000
Series 2006B	65,000,000	(1)	2031	65,000,000
Series 2000 - QZAB	2,454,987	(3)	2013	4,208,549
Series 2001 - QZAB	2,576,846	(3)	2013	4,417,450
Series 2004 - QZAB	795,930	(3)	2021	848,992
Subtotal	1,460,917,763			
Add: Unamortized Premium	35,783,100			
Total Certificates of Participation	<u>\$ 1,496,700,863</u>			<u>\$ 1,754,634,991</u>

Notes: (1) Variable-to-Fixed Cancelable Interest Rate Swap. See notes below.

(2) Variable rate issue. Interest is calculated at variable rate on a weekly basis and payable monthly.

(3) Interest on this debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holders of the QZABs. The rate of return to the holders was established by the United States Government at the time of sale.

The District entered into financing arrangements, characterized as lease-purchase agreements, with the Broward School Board Leasing Corporation (Corporation) whereby the District secured financing of various educational facilities and equipment. The financing was accomplished through the issuance of certificates of participation by the Corporation to third-party investors, to be repaid from the proceeds of rents paid by the District.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

As a condition of the financing arrangements, the Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable unless terminated, in accordance with provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases. The remedies on default include the immediate surrender and delivery of possession of all facilities, vehicles, and certain equipment (excludes certain computer equipment) financed under all leases to the trustee in the condition, state of repair and appearance required under the leases. Upon such surrender, the trustee will sell or lease such facilities, vehicles, and certain equipment in such manner and to such person as it determines appropriate. The proceeds of any sale or lease will be applied first to the payment in full of the Certificates, and then to the payment of the District's obligations under the reimbursement agreement, and finally to the payment of the District. A summary of the lease terms is presented as follows:

<u>Certificates</u>	<u>Lease Term</u>
Series 1997A - Refunding	June 30, 2011 as to the Facilities
Series 1997B - Refunding	June 30, 2012 as to the Facilities
Series 1997C	June 30, 2017 as to the Facilities
Series 2001A-1	June 30, 2026 as to the Facilities
Series 2001A-2	June 30, 2011 as to the Facilities
Series 2001B	June 30, 2026 as to the Facilities
Series 2003A	June 30, 2028 as to the Facilities
Series 2003B - Refunding	June 30, 2010 as to the Facilities
Series 2004A - Refunding	June 30, 2017 as to the Facilities
Series 2004B - Refunding	June 30, 2017 as to the Facilities
Series 2004C	June 30, 2020 as to the Facilities
Series 2004D	June 30, 2029 as to the Facilities
Series 2005A	June 30, 2030 as to the Facilities
Series 2005B	June 30, 2021 as to the Facilities
Series 2006A	June 30, 2028 as to the Facilities
Series 2006B	June 30, 2031 as to the Facilities
Series 2000 - QZAB	December 20, 2013 as to the Facilities
Series 2001 - QZAB	June 28, 2014 as to the Facilities
Series 2004 - QZAB	December 22, 2020 as to the Facilities

The District properties included in the ground lease under this arrangement include:

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

<u>Certificates</u>	<u>Description of Property</u>
Series 1997A/1997B - Refunding	To advance-refund and defease outstanding Series 1991A and Series 1992A Certificates. Series 1991A and Series 1992A included eight elementary schools, three middle schools, gymnasium, maintenance and transportation facilities, bus parking facilities, and certain computer equipment and software.
Series 1997C	Three new elementary schools, three middle schools, and one bus transportation facility.
Series 2001A	Two new elementary schools, one new middle school, one new high school, two phased replacement high schools, a primary learning center, an administrative building, and modular buildings.
Series 2001B	One new elementary school, one new high school, additions and replacements at various schools, bus and maintenance facilities.
Series 2003A	One new high school, additions/renovations at various schools.
Series 2003B - Refunding	To refund Refunding Certificates Series 1990A. Series 1990A included four elementary and two middle schools.
Series 2004A - Refunding	To refund Certificates Series 1997C.
Series 2004B - Refunding	To refund Certificates Series 2001A and Series 2001B.
Series 2004C and 2004D	One new elementary school, one new middle school, one new high school, and various additions and improvements to certain schools.
Series 2005A	One new elementary school, one replacement middle school, and various additions and improvements to certain other schools.
Series 2005B	One new elementary school and various additions and improvements to certain schools.
Series 2006A and 2006B	One new high school, two replacement elementary schools, and various additions and improvements to certain other schools.

The Certificates are not separate legal obligations of the District, but represent undivided proportionate interests in basic lease payments to be made from appropriated funds budgeted annually by the School Board for such purpose from current and other funds authorized by law and regulations of the Florida Department of Education. However, neither the District, the State of Florida, nor any political subdivisions

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

thereof, shall be obligated to pay, except from appropriated funds, any sums due under the leases from any source of taxation. The full faith and credit of the District is not pledged for payment of such sums due thereunder and such sums do not constitute an indebtedness of the District within the meaning of any constitutional or statutory provision or limitation.

The debt service requirements through maturity to the holders of the Certificates of Participation, which will be serviced by the annual lease payments, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 114,296,049.90	\$ 45,986,895.27	\$ 68,309,154.63
2008	113,425,032.15	47,626,895.27	65,798,136.88
2009	113,060,591.26	48,871,895.27	64,188,695.99
2010	113,426,051.10	51,176,895.27	62,249,155.83
2011	113,380,628.10	53,126,895.27	60,253,732.83
2012-2016	522,939,219.17	255,347,976.54	267,591,242.63
2017-2021	524,285,358.05	325,475,310.00	198,810,048.05
2022-2026	525,122,712.49	413,565,000.00	111,557,712.49
2027-2031	244,535,529.71	219,740,000.00	24,795,529.71
Total Minimum Lease Payments	2,384,471,171.93	1,460,917,762.89	923,553,409.04
Plus: Unamortized Net Premiums	35,783,100.00	35,783,100.00	
Total	<u>\$ 2,420,254,271.93</u>	<u>\$ 1,496,700,862.89</u>	<u>\$ 923,553,409.04</u>

8. INTEREST RATE SWAPS

The District is a party to two interest rate swap agreements that are not recorded in the financial statements. Following are disclosures of key aspects of these agreements:

A. Certificates of Participation, Series 2006B

Objective of the Interest Rate Swap – The District entered into a variable-to-fixed rate swap agreement for its Certificates of Participation, Series 2006B, dated June 30, 2006. The objective was to achieve lower borrowing costs as compared to issuing regular fixed rate bonds at the time, by synthetically fixing interest rates on the subject certificates.

Terms – The swap, with a notional amount of \$65,000,000 became effective on June 6, 2006. Under the terms of the swap agreement, the District will pay the counterparty a fixed annual interest rate of 4.13 percent. The District will receive from the counterparty a variable payment based on two floating structures: 1) from July 1, 2006, through June 30, 2009, the interest is based on the Bond Market Association (BMA) Municipal Swap Index; 2) from July 1, 2009, through June 30, 2031, the interest rate is based on 70 percent of the London Interbank Offer Rate (LIBOR). The swap agreement terminates on June 30, 2031.

Fair Value – The swap had a negative fair value of \$2,698,823.28, as of June 30, 2006. In a lower interest rate environment the swap's negative fair value is countered by a reduction in expected total interest payments required under the variable rate bonds, resulting in the synthetic fixed interest rate. Likewise, in a

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

higher rate environment the swap's positive fair value is countered by an increase in expected total interest payments required under the variable rates bonds, resulting in the synthetic fixed interest rate.

Swap Payments and Associated Debt - Using rates as of June 30, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Series 2006B Principal	Interest Rate		
		Interest (1)	Swaps, Net (2)	Total
2007	\$	\$ 2,093,000.00	\$ 982,150.00	\$ 3,075,150.00
2008		2,093,000.00	982,150.00	3,075,150.00
2009		2,093,000.00	982,150.00	3,075,150.00
2010		2,093,000.00	982,150.00	3,075,150.00
2011		2,093,000.00	982,150.00	3,075,150.00
2012-2016		10,465,000.00	4,910,750.00	15,375,750.00
2017-2021		10,465,000.00	4,910,750.00	15,375,750.00
2022-2026		10,465,000.00	4,910,750.00	15,375,750.00
2027-2031	65,000,000.00	7,960,645.00	3,735,569.75	76,696,214.75
Total	\$ 65,000,000.00	\$ 49,820,645.00	\$ 23,378,569.75	\$ 138,199,214.75

Notes: (1) Assumes a variable rate of 3.22%.

(2) Assumes a fixed swap rate (payment) of 4.13% and variable swap rate (receipt) of 2.62%.

Credit Risk – As of June 30, 2006, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap agreement contains a collateral agreement with the counterparty. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's (S & P) and/or Moody's Investors Service is A+/A1, respectively, or lower, and the fair value of the swap reaches certain threshold amounts, the swap requires collateralization of the fair value of the swap by the counterparty with U.S. Government Securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006				
Counterparty	Swap Notional Amount	Credit Rating		Swap Fair Value
		Moody's	S&P	
Bear Stearns & Co. Inc	\$ 65,000,000	Aaa	AAA	\$ (2,698,823)

Basis Risk – Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The swap exposes the District to basis risk since the District receives a percentage of LIBOR to offset the rate on the Auction Rate Securities (ARS) the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on the swap be less than the ARS rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Termination Risk – The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may also be terminated by the District if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's (S & P) and Moody's Investors Service. The swap may also be terminated by the counterparty if the District's credit quality rating by S & P and Moody's Investors Service fall below BBB as issued by S & P and Baa2 as issued by Moody's. If the swap is terminated, the Series 2006B certificates would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination, the swap has a negative fair value, the District would be liable to the counterparty for payment equal to the swap's fair value.

B. Certificates of Participation, Series 2004D

Objective of the Interest Rate Swap - The District entered into a variable-to-fixed rate swap agreement for its Certificates of Participation, Series 2004D, dated June 30, 2004. The objective was to lower borrowing costs as compared to issuing regular fixed rate bonds at the time, by synthetically fixing interest rates on the subject certificates.

Terms – The swap, with a notional amount of \$113,825,000, became effective on July 1, 2004. Under the terms of the swap agreement, the District will pay the counterparty a fixed annual interest rate of 3.85 percent. The District will receive from the counterparty a variable payment based on 67 percent of the LIBOR. The District will also pay the interest rate resulting from the periodic remarking of the 2004D variable rate certificates. The swap agreement terminates on July 1, 2029.

Fair Value – The swap had a negative fair value of \$101,560.33, as June 30, 2006. In a lower interest rate environment the swap's negative fair value is countered by a reduction in expected total interest payments required under the variable rate bonds, resulting in the synthetic fixed interest rate. Likewise, in a higher rate environment, the swap's positive fair value is countered by an increase in expected total interest payments required under the variable rate bonds, resulting in the synthetic fixed interest rate.

Swap Payments and Associated Debt – Using rates as of June 30, 2006, debt service requirements of the variable rate and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Fiscal Year Ending June 30	2004D Principal	Interest (1)	Swaps, Net (2)	Total
2007	\$	\$ 3,665,165.00	\$ 466,682.00	\$ 4,131,847.00
2008		3,665,165.00	466,682.50	4,131,847.50
2009		3,665,165.00	466,682.50	4,131,847.50
2010		3,665,165.00	466,682.50	4,131,847.50
2011		3,665,165.00	466,682.50	4,131,847.50
2012-2016		18,325,825.00	2,333,412.50	20,659,237.50
2017-2021	14,275,000.00	18,199,440.00	2,317,320.00	34,791,760.00
2022-2026	58,400,000.00	12,414,710.00	1,580,755.00	72,395,465.00
2027-2031	41,150,000.00	2,685,480.00	341,940.00	44,177,420.00
Total	\$ 113,825,000.00	\$ 69,951,280.00	\$ 8,906,839.50	\$ 192,683,119.50

Notes: (1) Assumes a variable rate of 3.22%.

(2) Assumes a fixed swap rate (payment) of 3.85% and variable swap rate (receipt) of 3.44%.

Credit Risk – As of June 30, 2006, The District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates changes and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap agreement contains a collateral agreement with the counterparty. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's (S & P) and Moody's Investors Service is A+/A1, respectively, or lower, and the fair value of the swap reaches certain threshold amounts, the swap requires collateralization of the fair value of the swap by the counterparty with U.S. Government Securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006

Counterparty	Swap Notional Amount	Credit Rating		Swap Fair Value
		Moody's	S&P	
		\$ 113,825,000	Aa1	

Basis Risk – Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The swap exposes the District to basis risk since the District receives a percentage of LIBOR to offset the rate on the ARS the Districts pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the ARS rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination Risk – The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may also be terminated by the District if the counterparty's credit quality rating falls below designated rating level from Standard & Poor's (S & P) and Moody's Investors Service. The swap may also be terminated by the counterparty if the District's credit quality rating by S & P and Moody's Investors Service falls below BBB as issued by S & P and Baa2 as issued by Moody's. If the swap is terminated, the Series 2004D certificates would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

time of termination, the swap has a negative fair value, the District would be liable to the counterparty for payment equal to the swap's fair value.

9. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1997A	\$ 2,580,000.00	6.0	2007
Series 1998A	780,000.00	4.5	2008
Series 1999A	3,630,000.00	4.00 - 4.75	2019
Series 2000A	70,000.00	5.000 - 5.125	2010
Series 2001A	1,970,000.00	4.10 - 5.25	2021
Series 2002A	8,265,000.00	3.0 - 5.0	2022
Series 2002B	21,115,000.00	3.375 - 5.375	2015
Series 2003A	8,935,000.00	3.0 - 5.0	2023
Series 2005A	33,135,000.00	4.0 - 5.0	2017
Series 2005B, Refunding	4,145,000.00	5.0	2020
Series 2006A	460,000.00	4.0 - 5.0	2026
District General Obligation Bonds:			
Series 1992, Capital Appreciation	10,855,668.68	6.55	2008
Series 2002, Current Interest Refunding	11,190,000.00	5.0	2007
Series 2002A, Refunding	<u>32,010,000.00</u>	3.0 - 5.0	2008
Subtotal	139,140,668.68		
Add: Unamortized Premium on Debt	<u>1,005,762.48</u>		
Total Bonds Payable	<u><u>\$ 140,146,431.16</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 requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District General Obligation Bonds**

General Obligation Bonds, Series 1992, are comprised of capital appreciation bonds (face amount of \$12,055,000), which were originally issued at a discount of \$7,667,944.40. This discount will be accreted through February 15, 2008. General Obligation Bonds, Current Interest Refunding, Series 2002 and Refunding Series 2002A, are authorized by Chapters 132 and 1011, Florida Statutes, and

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

other applicable provisions of law, and are secured by a pledge of property taxes levied pursuant to Chapter 1011, Florida Statutes.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2007	\$ 10,101,111.24	\$ 5,995,000.00	\$ 4,106,111.24
2008	9,987,155.00	6,250,000.00	3,737,155.00
2009	9,934,825.00	6,460,000.00	3,474,825.00
2010	9,944,036.25	6,745,000.00	3,199,036.25
2011	9,945,867.50	7,080,000.00	2,865,867.50
2012-2016	44,890,301.25	35,930,000.00	8,960,301.25
2017-2021	16,005,806.25	13,890,000.00	2,115,806.25
2022-2026	2,906,200.00	2,735,000.00	171,200.00
Total State School Bonds	113,715,302.49	85,085,000.00	28,630,302.49
General Obligation Bonds:			
2007	29,603,485.93	26,830,000.00	2,773,485.93
2008	28,450,814.07	27,225,668.68	1,225,145.39
Subtotal	58,054,300.00	54,055,668.68	3,998,631.32 (1)
Add: Unamortized Premium on Debt	1,005,762.48	1,005,762.48	
Total General Obligation Bonds	59,060,062.48	55,061,431.16	3,998,631.32
Total	\$ 172,775,364.97	\$140,146,431.16	\$ 32,628,933.81

Note: (1) Includes \$1,199,331.32 of unamortized discount on the Capital Appreciation Bonds.

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 and 2000A. The Refunding Bonds are being issued to advance-refund the \$4,350,000 principal amount of the District's State School Bonds, Series 1998A, that mature on or after January 1, 2009, and Series 2000A that mature on or after January 1, 2011. The District's pro rata share of net proceeds totaling \$4,554,750 (after deduction of \$15,671 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) was placed in an irrevocable trust to provide future debt service payments. As a result, State School Bonds, Series 1998A and 2000A, totaling \$4,225,000 and \$125,000, respectively, are considered to be in-substance defeased, and the liability for these bonds has been removed from the government-wide financial statements.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

The Series 2005B bonds were issued to reduce the total debt service payments over the next 15 years by approximately \$324,660 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$249,973.

In prior years, portions of the State School Bonds, Series 1997A, were refunded by the Florida Department of Education and considered defeased in substance by placing a portion of the proceeds of the new State School Bonds, Series 2005A, in an irrevocable trust to provide for future debt service payments. Accordingly, the trust account assets and liability for the in-substance defeased State School Bonds are not included in the District's financial statements. On June 30, 2006, State School Bonds, Series 1997A, totaling \$34,770,000 outstanding are considered defeased in substance.

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:					
Estimated Insurance Claims Payable	\$ 109,275,000.00	\$ 3,202,000.00	\$	\$ 112,477,000.00	\$ 34,094,000.00
Obligations Under Capital Leases	26,902,175.03	81,355,137.45	22,243,827.66	86,013,484.82	23,270,757.67
Bonds Payable	173,314,732.25	38,437,582.11 (1)	71,605,883.20	140,146,431.16	34,260,844.71
Certificates of Participation Payable	1,269,308,241.38	273,846,847.50	46,454,225.99	1,496,700,862.89	49,172,916.30
Compensated Absences Payable	141,265,221.48	84,792,650.93	76,971,897.74	149,085,974.67	9,258,940.23
Total Governmental Activities	\$ 1,720,065,370.14	\$ 481,634,217.99	\$ 217,275,834.59	\$ 1,984,423,753.54	\$ 150,057,458.91

Note: (1) Includes \$677,582.11 of current year accretion of the unamortized discount on the Capital Appreciation Bonds.

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

12. 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.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major Funds:		
General	\$ 12,852,466.85	\$
Nonmajor Governmental		12,102,776.10
Fiduciary		749,690.75
Total	<u>\$ 12,852,466.85</u>	<u>\$ 12,852,466.85</u>

The amount due to the General Fund primarily relates to funding of payroll expenditures by the General Fund on behalf of other governmental funds.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 41,003,704.84	\$ 925,394.14
Debt Service - Certificates of Participation Series	126,469,057.75	
Capital Projects:		
Local Millage Capital Improvement		148,620,946.42
Other Capital Improvements		17,047,818.19
Nonmajor Governmental	<u>125,101.00</u>	<u>1,003,704.84</u>
Total	<u>\$ 167,597,863.59</u>	<u>\$ 167,597,863.59</u>

Interfund transfers represent permanent transfers of money between funds. Funds transferred to the General Fund primarily relate to the funding of maintenance and repairs of existing schools, pursuant to Chapter 1013, Florida Statutes and after-school care. Funds transferred to the Debt Service Funds relate to the funding of principal and interest payments on the District's outstanding debt issues.

14. SCHEDULE OF STATE REVENUE SOURCES

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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 660,353,897.00
Categorical Educational Programs:	
Class Size Reduction	158,385,201.00
Transportation	32,310,231.00
Instructional Materials	24,199,990.00
Discretionary Lottery Funds	13,656,419.00
Other	30,104,866.64
Workforce Development Program	68,682,485.00
Gross Receipts Tax (Public Education Capital Outlay)	31,661,900.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	10,561,854.34
Charter School Capital Outlay	5,925,147.00
Classrooms for Kids	4,386,251.00
Adults with Disabilities	1,761,324.34
Food Service Supplement	1,474,178.00
Mobile Home License Tax	360,077.25
Miscellaneous	10,839,408.39
Total	<u><u>\$1,054,663,229.96</u></u>

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

15. 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	5.1160	\$ 683,357,607.60
Basic Discretionary Local Effort	0.5100	68,122,044.54
Supplemental Discretionary Local Effort	0.2150	28,718,116.82
<u>DEBT SERVICE FUNDS</u>		
Voted Tax:		
Interest and Sinking Funds	0.2213	29,559,624.43
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	2.0000	267,145,272.71
Total	<u><u>8.0623</u></u>	<u><u>\$ 1,076,902,666.10</u></u>

16. 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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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:

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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
Florida Retirement System, Special Risk	0.00	18.53
Teachers' Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan A	6.00	11.10
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.33
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 \$83,495,197.74, \$90,029,338.40, and \$95,533,385.82, respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan. Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 3,297 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 \$6,587,159.95.

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,

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

required supplemental information, actuarial report, and other relevant information, may be obtained from the Florida Department of Management Services, Division of Retirement.

17. OTHER POSTEMPLOYMENT BENEFITS

The District authorized various early retirement incentives that provide financial assistance to purchase health insurance and maintain life insurance to all permanent, nonbargaining unit eligible employees.

Additionally, qualified employees must meet the definition of normal retirement according to the Florida Retirement System, which includes 30 or more years of service or at age 62 with 10 or more years of service.

The District will subsidize health and life insurance premiums for those qualified employees and dependents on an annual basis. The subsidies continue for 6 or 10 years or age 65, whichever ever comes first. As of June 30, 2006, a total of 191 employees participate in the programs. Premium costs in excess of the subsidies are borne by the participants. Expenditures are recognized in the fiscal year in which they are paid and are not advance-funded on an actuarially determined basis. Total expenditures related to these health and life insurance subsidies were approximately \$897,000 and \$23,000, respectively.

18. FICA ALTERNATIVE

The District established a FICA Alternative Retirement Plan (Plan), for certain temporary employees, under provisions of the Internal Revenue Code (IRC) Section 3121(b)(7)(F). The Plan requires a mandatory pre-tax contribution of 7.5 percent in lieu of Social Security. The Plan is noncontributory for the District and eliminates the required match of Social Security contributions. Approximately 6,637 temporary employees are currently participating in the Plan. For the period ended June 30, 2006, approximately \$2.7 million was contributed by participating employees based on gross wages of \$35.5 million. The Plan is administered by a third-party administrator, with administrative fees being paid by the District.

19. CONSTRUCTION CONTRACT COMMITMENTS

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

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Project	Contract Amount	Completed to Date	Balance Committed
Pines Middle School - Partial Replacement :			
Design/Build Contractor	\$ 32,351,549.00	\$ 5,396,140.00	\$ 26,955,409.00
Orange Brook Elementary School - Replacement:			
Architect	495,050.00	285,330.00	209,720.00
Contractor	21,697,113.00	780,544.97	20,916,568.03
Glades Middle School - New :			
Architect	1,406,820.00	993,067.67	413,752.33
Contractor	39,940,671.00	15,472,226.66	24,468,444.34
Dolphin Bay Elementary School - New:			
Architect	569,680.00	350,439.01	219,240.99
Contractor	17,813,828.00	2,928,324.30	14,885,503.70
Western High School - Classroom Additions and Renovation:			
Architect	517,009.00	440,501.46	76,507.54
Contractor	15,052,543.00	3,333,502.63	11,719,040.37
South Plantation High School - New Addition and Renovation:			
Architect	890,821.00	757,640.30	133,180.70
Contractor	11,131,876.00	956,121.59	10,175,754.41
Fort Lauderdale High School - Phased Replacement:			
Architect	1,666,690.00	1,499,061.59	167,628.41
Contractor	26,158,676.39	18,790,701.33	7,367,975.06
Cooper City High School - Classroom Additions:			
Architect	64,229.00	64,229.00	
Contractor	10,044,904.00	2,483,248.26	7,561,655.74
Bethune Elementary School - Classroom Additions and Renovation:			
Architect	662,531.00	562,312.78	100,218.22
Contractor	8,298,847.00	1,604,912.50	6,693,934.50
Southwest Area Bus Complex:			
Architect	621,352.00	536,552.92	84,799.08
Contractor	7,064,143.00	3,035,448.42	4,028,694.58
Total	<u>\$ 196,448,332.39</u>	<u>\$ 60,270,305.39</u>	<u>\$ 136,178,027.00</u>

20. JOINT VENTURES

The District entered into an interlocal agreement with the City of Fort Lauderdale (City), on January 25, 1995, for the construction of a New World Aquarium and Broward Environmental Education Center. Pursuant to the terms of the agreement, the District will pay the City a rental fee of \$1 per year to use the educational component of the facility to conduct educational programs for public school students. On the date of the agreement, the total cost of the project was approximately \$9 million. The District was awarded Public Education Capital Outlay (PECO) appropriations totaling approximately \$4.5 million to cover the planning, construction, and equipping expenditures for the project. The District's financial responsibility for the completion of the project is limited to the amount of the PECO appropriations. As of June 30, 2006, the District has encumbered \$4.4 million for future expenditures relating to the project.

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

A liability in the amount of \$112,477,000 was determined to cover estimated incurred, but not reported, insurance claims payable 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 program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2004-05	\$ 105,926,000.00	\$ 31,809,000.00	\$ (28,460,000.00)	\$ 109,275,000.00
2005-06	109,275,000.00	23,327,358.47	(20,125,358.47)	112,477,000.00

Health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

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)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

	Total	Workers' Compensation	Liability Insurance	Other Services
Total Assets	<u>\$ 129,766,555.41</u>	<u>\$ 108,312,680.75</u>	<u>\$ 20,249,175.74</u>	<u>\$ 1,204,698.92</u>
Liabilities and Net Assets:				
Accounts Payable	\$ 196,436.22	\$ 171,673.04	\$ 3,175.74	\$ 21,587.44
Due to Other Agencies	639,782.40	639,782.40		
Estimated Liability for Long-Term Claims	112,477,000.00	92,231,000.00	20,246,000.00	
Net Assets:				
Invested in Capital Assets	26,897.25			26,897.25
Unrestricted Net Assets	<u>16,426,439.54</u>	<u>15,270,225.31</u>		<u>1,156,214.23</u>
Total Liabilities and Net Assets	<u>\$ 129,766,555.41</u>	<u>\$ 108,312,680.75</u>	<u>\$ 20,249,175.74</u>	<u>\$ 1,204,698.92</u>
Revenues:				
Premium Contributions	\$ 43,959,443.66	\$ 26,034,265.34	\$ 17,925,178.32	\$
Charges for Services	71,875,550.89			71,875,550.89
Charges for Sales	1,003,989.91			1,003,989.91
Interest Income	<u>3,350,694.83</u>	<u>2,792,773.13</u>	<u>531,764.27</u>	<u>26,157.43</u>
Total Revenues	120,189,679.29	28,827,038.47	18,456,942.59	72,905,698.23
Total Expenses	<u>120,450,175.14</u>	<u>28,827,038.47</u>	<u>18,456,942.59</u>	<u>73,166,194.08</u>
Change in Net Assets	<u>\$ (260,495.85)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (260,495.85)</u>

23. LITIGATION

The District is a defendant in numerous lawsuits as of June 30, 2006. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with its legal counsel, that the final settlements of these matters will not have a material adverse effect on the financial condition, changes in financial position, cash flows, or changes in fund balance of the affected funds.

24. SUBSEQUENT EVENTS

On October 30, 2006, the School Board of Broward County, Florida, issued \$85 million Tax Anticipation Notes (Notes), Series 2006, pursuant to Section 1011.13, Florida Statutes, to provide interim funds for the operating expenses of the District for the fiscal year ending June 30, 2007, and to pay expenses incurred in issuing the Notes. The Notes and the interest thereon will be special obligations of the District, payable from and secured by a pledge of the ad valorem taxes levied and collected for the benefit of the District

EXHIBIT - K (Continued)
BROWARD COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

during its current fiscal year. The Notes were issued with an interest rate of 4 percent and mature on September 28, 2007. The Notes are not subject to redemption prior to maturity.

EXHIBIT - L
BROWARD 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)
Revenues				
Intergovernmental:				
Federal Direct	\$ 1,628,328.00	\$ 11,286,070.00	\$ 1,779,999.66	\$ (9,506,070.34)
Federal Through State	7,000,000.00	7,000,000.00	10,145,284.20	3,145,284.20
State	1,031,244,371.00	1,006,768,773.00	1,004,706,605.74	(2,062,167.26)
Local	792,988,904.00	803,602,623.00	812,342,591.18	8,739,968.18
Total Revenues	1,832,861,603.00	1,828,657,466.00	1,828,974,480.78	317,014.78
Expenditures				
Current - Education:				
Instruction	1,182,777,177.00	1,135,344,919.00	1,146,668,228.90	(11,323,309.90)
Pupil Personnel Services	105,839,678.00	108,825,848.00	100,624,905.00	8,200,943.00
Instructional Media Services	32,743,735.00	31,420,189.00	29,997,415.52	1,422,773.48
Instruction and Curriculum Development Services	29,876,147.00	33,519,343.00	30,659,466.99	2,859,876.01
Instructional Staff Training Services	14,536,049.00	18,719,910.00	10,518,609.43	8,201,300.57
Instruction Related Technology	474,932.00	12,696,101.00	19,753,110.10	(7,057,009.10)
Board of Education	2,680,584.00	2,882,401.00	2,729,823.30	152,577.70
General Administration	11,054,572.00	11,063,964.00	10,767,383.18	296,580.82
School Administration	118,484,180.00	118,342,750.00	117,162,853.22	1,179,896.78
Facilities Acquisition and Construction	694,671.00	251,772.00	1,170,841.35	(919,069.35)
Fiscal Services	9,589,487.00	9,788,885.00	9,279,864.65	509,020.35
Central Services	52,840,040.00	53,248,182.00	54,483,959.64	(1,235,777.64)
Pupil Transportation Services	68,270,855.00	70,798,711.00	78,296,222.43	(7,497,511.43)
Operation of Plant	149,854,090.00	161,133,457.00	165,365,784.72	(4,232,327.72)
Maintenance of Plant	57,254,317.00	60,118,903.00	59,076,065.35	1,042,837.65
Administrative Technology Services	39,530,792.00	38,867,505.00	9,689,548.27	29,177,956.73
Community Services	24,348,258.00	19,869,510.00	16,097,778.85	3,771,731.15
Fixed Capital Outlay:				
Facilities Acquisition and Construction		17,914.00	17,914.00	
Other Capital Outlay		14,804,091.00	14,804,091.11	(0.11)
Total Expenditures	1,900,849,564.00	1,901,714,355.00	1,877,163,866.01	24,550,488.99
Deficiency of Revenues Over Expenditures	(67,987,961.00)	(73,056,889.00)	(48,189,385.23)	24,867,503.77
Other Financing Sources (Uses)				
Transfers In	50,874,695.00	50,874,695.00	41,003,704.84	(9,870,990.16)
Inception of Capital Leases	3,600,000.00	5,540,107.00	5,540,107.34	0.34
Transfers Out	(800,294.00)	(885,395.00)	(925,394.14)	(39,999.14)
Total Other Financing Sources (Uses)	53,674,401.00	55,529,407.00	45,618,418.04	(9,910,988.96)
Net Change in Fund Balance	(14,313,560.00)	(17,527,482.00)	(2,570,967.19)	14,956,514.81
Fund Balance, July 1, 2005	119,387,025.00	119,387,025.00	119,387,024.42	(0.58)
Fund Balance, June 30, 2006	\$ 105,073,465.00	\$ 101,859,543.00	\$ 116,816,057.23	\$ 14,956,514.23

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

1. EXPENDITURES OVER APPROPRIATION IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2006, expenditures exceed appropriations for the following individual fund:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
Instruction	\$ 1,135,344,919	\$ 1,146,668,229	\$ (11,323,310)
Instruction Related Technology	12,696,101	19,753,110	(7,057,009)
Facilities Acquisition and Construction	251,772	1,170,841	(919,069)
Central Services	53,248,182	54,483,960	(1,235,778)
Pupil Transportation Services	70,798,711	78,296,222	(7,497,511)
Operation of Plant	161,133,457	165,365,785	(4,232,328)

FEDERAL REPORTS AND SCHEDULES

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

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

Internal Control Over Financial Reporting

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

assertions of management in the financial statements. Reportable conditions are described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Compliance and Other Matters

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

We noted certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** 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 7, 2007



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget (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.

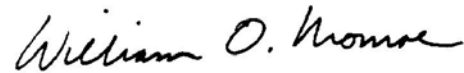
Internal Control Over Compliance

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

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

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

Respectfully submitted,



William O. Monroe, CPA
February 7, 2007

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Donation	10.550 (2)	None	\$ 5,030,436.07	\$
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	8,745,195.68	
National School Lunch Program	10.555	300	33,319,310.49	
Summer Food Service Program for Children	10.559	323	572,025.99	
Total Child Nutrition Cluster			42,636,532.16	
Nutrition Education and Training Program	10.564	341	3,422.25	
Total United States Department of Agriculture			47,670,390.48	
United States Department of the Interior:				
Direct:				
Fish, Wildlife and Plant Conservation Resource Management	15.231	N/A	1,367.12	
United States Department of Labor:				
Indirect:				
Broward Employment and Training Administration:				
WIA Youth Activities	17.259	None	1,006,437.07	
United States Environmental Protection Agency:				
Direct:				
Environmental Education Grants	66.951	N/A	4,933.00	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	156,454.00	
Federal Pell Grant Program	84.063	N/A	1,681,225.00	
Total Student Financial Assistance Cluster			1,837,679.00	
Bilingual Education Cluster:				
Bilingual Education - Comprehensive School Grants	84.290	N/A	295,633.21	
Bilingual Education - Systemwide Improvement Grants	84.291	N/A	19,868.19	
Total Bilingual Education Cluster			315,501.40	
Indian Education - Grants to Local Educational Agencies	84.060	N/A	17,173.36	
Magnet Schools Assistance	84.165	N/A	2,105,846.28	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	122,094.31	
Fund for the Improvement of Education	84.215	N/A	1,893,465.93	
Foreign Language Assistance	84.293	N/A	153,596.62	
Advanced Placement Program	84.330	N/A	355,645.74	
Transition to Teaching	84.350	N/A	312,691.89	
School Leadership	84.363	N/A	177,796.95	
Total Direct			7,291,491.48	
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	50,036,259.08	
Special Education - Preschool Grants	84.173	266, 267	1,174,842.11	
Total Special Education Cluster			51,211,101.19	
Adult Education - State Grant Program	84.002	191, 193	2,154,050.33	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	54,916,507.39	
Migrant Education - State Grant Program	84.011	217	239,688.99	
Vocational Education - Basic Grants to States	84.048	151	3,229,747.45	
Safe and Drug-Free Schools and Communities - National Programs	84.184	107	2,141.26	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	1,522,131.00	
Education for Homeless Children and Youth	84.196	127	84,966.93	
Tech-Prep Education	84.243	157	296,937.30	
Charter Schools	84.282	298	2,120,770.00	2,120,770.00
Twenty-First Century Community Learning Centers	84.287	244	3,009,670.02	
State Grants for Innovative Programs	84.298	112, 113	970,681.01	
Education Technology State Grants	84.318	121	1,320,336.40	
Reading First State Grants	84.357	211	6,776,507.16	
English Language Acquisition Grants	84.365	102	5,025,518.57	
Improving Teacher Quality State Grants	84.367	224	11,707,737.75	
Hurricane Education Recovery	84.938	None	451,200.38	
Total Indirect			145,039,693.13	2,120,770.00
Total United States Department of Education			152,331,184.61	2,120,770.00

**BROWARD COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	\$ 15,192,673.44	\$
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	<u>335,133.81</u>	
Total Direct			<u>15,527,807.25</u>	
Indirect:				
Florida Department of Children and Families: Block Grants for Prevention and Treatment of Substance Abuse	93.959	JD213, JD224	<u>594,453.12</u>	
Total United States Department of Health and Human Services			<u>16,122,260.37</u>	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	233, 234	200,980.12	
Council of the Great City Schools: AmeriCorps	94.006	None	<u>13,356.00</u>	
Total Corporation for National and Community Service			<u>214,336.12</u>	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Consumer Affairs: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	16,886,375.18	
Florida Department of Law Enforcement: Homeland Security Grant Program	97.067	None	<u>213,628.46</u>	
Total United States Department of Homeland Security			<u>17,100,003.64</u>	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	1,256,082.43	
Air Force Junior Reserve Officers Training Corps	None	N/A	181,621.26	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	131,193.79	
Navy Junior Reserve Officers Training Corps	None	N/A	<u>211,101.87</u>	
Total United States Department of Defense			<u>1,779,999.35</u>	
Total Expenditures of Federal Awards			<u>\$ 236,230,911.76</u>	<u>\$ 2,120,770.00</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.
 - (3) Head Start. Expenditures include \$10,788,057.12 for grant number/program year 04CH0314/30 and \$4,404,616.32 for grant number/program year OCCU422643.

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

SUMMARY OF AUDIT RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section __.505, the following is a summary of the results of the audit of the Broward County District School Board for the fiscal year ended June 30, 2006:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be reportable conditions, though none of the reportable conditions was considered a material weakness.
- No noncompliance was disclosed which is material to the financial statements.
- No reportable conditions in internal control over major Federal programs were disclosed.
- An unqualified opinion was issued on major program compliance.
- No audit findings on Federal programs were reported.
- Major Federal programs included: Food Donation (CFDA No. 10.550); Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553), National School Lunch Program (CFDA No. 10.555), and the Summer Food Service Program for Children (CFDA No. 10.559)]; Vocational Education – Basic Grants to States (CFDA No. 84.048); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036); and the Student Financial Assistance Cluster [Federal Supplemental Educational Opportunity Grants (CFDA No. 84.007); and the Federal Pell Grant Program (CFDA No. 84.063)].
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$3,000,000.
- The low risk entity threshold was applied.

FINDINGS AND RECOMMENDATIONS

There were no audit findings on Federal programs required to be reported under OMB *Circular A-133*, Section __.510.

BROWARD 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 2005-1	Head Start (CFDA No. 93.600) - Davis-Bacon Act	The District was not in compliance with Davis-Bacon Act requirements for construction projects in excess of \$2,000 funded with Federal dollars. The District had not established written procedures or policies to comply with the Federal Davis-Bacon Act.	Corrected.	The Contracts and Compliance Department has a standard attachment for all bids related to Davis-Bacon Act compliance. Additionally, bidding policies have been revised to require a specific project bid for all Federally funded work. Such bids will establish the prevailing wage requirements and reporting required by the contractors and the District for all projects subject to the Davis-Bacon Act provisions.

MANAGEMENT RESPONSE


THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA

 600 SOUTHEAST THIRD AVENUE • FORT LAUDERDALE, FLORIDA 33301-3125 • TEL 754-321-2600 FAX 754-321-2701

MR. JAMES NOTTER
Interim Superintendent of Schools
SCHOOL BOARD

<i>Chair</i>	BEVERLY A. GALLAGHER
<i>Vice Chair</i>	ROBIN BARTLEMAN
	MAUREEN S. DINNEN
	JENNIFER LEONARD GOTTLIEB
	PHYLLIS C. HOPE
	STEPHANIE ARMA KRAFT, ESQ
	ROBERT D. PARKS, Ed.D.
	ELEANOR SOBEL
	BENJAMIN J. WILLIAMS

March 9, 2007

 Mr. William O. Monroe, CPA
 Auditor General
 Room 412C
 G74 Claude Pepper Building
 111 West Madison Street
 Tallahassee, Florida 32399-1456

Dear Mr. Monroe:

We have received the preliminary and tentative findings and recommendations from the following operational audit of the:

Broward County District School Board
 For the Fiscal Year Ended June 30, 2006

Finding No. 1: Budget Administration
Recommendation: The Board should enhance its procedures to ensure that expenditures are limited to budgeted amounts as required by State laws, rules, and Board policy.
Management Response:

Allowing expenditures to exceed the amount budgeted by function and object was an oversight due to a change of staff within the Budget Office. Training has been conducted and a second review process has been established to prevent a re-occurrence of this incident.

It is important to note that while the individual functions and objects expenditures were more than the amount budgeted, sufficient total dollars were available to cover these expenses, as indicated in the table below (extracted from Table 3 from the Superintendent's Annual Financial Report for the Fiscal Year ended June 30, 2006).

MANAGEMENT RESPONSE (CONTINUED)

Summary Schedule of Revenues, Expenditures and Changes in Fund Balance of General Fund				
Budget and Actual (Budgetary Basis)				
(in thousands)				
	Budget		Actual	Bud to Act Variance Positive (Negative)
	Original	Final		
Expenditures:				
Instructional services	1,207,225	1,163,642	1,162,766	876
Instructional support services	186,941	206,764	191,553	15,211
Pupil transportation services	68,364	70,837	78,296	(7,459)
Operation and maintenance of plant	207,044	221,789	224,442	(2,653)
School administration	118,414	118,692	117,163	1,529
General administration	115,746	119,720	86,951	32,769
Capital outlay	1,166	270	15,993	(15,723)
Total expenditures	1,904,900	1,901,714	1,877,164	24,550
Other financing uses	800	885	925	(40)
Total charges against appropriations	1,905,700	1,902,599	1,878,089	24,510

The negative variances in the functional areas for Pupil Transportation services (\$7.5 million), Operation and maintenance of plant (\$2.7 million), and Capital outlay (\$15.7 million) would have been covered by the positive variance in General administration (\$32.8 million).

Special Revenue funds are controlled by the Grant Managers. With the implementation of the new financial system, functions and non-salary objects cannot go into a deficit. We have notified Grant Managers that all salary and fringe benefit objects must have a positive balance. The Budget Office will immediately begin monitoring the grants for compliance.

Finding No. 2: Tangible Personal Property

Recommendation: To improve accountability and safeguarding of the District's assets, the District should strengthen procedures to provide for complete annual physical inventories of all tangible personal property, prompt tagging of items upon receipt, timely updating of all necessary fields in the individual property records for acquisitions and dispositions, and monitoring of surplus property.

Management Response:

We agree. The goal to improve accountability and safeguard the District's assets through physical inventories of all tangible personal property, prompt tagging of items upon receipt, timely updating of all necessary fields in the property records for new purchases, disposition and monitoring surplus property requires the efforts of all District staff.

Below are the Office of the Chief Auditor's (OCA) responses to the deficiencies noted in the report:

The OCA performs the physical inventory of each location's tangible personal property in addition to reconciling physical counts to property records, following-up on unlocated items found after physical inventories and tagging property items. A written audit report is prepared and submitted to the Audit Committee for transmittal to the Board and Superintendent. The audit report provides the results of each Property and Inventory audit. In addition, training is provided on the policies and the procedures for managing property at each District location.

MANAGEMENT RESPONSE (CONTINUED)

The OCA's Property Audit Section would require additional staff to be able to perform a physical inventory of every District school and Division on an annual basis. Currently, the Property and Inventory Auditors are striving to complete as many audits as possible during each fiscal year.

The OCA is working with District staff to ensure that accurate property records are maintained. Currently, barcodes are placed on all tangible personal property; however, property items will not be tagged (bar-coded) by the OCA unless the serial number entered on-line matches the serial number on the property inventory to ensure the tag is placed on the correct item.

Prior to performing a District location's physical inventory audit, the OCA provides each location with a schedule of all property items listed on their Property and Inventory report that do not have a serial number. Subsequently, each location must pull paid invoices and obtain the items' serial numbers in order to correct the property records. In an effort to correct this issue, the new financial management system will be programmed so that the "receipt of goods" screen will require the inclusion of a serial number before the transaction can be completed. As noted, over 6,350 new property items were purchased without recording the property items' serial numbers.

The OCA will continue to train District staff on the proper procedures for disposing of surplus property and obtaining the authorized approvals for documenting items removed from the property records. Additionally, the manner of documenting asset disposition (sold, donated, cannibalized, scrapped, etc.) will be reviewed in order to ensure lawful disposal.

Finding No. 3: Internal Audit Function

Recommendation: To further enhance the independence of the internal audit function, and avoid placing the OCA in a position where its independence and objectivity may be compromised, in fact or appearance, the Board policies should be revised to allow the OCA to independently report instances of suspected fraud, abuse, and improper or illegal acts and expenditures to the appropriate law enforcement agencies without the required approval by the Superintendent.

Management Response:

We agree. The Government Auditing Standards (GAS), Section 3.03 requires the Internal Auditor to be free, both in fact and appearance from personal, external and organizational impairments to independence. In addition, GAS requires the Internal Auditor to address the effect that fraud or illegal acts may have on the audit report and to determine that Audit Committee and others with equivalent authority and responsibility are adequately informed about fraud or illegal acts. Currently, the notification and approval by the Superintendent to formally begin an investigation for possible fraud abuse or improper illegal acts occurs only after an audit has substantiated and documented cases of suspected fraud, abuse and improper or illegal acts and expenditures. Also, the Office of the Chief Auditor (OCA) works closely with the District's Professional Standards and Special Investigative Unit (SIU) when instances of fraud, abuse or improper illegal acts and expenditures have occurred.

In accordance with School Board Policy 1002.1, the Office of the Chief Auditor will present all fraud cases to the appropriate law enforcement agencies for possible criminal prosecution. The current reporting structure provides the proper check and balance needed to operate effectively. However, the Internal Audit function will be modified as needed in order to maintain independence and objectivity regarding all aspects of the audit process.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 4: Land Acquisitions

Recommendation: The District should enhance procedures to maintain documentation relating to pricing notification to the Board and signed negotiating parameters forms used to evidence the land acquisition process.

Management Response:

- a. One of the parcels was purchased for \$25,000,000 which was 12.5 percent above the average appraisal of \$22,212,700.
 1. The intent of the Negotiation Parameters Committee is to discuss purchase conditions and appraisal findings relative to establishing a guideline or parameter for negotiating the purchase price of a property.
 2. In consideration that at times it is difficult to schedule a meeting at a moment's notice, and in negotiation of a real estate transaction, time is of the essence. On November 1, 2004, the Negotiation Parameters Committee discussed guidelines to be used for property acquisition. The Committee agreed the Initial offer should either be 10% below the highest appraisal price or the average appraisal price, whichever is greater. The Second offer could be up to the highest appraisal value and the Final offer up to 15% above the highest appraisal value. The Committee members requested that they be given advance email notification of the proposed final offer, at least 48 hours in advance. Counter offers in excess of 15% above the highest appraisal value must be addressed by the NPC at a scheduled meeting.
 3. The sellers purchase price was firm and the average value of the two appraisals was \$22,212,700. The purchase price was within the guidelines established by the NPC on November 1, 2004.
 4. A memo, dated January 27, 2006 was sent to all NPC members giving notice of the purchase price and that it fell within the guidelines established. A NPC form was not prepared and circulated for signature by the Committee members.
 5. The Agenda Request Form presented to the February 7, 2006 School Board failed to indicate in the Requested Action section that the purchase price exceeded the average appraisal value and required approval by extraordinary vote.

The following is the Real Estate and Environmental Planning Department's response to the Audit Recommendation:

1. The department agrees with the recommendation to enhance the procedures to maintain the documentation relating to pricing notification to the Board and signed negotiation parameter committee forms used to evidence the land acquisition process.
2. Actual and Proposed Corrective Action Plan.
 - a. An Agenda Request Form (ARF) Guideline for Purchase Contracts was prepared on July 19, 2006 addressing minimum information to be included in the Agenda Request Form for all Land Purchases. Facility Management Operating Procedure 1-1, New Site Selection Procedure, will be modified to include this guideline for Land Purchase Contracts.
 - b. Prepare and circulate a Negotiation Parameters Committee (NPC) Form for signature of committee members for all transactions where the purchase price exceeds the average appraisal value.

The Director of Real Estate and Environmental Planning is responsible for the Corrective Action Plan implementation.

3. Timeline for Implementation. Thirty days.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 5: Monitoring of Charter Schools

Recommendation: The District should ensure that its charter schools provide for and maintain the insurance coverages required in the charter school agreements; seek clarification regarding the adequacy of coverage when multiple charter schools use the same policy; and provide for consistent language between Board Policy and standard charter school agreement.

Management Response:

- *Lapse in Coverage for several Charter Schools*

It is the practice of the Risk Management Department to send a "Non-Compliance Letter" to the Charter School's Office when a charter school is not in compliance with the insurance requirements of the contract.

Risk Management is aware several charter schools were identified as having a lapse in coverage. Risk Management staff has met with the Coordinator of Charter Schools to discuss resolution to this issue. One recommendation is if after 30 days of non-compliance, staff will recommend to The School Board termination of the charter school agreement and closure of the school. Furthermore, a proposed amendment to the charter school agreement will be to have any charter school failing to maintain insurance coverage to secure coverage retro-active to the policy expiration date.

Review whether charter schools with multiple locations have required levels of coverage under the umbrella policy, or if each location needs a separate policy to maintain the required level of coverage (Charter School USA was mentioned).

Please note some charter schools managed by the same charter school organization provided one insurance policy as evidence of coverage for two to four different charter schools. This is a classic example of several charter schools which are housed in one building along with sharing a pool of employees. Under these circumstances, the Risk Management Department has accepted one property policy as well as one workers' compensation policy. Risk Management and the District insurance broker will review charter schools with this type of structure to determine if higher insurance limits should be required.

- *Charter School cancellation agreement of 60 days.*

The charter school agreement has a cancellation provision of 60 days. Florida state law defines a cancellation period of 30 days with 45 days notice of non-renewal. Under special circumstances the 30 day cancellation period could be amended. Several attempts to amend the cancellation period of 60 days have been denied by several insurance carriers. Risk Management will amend the cancellation provision in the charter school agreement from 60 days to 30 days.

- *Inadequate Insurance Coverage per Charter School Agreement.*

Currently all charter schools are in compliance with insurance requirements as per the charter school agreement. During the audit it was determined that one charter school failed to provide adequate amounts of insurance. This charter school is no longer in operation.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 6: Annual Facility Inspections

Recommendation: The District should ensure that deficiencies and facility maintenance needs noted in the annual inspection reports are timely corrected.

Management Response:

Administrative Response: Agree

Responsible Staff: Safety Director and the Executive Director of Physical Plant Operations

Explanation and Proposed Corrective Action Plan:

Safety work orders are categorized in three areas; S1, S2 and S3. Each is listed and detailed below.

Safety Inspectors request S1 and S2 work orders by phone call to COMPASS.

These are not listed on the Safety Inspection Report due to immediate action required.

S1 - immediate attention (worked within 24 hours).

S2 - needs attention (worked within 24-48 hours).

S3 work orders are generated through the Safety Department's Electronic Inspection Program.

S3 - safety work orders

All violations listed on the Comprehensive Safety Inspection Report are entered as Priority S-3.

Safety Inspectors inspect all District sites a minimum of twice a year. Superintendent schools are inspected three times a year.

During the inspections, the inspector notes any violations found throughout the facility. After returning to the office, a report is entered into the Inspection Program.

Violations entered are tagged three different ways; "M", "C" and "O".

M: Violations that are tagged as "M" for Maintenance are directed to COMPASS to assign work orders. If there are several rooms or areas that have the same violation, all of those areas may be listed on one work order for that violation. COMPASS then sends the work orders over to Physical Plant Operations. COMPASS also enters all the work orders next to the violations they are assigned to on the inspection report.

C: Violations that are tagged as "C" for Capital are directed to the Facilities Department to assign Project Numbers. These projects require not only a large amount of funding, but may also require additional time due to design, permitting, or construction process delays.

O: These violations are to be corrected by on-site personnel.

The inspector brings previous inspection report for a facility each time an inspection site visit is made. During the inspection, the inspector checks to see if violations have been corrected. If the violation has been corrected, it is marked with a "C". If the violation has the same status as in the previous inspection, the item remains unmarked. Every subsequent year that the item remains unmarked, the "times cited" digit increases by one. This indicates the number of years that the violation has remained unchanged.

There may be cases where a violation was cited, fixed, but then, before the inspector could come out, be defective again. This would cause the inspector to believe that the violation had the same status as during the last inspection. The violation status would remain unchanged unless someone communicated to the inspector that the violation had been repaired, but then broken again. A common example would be an illuminated exit sign that was out, fixed, and then out again at the second inspection.

Re-Issue of Work Orders: If the status of a violation remains unchanged for 2 years, and the inspector finds that either the work order has been closed, or there is no work order listing the item, the inspector requests COMPASS to re-issue another work order. COMPASS then issues a new work order for the violation.

MANAGEMENT RESPONSE (CONTINUED)

The Safety Department, and Physical Plant Operations will review the sample work orders cited by the Auditor General's Office (all should be S3) to determine the reason for the delay.

A plan, that addresses each reason for the delay, will be implemented to expedite the processing of outstanding past due S3 work orders. Work orders will be completed in order of priority as resources permit.

Timeline: Implementation will begin for the 2007-2008 school year.

Finding No. 7: Relocatable Buildings

Recommendation: The District should provide for timely inspections of its relocatable buildings to address all of the components required by the *State Requirements for Educational Facilities – 1999*.

Management Response:

Administrative Response: Agree

Responsible Staff: Chief Building Official

Explanation and Proposed Corrective Action:

The Building Department is responsible for structural inspections of all portable buildings. The BCPS Building Department reviews, permits and provides inspections for all District relocatable moves per Florida Building Code 423.28.2.6.4 Foundation. New construction standards apply when moved. When relocatables are moved to a new location on a new site or on the same campus, new foundations shall comply with new construction requirements of the code, and ASCE 7. Foundations and tie down or anchoring system plans shall be updated to meet wind uplift and overturn conditions, and soil conditions.

All relocatables that have been moved are also inspected to verify compliance with Florida Building Code 423.28.2.4 Accessibility. Relocatables shall comply with the Americans with Disabilities Act as modified by Chapter 553, Florida Statutes in the Florida Building Code, Building as Chapter 11. Moved relocatables are also inspected and permitted for Florida Building Code 423.28.2.5.2 Separation of units & Florida Building Code 423.28.2.5.3 Minimum setbacks.

In 2001 the District conducted a portable survey to identify items/issues to be corrected in each relocatable in the District. Consequently, each time a unit is moved, the items/issues are corrected under a Capital Program for Portable Upgrades, and the unit is inspected for fire safety, casualty safety, sanitation and structural integrity prior to occupancy. Urgent issues are corrected as needed. Although not responsible for structural inspections, the Safety Department performs annual inspections on all relocatables for fire safety, casualty and sanitation as required by SREF. However, if, during their inspections, they identify or receive a complaint on structural integrity, they issue a Safety work order and notify the Building Department. Additionally, if safety inspectors determine that there is imminent danger to life, they close the unit down and notify the appropriate administrators. Working with data acquired and maintained by the Facility Management, Planning and Site Acquisitions Department, the BCPS Building Department will strengthen its program to ensure that all relocatables used for classrooms comply with the standards for "satisfactory" buildings. The Building Department will revise the portable inspection process to reflect permitting, tracking, annual inspections and document management per individual unit, versus listing units under the school site the unit is located on. Annual inspections of the District's approximate 2,000 portable units will begin for the 2007-2008 school year, and will progress as available resources permit. These inspections will take approximately 4,000 work hours or 500 workdays to complete, at an average 2 hours per unit, including paperwork.

Timeline: Implement for the 2007-2008 school year.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 8: Fingerprinting Requirements

Recommendation: The District should follow the FDOE guidance provided regarding the background screenings for employees who are renewing their teaching certificate.

Management Response:

The District currently has 40,000 employees and the District did consider the Department of Education's recommendation to require instructional personnel renewing their certificates to be fingerprinted at that time. Based on the size of the District and the fact that we would only be capturing teachers who have a five-year professional certificate and not teachers holding a temporary state certificate, those with initial state certificates, and a myriad of county issued certificates the Senior Management of the District chose an alternate plan.

Currently we have divided the District into four area zones and have a traveling team visiting one area each year. We have finished one area in 2005-06 and are halfway through another area in 2006-07. By 2009 all District sites will have been visited. It is our feeling that this procedure allows us to meet the requirement of Sections 1012.56(9) and 1012.465, Florida Statutes (2004).

Finding No. 9: Sick Leave Banks

Recommendation: The District should follow its sick leave bank guidelines to ensure the sick leave banks remain properly funded.

Management Response:

The District did not follow its sick leave bank guidelines regarding replenishment of the banks, resulting in three of the five sick leave banks having deficit balances at June 30, 2006.

The District maintenance of sick leave banks has not been routinely updated or monitored.

- The process of Open Enrollment of asking prospective members to participate varies by bargaining unit.
- The time at which the days are taken is not uniform for all bargaining units.
- According to the various Agreements, the dollar amount varies in terms of when to replenish the account.
- The Administrators/Confidential (meet and confer) members submit their requests to join in July and must replenish when the dollar value drops below \$5,000.
- The Maintenance, Facilities, Security, Transportation (FOPE) bargaining units turn in their requests to join in December and must replenish when the dollar value drops below \$5,000.
- The Secretarial/Clerical (FOPE) bargaining unit turns in their requests to join in April and must replenish when the dollar value drops below \$4,000.
- The Teachers bargaining unit (BTU) turns in their requests to join in October and must replenish when the dollar value drops below \$17,000.
- The Paraprofessional bargaining unit (PPA) turns in their requests to join in February and must replenish when the dollar value drops below \$4,000.

The District has not monitored the sick leave accounts on a consistent basis.

MANAGEMENT RESPONSE (CONTINUED)

<u>CORRECTIVE ACTION</u>	<u>RESPONSIBLE PARTY</u>	<u>DATE</u>	<u>STATUS</u>
The Director of Employee Relations shall be designated to provide regular oversight for the Employee Sick Leave Banks on a consistent basis.	Associate Superintendent, Human Resources	2/17/2007	Completed
Individual sick leave account levels will be monitored to avoid bank depletion levels falling below the guidelines.	Director of Employee Relations	Monthly	In process
The Director of Employee Relations shall provide to the Associate Superintendent, Human Resources, a quarterly status report of each Sick Leave Bank.	Director of Employee Relations	Within ten (10) work days following the end of each Sept., Dec., March and June	In process
The Bargaining Agents for each bank will be informed of the Sick Leave Bank Account membership, fund balances of accrual and depletion levels, and amounts distributed to members.	Director of Employee Relations	Annually (Prior to and following the open enrollment periods)	In process
The Bargaining Agent for each bank with a deficit balance shall be informed of the need to replenish it.	Associate Superintendent, Human Resources	2/24/2007	Completed
All members of the sick leave banks with a deficit balance shall have another day of sick leave subtracted from their personal accumulated total and transferred to the appropriate sick leave bank to replenish to the guideline standard.	Director of Employee Relations/Payroll	3/31/2007	In process
Attempts shall be made through bargaining with the appropriate bargaining agents to align open enrollment periods and fund replenishment levels to ensure optimal administration of the Sick Leave Banks.	Director of Employee Relations	6/30/2007	In process
The recommendation has been made to the ERP/BRITE Project to include the Sick Leave Banks within their automated processes to ensure Sick Leave Bank integrity, efficiency, and consistent monitoring.	Associate Superintendent, Human Resources	Fall 2007	Completed

Having a designated administrator consistently monitoring the Sick Leave Bank Levels, ensuring compliance with the Sick Leave Bank Guidelines, and assessing additional sick leave days to replenish the deficit balances of the three Sick Leave Banks, the finding will be corrected.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 10: Salary Overpayments

Recommendation: The District should strengthen procedures in the payroll processing function to reduce the risk of future salary overpayments and continue collection efforts for existing salary overpayments.

Management Response:

As of June 30, 2006, cumulative payroll exceptions analyzed and determined to be salary overpayments totaled \$2,289,665, of which \$1,849,775 has been collected and \$439,890 remains uncollected. The overpayments were the result of errors associated with employee terminations, leave of absence, change in pay and addition/deletion of hours.

- Errors associated with employee terminations, leaves of absence, changes in pay and addition/deletion of hours resulted in payroll exceptions leading to salary overpayments.
- Uncollected overpayment remaining balance for the 2005-2006 FY is \$439,890.
- Existing bargaining agreements play a significant role in the process of collecting overpayments.
- The timely processing of PAFs and hours by the locations' PAF Processors and Payroll Contacts are not consistently and effectively applied. If these procedures were effectively implemented, the risk of overpayments would be reduced.

Response from Payroll/Accounts Payable Department

As outlined in the finding, most of the uncollected portion of the overpayment is attributable to terminated employees whose personnel action to terminate was processed late and the current equalized pay concept. The following corrective actions will be taken to reduce overpayments:

CORRECTIVE ACTION	Estimated Date of Completion
The Payroll department will work with Principals and Department Heads to identify and improve the late processing of time entry and Personnel Action Forms that create overpayment.	12/31/2007
Payroll Processors will provide further training assistance to new Payroll Contacts and problematic locations.	End of FY 2007-2008
The Finance and Human Resources Divisions are negotiating with some of the unions to modify or remove old contract provisions that are contributing to overpayments.	End of FY 2007-2008
SBBC is currently working on redesigning/reconfiguring the SAP payroll system to improve flawed business processes that contribute to the generation of overpayments.	End of FY 2007-2008
The Payroll/Accounts Payable department will continue to work with the School Board Attorney's office and the Area Superintendents to recover the outstanding overpayments.	Implemented

MANAGEMENT RESPONSE (CONTINUED)

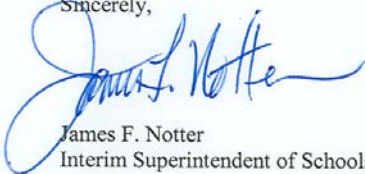
Finding No. 11: Overtime Payment Monitoring**Recommendation: The District should implement procedures to strengthen controls over monitoring overtime payments.****Management Response:**

Overtime Payment Monitoring. We are reviewing District and school payroll procedures and will amend Policy 4300.1 to include a monthly review of payrolls by Senior Managers and Department Heads to ensure policy and guidelines are followed.

With the implementation of the new accounting system, all policies and procedures relating to payroll will be revised and placed into the Standard Practice Bulletin.

If you have any questions or concerns, please contact Patrick Reilly, Chief Auditor, at (754) 321-8300.

Sincerely,



James F. Notter
Interim Superintendent of Schools

JFN/PR:pm