



AUDITOR GENERAL
DAVID W. MARTIN, CPA



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

For the Fiscal Year Ended June 30, 2007

Osceola County District School Board members and the Superintendent of Schools who served during the 2006-07 fiscal year are shown in the following tabulation:

	<i>District No.</i>
<i>Jay Wheeler</i>	<i>1</i>
<i>Thomas E. Chalifoux, Jr., Chairman</i>	<i>2</i>
<i>David E. Stone</i>	<i>3</i>
<i>Tom Græer</i>	<i>4</i>
<i>John McKay, Vice-Chairman</i>	<i>5</i>
 <i>Blaine A. Muse, Superintendent</i>	

AUDITOR GENERAL

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

OSCEOLA 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	25
FEDERAL REPORTS AND SCHEDULES	66
MANAGEMENT RESPONSE SECTION	77

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Osceola County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2007, 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.

Finding No. 1: Inventory Controls

Improvements were needed in order to strengthen controls over the District's inventories and provide for enhanced accountability and safeguarding of related assets.

Finding No. 2: Investments

Improvements could be made in control procedures to ensure that investments of unspent bond and certificates of participation proceeds are appropriately secured.

Finding No. 3: Terminal Leave Payments

District procedures could be enhanced to ensure that the appropriate terminal leave payments are made to employees.

Finding No. 4: Overtime Controls

Improvements were needed in procedures to demonstrate compliance with the Board policy related to overtime and to control overtime costs.

Finding No. 5: Annual Facility Safety Inspections

Annual safety inspection reports noted numerous deficiencies which remained uncorrected from previous years, such as fire detectors not installed, rooms not accessible to those with disabilities, and other deficiencies.

Finding No. 6: Third-Party Administrators

The contracted provider of the District's flexible spending plans did not hold a valid certificate of authority from the Florida Office of Insurance Regulation. Improvements were needed in monitoring claims paid for the flexible spending plans.

Finding No. 7: Security Awareness Training

The District did not develop a written security awareness training program or perform ongoing information technology security awareness training for all who use the District's computer system.

Finding No. 8: Formal Security Program

The District did not develop formal written policies and procedures related to the District's information technology resources.

Finding No. 9: Network Penetration Testing

Improvements were needed to ensure that penetration and vulnerability testing is performed on a regular basis.

Finding No. 10: Security Administrator Function

The District has not formally established the duties and responsibilities of the security administrator position.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal program tested. However, we did note an internal control and compliance finding that is summarized below.

Federal Awards Finding No. 1: Suspension and Debarment

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

Audit Objectives and Scope

Our audit objectives were to determine whether the Osceola 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 the previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2007. 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 coordinated by Mary W. Lynn, CPA, and supervised by David A. Blanton, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, via e-mail at gregcenters@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 <http://www.myflorida.com/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

Significant Deficiencies

Finding No. 1: Inventory Controls

At June 30, 2007, inventories reported in the General Fund for maintenance, transportation, and the central warehouse for school supplies totaled approximately \$1.96 million. Improvements in internal controls at these locations are needed as disclosed by the following deficiencies:

- The physical inventory count of transportation department items was conducted in June 2007, and performed by the parts clerks whose duties included, but were not limited to, issuing parts and supplies while maintaining the perpetual inventory records. The software program used to account for transportation inventory allows for adjustments to be made by any employee without specific authorization and the system does not record the person making the adjustment or an explanation for the adjustment. We also noted that the same persons with access to the inventory had authorization to make adjustments to the inventory records.
- During our test counts of transportation inventory, we noted a shortage of 27 batteries missing from the parts department and that the final inventory reported was adjusted with no documentation available indicating the reason for the shortage. In response to our inquiry, District personnel indicated that the batteries were used for emergency repair services for other districts' busses participating in Disney's Grad Night; however, although requested, documentation was not provided to evidence that the batteries were used for appropriate purposes or that the District was reimbursed from the other participating districts for these services.
- The transportation department provides fuel for District vehicles, and accounts for fuel inventory issuances using a key computer system. Each District vehicle is assigned a key and employees who possess a key must enter a personal identification number (PIN) in the computer system. Our review of controls over fuel inventory disclosed the following deficiencies:
 - The key computer system provides for a master key which can be used in emergencies to manually operate the system, and when a master key is used, no transactions are recorded in the system. However, transportation employees, responsible for fuel inventory, had access to a master key which would provide the opportunity for fuel issuances without accountability to fix responsibility for the issuances.
 - Although the District had established the key computer system to account for fuel inventory, District records were not maintained to evidence the fuel inventory amount recorded in the system was periodically reconciled to the inventory on hand. Additionally, records were not maintained to evidence the reasonableness of fuel issuances to vehicle usage records, such as odometer readings or other records, to further ensure the propriety of the fuel issuances for authorized purposes. Additionally, District records did not evidence appropriate supervisory review and approval of fuel issuances for the 2006-07 fiscal year.
 - Documentation was not maintained to demonstrate the date that an employee's PIN was removed from the key computer system used to access District fuel inventory. Without such documentation, the District may be unable to determine when an employee's inventory access was modified and the District's ability to pinpoint accountability for a breach of security, should it occur, may be hindered.
- The District performed the annual count of its maintenance inventory in June 2007, to establish the value of the maintenance parts and supplies. Our review disclosed that the District relies on the same persons with authorized access to the inventories to perform the year-end counts.

As a result of the control deficiencies noted above, there is an increased risk that errors or fraud, should they occur, may not be timely detected.

Recommendation: To strengthen internal control over the District's inventories, physical inventory counts should be performed by someone other than the employees responsible for recorded accountability and all adjustments made to the District's inventory systems should be reviewed and approved by supervisory personnel independent of the transaction process. In addition, controls over fuel inventory could be enhanced through appropriate monitoring and supervisory review.

Finding No. 2: Investments

Section 1010.53(2)(a), Florida Statutes, provides that funds derived from the proceeds of bond issues that are not immediately needed may be placed in the investments authorized by Section 218.415(16), Florida Statutes. Section 218.415(16), Florida Statutes, limits authorized investments to intergovernmental investment pools; registered money market funds; interest-bearing time deposits or savings accounts in qualified public depositories; direct obligations of the United States Treasury; Federal agencies and instrumentalities; certain registered securities provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and to other investments authorized by law or resolution. Additionally, District Policy No. 7.35 (P), provides that all securities must be held in an account separate and apart from the assets of a financial institution. Further, while the District's policy provides that investments relating to the issuance of debt would be subject to the other policies or indentures in effect for such investments, the stated purpose of the District's policy is to ensure the prudent management of public funds.

District investments totaled \$257,794,668.79 as of June 30, 2007. Of this amount, the District had investments, totaling \$50,539,563.66, of Sales Tax Revenue Bonds, Series 2007A, proceeds pursuant to a Guaranteed Investment Contract (GIC) with a financial institution (provider). Although the GIC provided for the collateralization of the agreement in the event that the provider's ratings were downgraded to specified levels and the District made investments with the provider based on guidance by the District's financial advisor, our review disclosed significant control deficiencies relating to this arrangement, as discussed below:

- Section 7.(h) of the GIC provided that it shall not be necessary for the provider to segregate or otherwise separately identify or account for the funds or the earnings, and permitted the provider to commingle any funds and earnings with the general assets of the provider. Additionally, the contract stated that the provider was authorized to use and invest such funds in its sole discretion and that the provider could use, hold, or invest the funds in any manner and with or to any person or entity it deems appropriate. Since the investments of the Sales Tax Revenue bond proceeds were made at the discretion of the provider, and District records did not evidence the types of investment instruments, the District's ability to appropriately provide for and monitor the safety of the invested funds is limited.
- The District entered into the contract with the acknowledgement that it will be an unsecured general creditor of the provider and that it will not be entitled to the protections afforded by the Securities

Investor Protection Act of 1970, as amended, or to the coverage provided by any insurance policy maintained by the provider.

Additionally, at June 30, 2007, the District had \$7,827,115.62 of Certificates of Participation (COPs), Series 2004A, proceeds invested pursuant to a GIC. The investment agreement associated with the 2004 COPs provided for the establishment of a separate account fund to be maintained for investment assets and provided for investment guidelines describing authorized types of investments. However, the investment agreement did not require the provider to identify the underlying investments and provided that such assets are owned absolutely and exclusively by the provider. In addition, our review of the investment guidelines disclosed that the provider was authorized to invest funds in securities not authorized by the District's investment policy including the authority to invest up to 15 percent of investments in commercial mortgage loans and/or collateralized mortgage-backed securities. Further, credit ratings were authorized below that established by Board policy. Although these investments were authorized pursuant to the Final Offering Statement associated with the COPs, these funds held by the provider were also uncollateralized and uninsured.

When investments are not segregated and identified as assets of the District or adequately secured to protect the District's investment value, there is an increased risk that the assets may be subject to loss.

Recommendation: The District should enhance procedures to ensure investments of unspent bond and COPs proceeds are appropriately secured.

Additional Matters

Finding No. 3: Terminal Leave Payments

Improvements were needed in the District's terminal leave payment procedures, as follows:

- **Sick Leave.** Section 1012.61(2)(a)5., Florida Statutes, governs terminal pay for accumulated sick leave to any full-time employee of the District other than instructional staff or educational support employees. This statute provides that, for purposes of computing the amount of terminal pay for accumulated sick leave, sick leave accrued after June 30, 2004, shall be compensated at no more than the daily rate of pay applicable at the time the sick leave was earned. Similarly, the District's Policy Manual, Chapter 6.912, *Terminal Sick Leave Pay*, provides that sick leave pay for full-time employees that are not classified as instructional staff or educational support employees prior to July 1, 2004, shall be paid at the daily base rate of pay at the time of retirement and that leave accrued after June 30, 2004, shall be paid at the base rate of pay at the time it was earned. Further, the District maintains sick leave records by fiscal year on the last in, first out method so that the most recently earned leave is used first.

During the 2006-07 fiscal year, sick leave payments totaling \$479,461 were paid to 78 full-time employees that were not classified as instructional staff or educational support employees. Our audit tests of the accumulated leave paid disclosed the following:

- The District had not developed or provided appropriate written guidelines to District staff responsible for performing the terminal leave payment calculations. Written procedures can establish effective internal controls, be useful to personnel in the performance of their duties, and provide reasonable assurance that leave payment calculations are properly performed as required.
- The terminal sick leave payment made to one employee for his June 30, 2007, accumulated sick leave balance was based on total accumulated hours multiplied by his rate of pay at retirement

rather than his rate of pay at the daily rate of pay applicable at the time leave was earned after June 30, 2004, contrary to District policy. In addition, our tests disclosed that, for this same individual, the employee's daily base rate of pay was overstated because a \$1,000 bonus was improperly included in the rate used. As a result of these errors, the District made overpayments to this individual totaling \$1,270.12. District staff further advised us that the terminal leave payment calculations for all of the 78 full-time employees did not include consideration of the rate of pay during time periods that the leave was earned and that the payments to the employees were based on the rate of pay at retirement.

- **Annual Leave.** Section 1012.65, Florida Statutes, states that a district school board may establish policies to provide for a lump-sum payment for accrued vacation leave to an employee upon termination of employment or upon retirement. Effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. This limit does not impair any contractual agreement established before July 1, 2001, and for any unused vacation leave accumulated before July 1, 2001, terminal payment shall be made pursuant to the district school board's policies, contracts, or rules that were in effect on June 30, 2001. Our audit tests disclosed two instances in which terminal payments for vacation leave exceeded 60 days of actual payment, resulting in overpayments totaling \$2,149.15. A review of unused vacation leave accumulated before July 1, 2001, for these two individuals and a review of school board policies, contracts, and rules in effect on June 30, 2001, disclosed no instances that would allow for terminal payments for vacation leave in excess of 60 days for these individuals. District staff indicated that the overpayments resulted because staff performing the calculations were unaware of the statutory restriction, and there was no supervisory review of the calculations.
- **Terminal Leave Approvals.** Although the District had developed a form for leave calculations that provided for appropriate supervisory approval, our review disclosed that this approval was not completed, of record, to evidence an appropriate level of review. Such review procedures are necessary to minimize errors and to promptly detect overpayments.

Recommendation: The District should strengthen procedures to ensure that clear guidelines for calculating leave are provided to applicable staff and that supervisory review and approval of terminal leave pay calculations are performed prior to payment. Additionally, the District should recover the overpayments, totaling \$3,419.27, identified by our tests and review all sick leave payments made to the remaining full-time employees that are not classified as instructional staff or educational support as well as all annual leave payments paid to persons with leave in excess of 60 days and attempt to recover any additional terminal leave overpayments that may have occurred.

Finding No. 4: Overtime Controls

The District's Policy Manual, Chapter 6.91, *Salary Schedules*, provides that any employee subject to the overtime provisions of the Fair Labor Standards Act who is required to work in excess of forty (40) hours in any work week, shall be compensated for the hours in excess of forty (40) at the rate of one and one-half times the regular rate of pay for the service performed or shall be provided compensatory time. Further, Chapter 7.51, *Payroll Procedures*, provides that no payments shall be made for overtime services without prior approval of the Superintendent or designee.

Our review of the District's accounting records disclosed that 149 employees were each paid in excess of \$12,000 in overtime during the 2006-07 fiscal year. We reviewed payroll records for 10 employees who were each paid at least 200 extra or overtime hours during the 2006-07 fiscal year, and noted five employees whose extra and overtime wages exceeded 40 percent of their regular wages, as summarized in the following table prepared and provided to us by District staff:

Position/Department	Extra & Overtime Hours	Extra & Overtime Wages	Regular Wages	Total Wages	Overtime as a Percent of Regular Wages
Custodian – District School	1,164	\$18,866	\$22,446	\$41,312	84%
Mechanic – Maintenance	830	\$27,235	\$41,043	\$68,278	66%
Parts Clerk – Transportation	209	\$19,572	\$34,348	\$53,920	57%
Vehicle Service Supervisor – Transportation	1,068	\$35,943	\$67,656	\$103,599	53%
Mason – Maintenance	567	\$16,026	\$39,495	\$55,521	41%

While the overtime hours were accounted for on timesheets which were subsequently approved by supervisors, we noted that District records did not evidence supervisory approval prior to performance of the overtime work, contrary to District policy. District personnel indicated that the prior approvals were made orally. In the absence of prior documented approval of extra and overtime hours, the risk increases that these hours may be overstated and the usefulness of the work performed during these time periods may be limited.

Recommendation: The District should review its policies and procedures relative to overtime usage. This should include adherence to the District's established policies and procedures that require documentation of preapproval of extra and overtime hours.

Finding No. 5: Annual Facility Safety Inspections

Section 1013.12, Florida Statutes, and the Florida Department of Education publication *State Requirements for Educational Facilities - 1999*, Section 4.4, 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. Further, 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 educational and ancillary plants.

District records indicated that the District provided for the required inspections of its facilities during the 2006-07 fiscal year. The inspector completed a report for each facility which recorded various pieces of information for the noted deficiencies, such as: a priority code that indicated the type and severity of the deficiencies by building and room number, the estimated costs of correction, the number of days since the deficiency was cited, and a date of correction for the deficiency. Our review of the annual safety inspection reports for 10 of the District's 58 facilities disclosed numerous instances in which deficiencies noted in the annual safety inspection reports remained uncorrected from previous years. Approximately 45 percent, or 685 out of 1,533 deficiencies cited, were deficiencies from the prior year that remained unresolved. These deficiencies included such items as fire detectors not installed, rooms not fire rated, obstructed exits, emergency evacuation diagrams not posted, play areas and athletic fields not fenced, and rooms not accessible to those with disabilities. Our tests indicated that some of the deficiencies had been cited in the annual safety inspection reports for up to 18 years. District staff

indicated that corrective action is being taken for the cited deficiencies; however, failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy, and could result in additional costs in the future due to further deterioration. Similar findings were noted in previous audit reports, most recently in our report No. 2006-010.

Recommendation: The District should continue its efforts to provide for the timely correction of facility deficiencies as noted in the annual safety inspection reports.

Finding No. 6: Third-Party Administrators

Section 1011.18(6)(b), Florida Statutes, provides that a district school board may contract with a company or professional administrator who holds a valid certificate of authority issued by the Florida Office of Insurance Regulation of the Financial Services Commission to provide any or all services that a third-party administrator (TPA) is authorized by law to perform. Our review of the District's TPA arrangements disclosed the following:

- During the 2006-07 fiscal year, the District used the services of two different TPA's to manage employee day care and medical reimbursement programs as part of the District's flexible spending plans. District staff advised that they made the switch from one provider to the other as a result of the failure of the first provider to timely and accurately process claims and account for funds subject to reversion. The District has also represented that they are experiencing these same problems with the new provider. Our review disclosed that neither provider held a valid certificate of authority with an authorized line of business as a TPA or as a flexible spending health plan provider.
- The District performed tests of its Group Health Self-Insurance claim expenditures which confirmed that these expenditures were materially correct and properly classified; however, the District performed no tests of claims for its flexible spending plans. Additionally, the District indicated that it did not request or obtain a service organization report as described in *Statement on Auditing Standards No. 70 (SAS 70)*, as promulgated by the American Institute of Certified Public Accountants, for the TPA of the flexible spending plans. A SAS 70 (service organization) report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of operating effectiveness for a service organization.

Recommendation: The District should take appropriate action to require its third-party administrators obtain a valid certificate of authority issued by the Florida Office of Insurance Regulation, as required by law. In addition, to assist in monitoring the activities of the TPA of the District's flexible benefits spending plans, the District should consider obtaining a service organization report to assess whether the organization's controls are suitably designed and provide adequate controls over claims processing.

Finding No. 7: Security Awareness Training

The District had not developed a written security awareness training program or performed ongoing information technology security awareness training for all who use the District's computer system. Information technology user awareness is an essential component of an effective security program. The purpose of a security awareness program is to inform personnel of the importance of the information they handle, and the legal and business reasons for maintaining its integrity, confidentiality, and availability. Formal employee orientation provides a good opportunity to set forth concepts of information technology security and data handling; however, security awareness programs should be ongoing to remind employees of their part in the total security program.

The absence of an ongoing security awareness training program could jeopardize the integrity, confidentiality, and availability of system resources through the lack of users' knowledge regarding their responsibilities for the safeguarding of the District's data resources. A similar finding was noted in the previous audit report and a recent internal auditing report.

Recommendation: The District should develop a written information technology security awareness training program and perform ongoing security awareness training to periodically remind all who use the District's computer system of the security risks and to reinforce adherence to the District's policies and procedures.

Finding No. 8: Formal Security Program

Established policy provides the foundation for an information security program and is the means for documenting and promulgating important decisions about computer security. An information security program also includes published network standards, regulations, and guidelines that implement and expand on policy. The District's formal security program should include such areas as security policies restricting logical and physical access to sensitive data, back-up and disaster recovery procedures, and network security. In addition, the program should be reviewed periodically and updated to reflect changes in the information technology environment. Our review disclosed that the District has not developed or implemented a formal security program.

In the absence of comprehensive written policies and procedures, there is an increased risk that security over the District's information technology resources may be compromised. Similar findings were noted in the previous audit report and in a recent internal auditing report.

Recommendation: The District should ensure that written policies and procedures are developed, approved, distributed and made available to appropriate District staff.

Finding No. 9: Network Penetration Testing

Network penetration testing involves the use of tools and processes to scan the network environment for weaknesses. Performing penetration testing on a regular basis provides assurance that the District's security implementation is consistent with District requirements and expectations. In addition, such testing aids in the identification of network security weaknesses that can lead to data or equipment being compromised or destroyed by exploitation or other intrusions. Testing also exposes vulnerabilities that may be introduced by software updates or by misconfigurations on servers, routers, and firewalls. Our review disclosed that penetration and vulnerability testing had not been performed on the District network. A similar finding was noted in the previous audit report and in a recent internal audit report.

Recommendation: The District should ensure that penetration and vulnerability testing is performed on a regular basis.

Finding No. 10: Security Administrator Function

The establishment of a security administrator position is essential to provide a unification point for all of the District's information technology security issues and to assess risk in this area to ensure that it has been reduced to an acceptable level. In addition, a security administrator typically has the ability to make changes to security over access to systems documentation data files, programs, and computer hardware. It is therefore important that the functions of this position be clearly established and well documented. The District had not formally established a security administrator position, or established specific duties and responsibilities for this position. A similar finding was noted in a recent audit by the District's internal auditing staff.

Recommendation: The District should formally establish duties and responsibilities of the security administrator position.

PRIOR AUDIT FINDINGS

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

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Osceola County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report in the Management Response Section, beginning on page 77.

FINANCIAL SECTION

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

- EXHIBIT – A*** *Statement of Net Assets.*
- EXHIBIT – B*** *Statement of Activities.*
- EXHIBIT – C*** *Balance Sheet – Governmental Funds.*
- EXHIBIT – D*** *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.*
- EXHIBIT – E*** *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.*
- EXHIBIT – F*** *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.*
- EXHIBIT – G*** *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund.*
- EXHIBIT – H*** *Statement of Net Assets – Proprietary Funds.*
- EXHIBIT – I*** *Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.*
- EXHIBIT – J*** *Statement of Cash Flows – Proprietary Funds.*
- EXHIBIT – K*** *Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.*
- EXHIBIT – L*** *Notes to Financial Statements.*



DAVID W. MARTIN, 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 Osceola County District School Board as of and for the fiscal year ended June 30, 2007, 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 school internal funds, which represent 4 percent of the assets and 11 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the aggregate discretely presented component units, is based on the reports of the other auditors.

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 Osceola County District School Board as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Osceola 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 24) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

Respectfully submitted,



David W. Martin, CPA
January 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Osceola County District School Board, Florida (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, 2007. We encourage readers to consider the information presented here in conjunction with our financial statements.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006-07 fiscal year are as follows:

- Total assets of the District exceed total liabilities at the close of the most recent fiscal year by \$492,980,016.
- The District's total net assets increased by \$75,677,153.
- At June 30, 2007, the District's governmental funds report combined fund balances of \$263,793,985, an increase of \$62,413,723, in comparison with the 2005-06 fiscal year.
- At June 30, 2007, unreserved fund balance for the General Fund is \$52,649,019, or 14.77 percent of total General Fund expenditures. The unreserved fund balance is available for spending at the District's discretion.
- The District's total bonded debt (Bonds Payable and Certificates of Participation, excluding premiums and discounts) increased by \$38,820,000, or 15.06 percent during the current fiscal year.
- The District's investments increased by \$59,760,331, or 30.18 percent from the 2005-06 fiscal year.
- The District's net capital assets increased by \$55,201,434, or 10.53 percent from the 2005-06 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

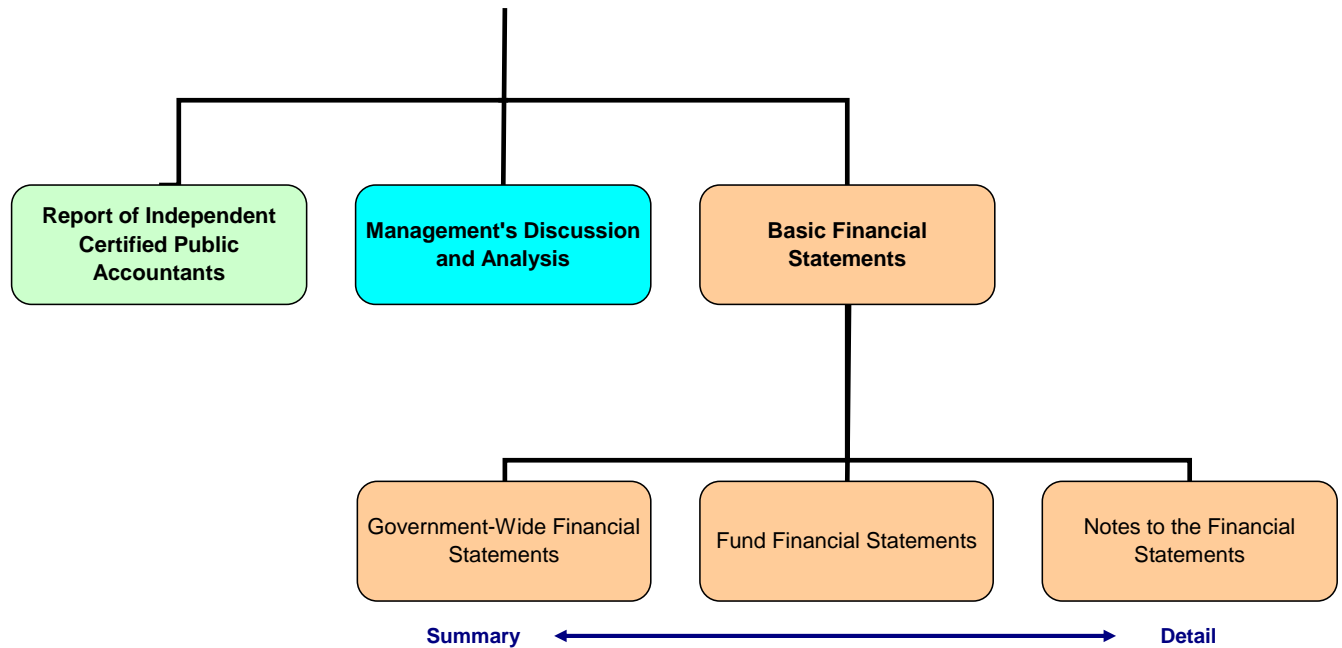
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The District's basic financial statements are comprised of three components:

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

The illustration below shows how the various parts of the financial section are arranged and relate to one another.

ORGANIZATION OF THE FINANCIAL SECTION



Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two categories:

- **Governmental activities** – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- **Component units** – The District presents four separate legal entities in this report, including The Foundation for Osceola Education, Inc.; the New Dimensions High School, Inc.; Four Corners Charter School, Inc.; and the Bellalago Educational Facilities Benefit District. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements.

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories as discussed below.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the major funds. The District's major funds are the General Fund and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds. Proprietary funds may be established to account for activities in which a fee is charged for services. One type of proprietary fund is maintained.

- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for the Health and Life Insurance Trust Fund and General and Automobile Liability Fund. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District only has agency funds that are classified as fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses agency funds to account for resources held for student activities and groups and to account for the activities of the Bellalago Charter Academy which is part of the Educational Facilities Benefit District and is managed by the District.

Notes to the 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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$492,980,016 at June 30, 2007. At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets, for the government as a whole.

The following is a summary of the District's net assets as of June 30, 2007, compared to net assets as of June 30, 2006:

Net Assets, End of Year

	Governmental Activities	
	<u>06-30-07</u>	<u>06-30-06</u>
Current and Other Assets	\$ 343,749,673	\$ 244,767,314
Capital Assets	579,412,072	524,210,638
Total Assets	<u>923,161,745</u>	<u>768,977,952</u>
Current Liabilities	76,775,664	35,322,010
Long-term Liabilities	353,406,065	316,353,079
Total Liabilities	<u>430,181,729</u>	<u>351,675,089</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	306,948,191	266,793,746
Restricted	144,452,132	119,218,431
Unrestricted	41,579,693	31,290,686
Total Net Assets	<u>\$ 492,980,016</u>	<u>\$ 417,302,863</u>

By far, the largest portion of the District's net assets, \$306,948,191 or 62.26 percent, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to educate the students of Osceola County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets, \$144,452,132 (29.30 percent), represents resources that are subject to external restrictions on how they may be used. There was an increase of \$25,233,701 in restricted net assets reported in connection with the District's governmental activities. The increase is the result of accumulating funds to pay for future capital projects. The remaining net assets, \$41,579,693 (8.44 percent), are unrestricted net assets. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased by \$10,289,007, over the 2005-06 fiscal year.

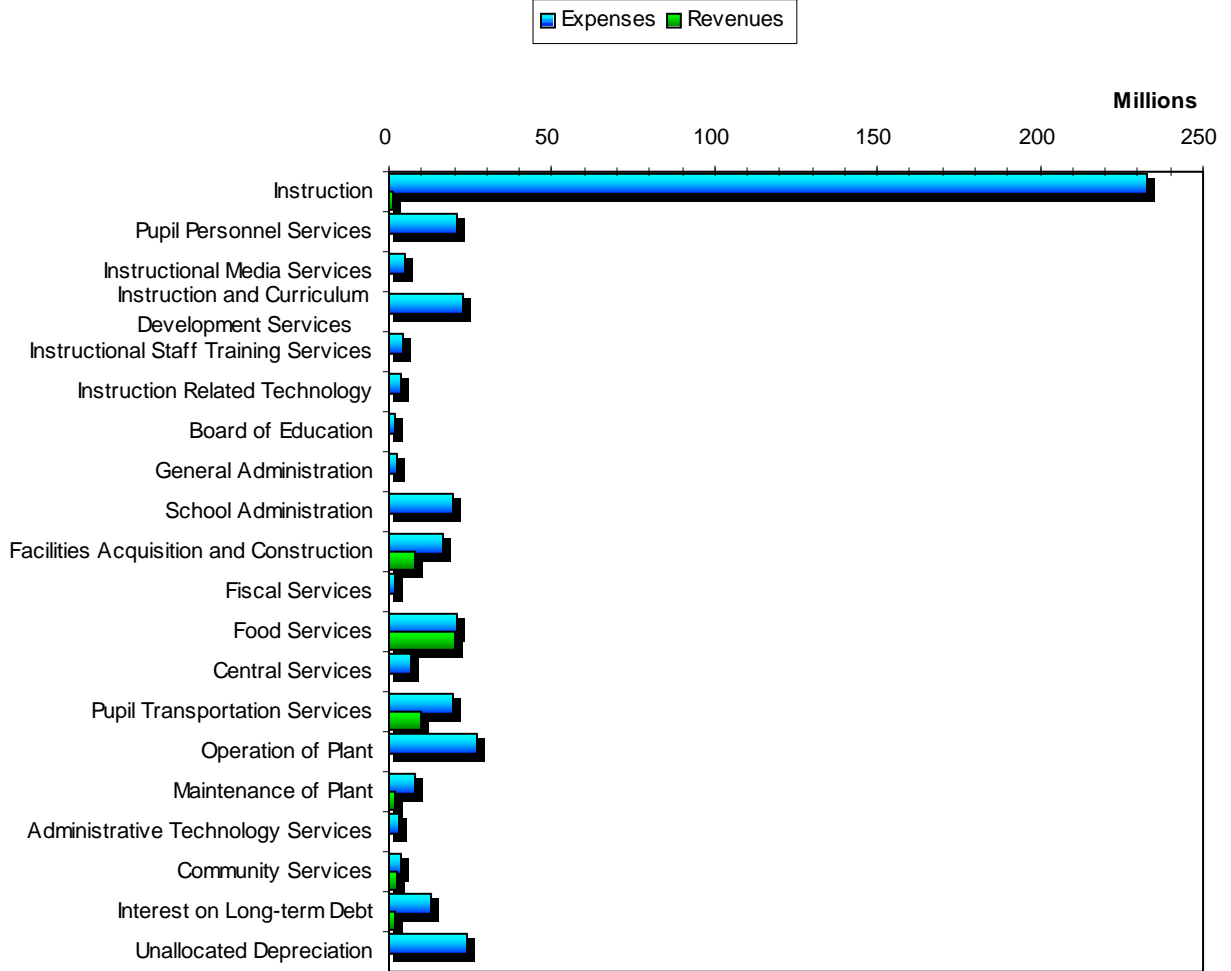
The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2007, and June 30, 2006, are as follows:

Operating Results for the Year

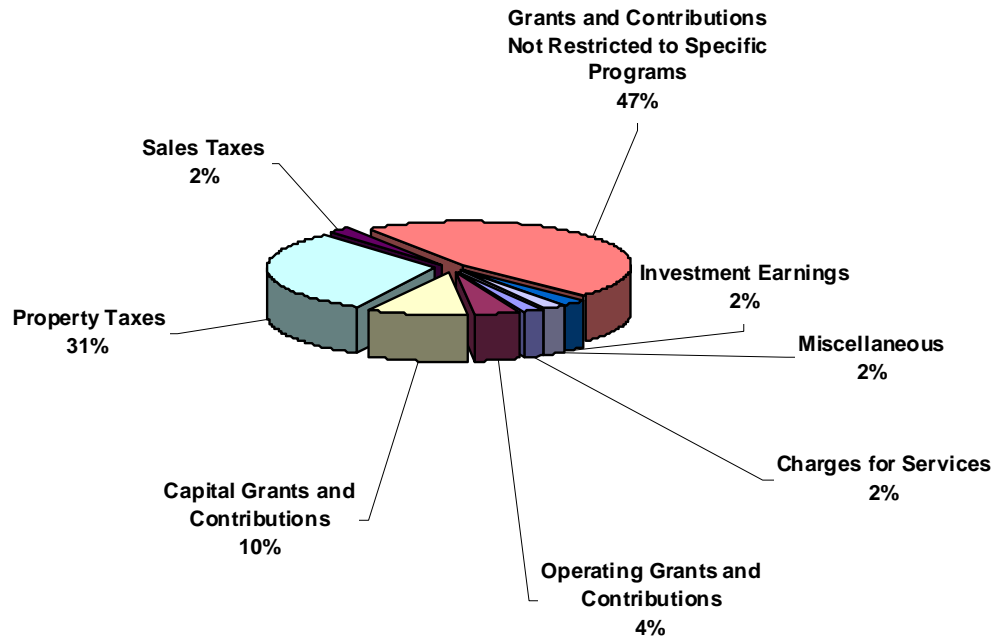
	Governmental Activities	
	06-30-07	06-30-06
Revenues:		
Program Revenues:		
Charges for Services	\$ 10,931,523	\$ 9,731,286
Operating Grants and Contributions	23,092,817	22,509,456
Capital Grants and Contributions	52,463,951	50,156,690
General Revenues:		
Property Taxes	163,785,082	130,916,678
Local Sales Taxes	9,998,541	7,948,681
Grants and Contributions not Restricted to Specific Programs	248,564,737	225,092,552
Investment Earnings	12,932,806	8,893,899
Miscellaneous	11,121,780	13,956,270
Total Revenues	<u>532,891,237</u>	<u>469,205,512</u>
Functions/Program Expenses:		
Instruction	232,617,922	198,468,515
Pupil Personnel Services	20,886,005	18,442,786
Instructional Media Services	5,161,195	4,835,862
Instruction and Curriculum Development	22,429,022	16,961,002
Instructional Staff Training Services	4,569,743	6,011,551
Instruction Related Technology	3,946,935	3,512,400
Board of Education	1,823,924	1,419,188
General Administration	2,228,563	2,575,053
School Administration	19,747,072	17,214,383
Facilities Acquisition and Construction	16,584,696	16,612,948
Fiscal Services	1,887,436	1,601,834
Food Services	20,795,040	18,965,216
Central Services	6,536,936	5,941,269
Pupil Transportation Services	19,413,234	17,657,423
Operation of Plant	27,205,818	24,722,166
Maintenance of Plant	7,968,053	7,570,851
Administrative Technology Services	2,949,505	3,188,643
Community Services	3,487,806	2,262,184
Interest on Long-Term Debt	12,752,067	14,760,893
Unallocated Depreciation Expense	24,223,112	22,312,501
Loss on Disposal of Capital Assets		308,965
Total Expenses	<u>457,214,084</u>	<u>405,345,633</u>
Increase in Net Assets	<u>75,677,153</u>	<u>63,859,879</u>
Net Assets, Beginning	417,302,863	353,338,837
Adjustments to Beginning Net Assets		<u>104,147</u>
Beginning Net Assets, as Restated	<u>417,302,863</u>	<u>353,442,984</u>
Net Assets, Ending	<u>\$ 492,980,016</u>	<u>\$ 417,302,863</u>

The total government-wide net assets increased by \$75,677,153 during the current fiscal year. The increase represents the degree to which increases in ongoing revenues have outpaced increases in ongoing expenses.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Governmental Activities.

Governmental activities increased the District’s net assets by \$75,677,153, accounting for all of the total growth in the net assets of the District. Key elements of the increase are as follows:

- Unrestricted Net Assets increased by \$10,289,007.
- Investments in Capital Assets, Net of Related Debt, increased by \$40,154,445.
- For the most part, increases in expenses closely parallel inflation and growth in the number of students.

State revenues increased by \$17,066,098 or 7.50 percent, primarily due to an increase in student enrollment of 1,884 students, and to State funds received for the construction of new educational facilities.

The largest revenue sources are the State of Florida and local sources. Combined, these two revenue sources account for 92.56 percent of total revenues. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking

into consideration the District's funding ability based on the local property tax base. Revenues from local sources consist primarily of ad valorem taxes and impact fees.

Instructional expenses represent 50.88 percent of total governmental expenses in the 2006-07 fiscal year. Instructional expenses increased by \$34,149,407 or 17.21 percent, from the previous year due mainly to across-the-board pay raises ranging from 6 to 8 percent and the employment of additional instructional staff related to growth in the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

As of the end of the current fiscal year, the District's governmental funds report combined ending fund balances of \$263,793,985, an increase of \$62,413,723, in comparison with the 2005-06 fiscal year. Combined unreserved fund balances of \$221,095,318 represent 83.81 percent of the ending fund balances and are available to meet the District's short-term spending needs within the corresponding fund types. Remaining fund balances are reserved to indicate that they are not available for new spending, because they have already been committed to: 1) liquidate contracts and purchase orders outstanding at year-end of \$39,127,794; 2) pay debt service of \$3,414,473; and 3) fund state categorical programs of \$156,400.

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance of the General Fund is \$52,649,019, while total fund balance is \$55,117,835. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 14.77 percent of total General Fund expenditures, while total fund balance represents 15.46 percent of that same amount.

During the current fiscal year, the fund balance of the General Fund increased by \$18,749,678.

Key factors contributing to this increase are as follows:

- A conservative budgeting approach along with delays in replacing employees that terminated during the fiscal year.
- Actual expenditures were less than amount budgeted.

The fund balance for the Capital Projects – Other Fund, increased by \$34,160,584 to \$164,204,512. The increase in this fund is mainly due to the timing differences between collecting and expending funds on construction projects.

The fund balance for nonmajor funds, reported as Other Governmental Funds, increased by \$9,503,461 to \$44,471,638, primarily as a result of increases in capital projects funds. The fund balance, for the Capital Projects – Capital Improvement Section 1011.71(2) Fund, increased by \$9,550,702 to \$22,401,413, mainly due to the timing differences between collecting and expending funds on construction projects.

Proprietary Funds

The District's proprietary funds provide the same type of information found in the government-wide financial statements. The District's proprietary fund includes two internal service funds that are used to account for its self-insurance programs. Net assets decreased by \$3,894,520 due to claims and other expenses exceeding premiums paid into the funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year, the District received approximately \$8,000,000 of State formula revenues less than the initially projected amount. This decrease was partially due to the over projection of students. The projected student increase for the year (upon which the budget was based) was 3,719. The actual student increase for the year was 1,884.

The final budget exceeded the final expenditures by \$30,368,444. The primary reasons for this variance are explained below:

- Vacancies occurred when positions were authorized, but were not filled or were filled at a later date than projected.
- A reduction in spending as a result of the projected students not materializing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for the governmental activities as of June 30, 2007, amounts to \$579,412,072 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; property under capital leases; investments in the educational facility benefit district; and audio visual materials and computer software. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$55,201,434, or 10.53 percent.

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

- The start-up of construction of two elementary schools.
- The final stages of construction of one elementary school and one high school.
- Acquisition of a commercial building for conversion to an alternative education facility.
- The start-up of roofing at one elementary school, the final stages of roofing at one elementary school, and the completion of roofing at one multi-level school.
- The design phase in progress for a theater at one high school.

The following is a summary of the District's capital assets as of June 30, 2007, compared to June 30, 2006.

**Schedule of Capital Assets
(net of accumulated depreciation)**

	Governmental Activities	
	June 30, 2007	June 30, 2006
Land	\$ 31,970,913	\$ 28,599,264
Construction in Progress	90,497,821	38,043,329
Improvements Other Than Buildings	12,898,344	12,920,916
Buildings and Fixed Equipment	395,913,753	401,053,770
Furniture, Fixtures, and Equipment	18,124,700	18,575,483
Motor Vehicles	13,582,752	15,449,770
Property Under Capital Leases	3,209,825	34,934
Investment in EFBD	12,045,710	7,849,393
Audio Visual Materials and Computer Software	1,168,254	1,683,779
Total	<u>\$ 579,412,072</u>	<u>\$ 524,210,637</u>

Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt.

At the end of the current fiscal year, the District's long-term debt principal, excluding premiums and discounts, totals \$341,587,420. Of this amount, \$296,520,000 is outstanding bonded debt, \$28,391,020 is outstanding notes payable, and \$26,676,400 is other long-term debt. Bonded debt constituted the largest portion of long-term debt at the end of the fiscal year and was comprised of \$16,580,000 of bonds issued on behalf of and by the State Board of Education (SBE) and backed by the full faith and credit of the State of Florida; \$86,145,000 outstanding in District Revenue Bonds; and \$193,795,000 in certificates of participation.

The following is a summary of the District's long-term bonded debt as of June 30, 2007, compared to June 30, 2006.

**Schedule of Outstanding Long-Term Debt
(excluding premiums and discounts)**

	Governmental Activities	
	June 30, 2007	June 30, 2006
State School (SBE) Bonds	\$ 16,580,000	\$ 17,505,000
District Revenue Bonds	86,145,000	42,325,000
General Obligation Refunding Bonds		3,655,000
Certificates of Participation	193,795,000	194,215,000
Notes Payable	28,391,020	30,495,288
Other Long-Term Debt	16,676,400	17,664,524
Total Outstanding Long-Term Debt	\$ 341,587,420	\$ 305,859,812

The District's total debt increased by \$35,727,608 or 11.68 percent, during the current fiscal year. The key factor in this increase was a Sales Tax Revenue Bond issue in the amount of \$47,580,000, used to finance the acquisition, construction, reconstruction, renovation, and equipping of certain capital improvements and educational facilities within the School District.

During the current fiscal year, the District also issued new debt to advance-refund portions of other outstanding debt to take advantage of favorable interest rates.

- The District issued Sales Tax Revenue Bonds, Series 2007B, to advance-refund a portion of outstanding Sales Tax Revenue Bonds, Series 2001. The result is expected to decrease future debt service payments by \$1,757,184.
- The District issued Certificates of Participation, Series 2007, to advance-refund a portion of outstanding Certificates of Participation, Series 2002. The result is expected to decrease future debt service payments by \$2,027,254.

The District's Sales Tax Revenue Bonds are rated Aaa by Moody's Investors Service and AAA by both Standard & Poor's and Fitch Ratings. The District's Certificates of Participation are rated Aaa by Moody's Investors Service and AAA by Fitch Ratings.

Additional information on the District's long-term debt can be found in Notes 6 through 13 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Unemployment and inflationary rates for Osceola County, Florida, are as follows:

- The unemployment rate for the District (Osceola County, Florida) is currently 3.4 percent, which is a decrease from the rate of 3.6 percent a year ago. This is slightly higher than the State's average unemployment rate of 3.3 percent.
- Inflationary trends in the region compare favorably to national indices.

During the current fiscal year, unreserved balance in the General Fund increased from \$33,914,236 to \$52,649,019. The District budgeted approximately \$6,900,000 of this amount for spending in the 2007-08 fiscal year. It is anticipated that this use of unreserved fund balance will be significantly replenished at year-end through unspent appropriations.

The Legislature initially provided the Board with an increase in funding of approximately \$38,800,000 (7.13 percent per student) for the 2007-08 fiscal year. Due to shortfalls in State funding, this was later decreased to approximately \$33,800,000 (5.72 percent per student). However, included in this increase is the funding provided to implement the requirements of the class size amendment, which requires a reduction in the class size at all levels over the next several years. After deducting those funds and other categorical funds, the change provided to cover operating fund increases was approximately \$19,600,000 (2.86 percent per student). These revenues provide the funding necessary to cover all the Board's fixed cost increases and provide for increases in salaries.

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Osceola County School District, 817 Bill Beck Boulevard, Kissimmee, Florida 34744.

**EXHIBIT - A
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2007**

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 21,800,449.25	\$ 14,626,305.00
Investments	257,794,668.79	4,573,100.00
Accounts Receivable	3,300,196.96	153,595.00
Prepaid Items		98,940.00
Due from Other Agencies	54,722,130.78	194,703.00
Inventories	2,545,531.33	
Other Current Assets		172,392.00
Deferred Charges	3,215,898.30	1,611,820.00
Restricted Assets:		
Cash with Fical Agent	370,797.26	
Capital Assets:		
Land	31,970,913.32	2,150,000.00
Construction in Progress	90,497,821.01	
Improvements Other Than Buildings, Net	12,898,344.35	364,562.00
Buildings and Fixed Equipment, Net	395,913,753.44	36,366,547.00
Furniture, Fixtures, and Equipment, Net	18,124,699.96	2,975,847.00
Motor Vehicles, Net	13,582,751.51	25,441.00
Property Under Capital Lease, Net	3,209,825.17	
Investment in Educational Facilities Benefit District, Net	12,045,709.77	
Audio Visual Materials and Computer Software, Net	1,168,253.38	365,681.00
Other Noncurrent Assets, Net		882,443.00
	\$ 923,161,744.58	\$ 64,561,376.00
LIABILITIES		
Salaries and Benefits Payable	\$ 6,671,223.31	\$ 111,689.00
Payroll Deductions and Withholdings	1,948,497.56	
Accounts Payable	5,014,424.44	574,956.00
Construction Contracts Payable	4,374,649.44	9,500.00
Construction Contracts Payable - Retainage	3,044,573.12	
Accrued Interest Payable	2,244,987.65	885,998.00
Due to Other Agencies	9,821,537.13	3,151,641.00
Sales Tax Payable	1,398.90	
Deferred Revenue	40,842,712.40	245,737.00
Estimated Insurance Claims Payable	2,811,660.41	
Other Current Liabilities		1,577,896.00
Long-Term Liabilities:		
Portion Due Within One Year:		
Obligations Under Capital Leases	2,801,843.72	40,353.00
Bonds Payable	4,319,306.03	1,160,000.00
Notes Payable	2,217,449.38	156,415.00
Installment-Purchases Payable	1,167,617.78	
Certificates of Participation Payable	5,634,126.08	
Compensated Absences Payable	1,279,329.00	
Portion Due After One Year:		
Obligations Under Capital Leases		20,768.00
Bonds Payable	100,475,992.69	43,658,776.00
Notes Payable	26,173,570.42	811,729.00
Installment-Purchases Payable	3,794,474.92	
Certificates of Participation Payable	183,202,404.91	
Compensated Absences Payable	13,427,486.00	
Educational Facilities Benefit District Agreement Payable	8,912,463.61	
	430,181,728.90	52,405,458.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	306,948,190.63	2,866,410.00
Restricted for:		
State Categorical Programs	1,124,786.28	
Debt Service	4,385,383.74	
Capital Projects	134,269,214.11	4,310,752.00
Other Purposes	4,672,747.74	1,033,596.00
Unrestricted	41,579,693.18	3,945,160.00
	492,980,015.68	12,155,918.00
Total Net Assets	\$ 923,161,744.58	\$ 64,561,376.00
TOTAL LIABILITIES AND NET ASSETS	\$ 923,161,744.58	\$ 64,561,376.00

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

EXHIBIT - B
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 232,617,921.66	\$ 1,421,447.00	\$	\$
Pupil Personnel Services	20,886,004.78			
Instructional Media Services	5,161,194.82			
Instruction and Curriculum Development Services	22,429,021.78			
Instructional Staff Training Services	4,569,743.29			
Instruction Related Technology	3,946,934.98			
Board of Education	1,823,924.52			
General Administration	2,228,562.98			
School Administration	19,747,071.75			
Facilities Acquisition and Construction	16,584,695.97			48,636,657.83
Fiscal Services	1,887,436.26			
Food Services	20,795,040.01	7,100,816.99	13,391,527.25	
Central Services	6,536,936.03			
Pupil Transportation Services	19,413,233.90	172,376.87	9,701,290.00	
Operation of Plant	27,205,818.09			
Maintenance of Plant	7,968,053.23			2,059,611.00
Administrative Technology Services	2,949,504.99			
Community Services	3,487,806.22	2,236,881.88		
Interest on Long-Term Debt	12,752,066.66			1,767,682.48
Unallocated Depreciation Expense	24,223,112.41			
Total Primary Government	\$ 457,214,084.33	\$ 10,931,522.74	\$ 23,092,817.25	\$ 52,463,951.31
Component Units				
Educational Foundation	\$ 20,545,370.00	\$ 467,675.00	\$ 2,392,107.00	\$ 2,108,066.00
Educational Facilities Benefit District	2,683,851.00			901,901.00
Charter Schools	8,555,401.00	39,992.00	61,726.00	989,090.00
Total Component Units	\$ 31,784,622.00	\$ 507,667.00	\$ 2,453,833.00	\$ 3,999,057.00

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:
Forgiveness of Debt

Total General Revenues and Special Item

Change in Net Assets

Net Assets - July 1, 2006
Adjustments to Beginning Net Assets
Net Assets - July 1, 2006, as Restated

Net Assets - June 30, 2007

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

EXHIBIT - B

Net (Expense) Revenue and Changes in Net Assets	
Primary Government Governmental Activities	Component Units
\$ (231,196,474.66)	\$
(20,886,004.78)	
(5,161,194.82)	
(22,429,021.78)	
(4,569,743.29)	
(3,946,934.98)	
(1,823,924.52)	
(2,228,562.98)	
(19,747,071.75)	
32,051,961.86	
(1,887,436.26)	
(302,695.77)	
(6,536,936.03)	
(9,539,567.03)	
(27,205,818.09)	
(5,908,442.23)	
(2,949,504.99)	
(1,250,924.34)	
(10,984,384.18)	
(24,223,112.41)	
<u>(370,725,793.03)</u>	
	(15,577,522.00)
	(1,781,950.00)
	<u>(7,464,593.00)</u>
	(24,824,065.00)
121,689,420.83	
7,326.26	
42,088,334.99	
9,998,540.56	
248,564,737.41	23,968,275.00
12,932,805.66	706,965.00
11,121,780.29	74,581.00
	<u>947,716.00</u>
<u>446,402,946.00</u>	<u>25,697,537.00</u>
<u>75,677,152.97</u>	<u>873,472.00</u>
417,302,862.71	10,559,391.00
	<u>723,055.00</u>
<u>417,302,862.71</u>	<u>11,282,446.00</u>
\$ <u>492,980,015.68</u>	\$ <u>12,155,918.00</u>

**EXHIBIT - C
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007**

	General Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 11,792,008.56	\$ 3,440,422.39	\$ 5,304,819.69	\$ 20,537,250.64
Cash with Fiscal Agent			160,721.19	160,721.19
Investments	41,389,385.19	173,974,061.10	36,689,834.27	252,053,280.56
Accounts Receivable	136,763.52	229,410.48	2,712,316.24	3,078,490.24
Due from Other Funds	9,766,501.47	55,026.46	671,015.80	10,492,543.73
Due from Other Agencies	1,175,686.85	41,278,230.83	12,265,875.89	54,719,793.57
Inventories	1,958,420.81		587,110.52	2,545,531.33
	\$ 66,218,766.40	\$ 218,977,151.26	\$ 58,391,693.60	\$ 343,587,611.26
TOTAL ASSETS				
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 5,875,019.87	\$	\$ 796,203.44	\$ 6,671,223.31
Payroll Withholdings and Deductions	1,707,848.84		240,648.72	1,948,497.56
Accounts Payable	1,340,254.50	1,617,139.90	1,195,227.75	4,152,622.15
Construction Contracts Payable		4,218,987.37	155,662.07	4,374,649.44
Construction Contracts Payable - Retainage		2,818,204.43	226,368.69	3,044,573.12
Due to Other Funds	1,171,015.80	366,794.13	9,398,602.34	10,936,412.27
Due to Other Agencies	980,227.81	8,620,828.37	220,480.95	9,821,537.13
Sales Tax Payable	945.68		453.22	1,398.90
Deferred Revenue	25,618.90	37,130,685.00	1,686,408.50	38,842,712.40
	11,100,931.40	54,772,639.20	13,920,055.68	79,793,626.28
Total Liabilities				
Fund Balances:				
Reserved for State Categorical Programs	156,399.56			156,399.56
Reserved for Encumbrances	2,312,416.44	26,825,870.78	9,989,506.86	39,127,794.08
Reserved for Debt Service			3,414,473.09	3,414,473.09
Unreserved, Reported in:				
General Fund	52,649,019.00			52,649,019.00
Special Revenue Funds			4,646,099.53	4,646,099.53
Capital Projects Funds		137,378,641.28	26,421,558.44	163,800,199.72
	55,117,835.00	164,204,512.06	44,471,637.92	263,793,984.98
Total Fund Balances				
TOTAL LIABILITIES AND FUND BALANCES	\$ 66,218,766.40	\$ 218,977,151.26	\$ 58,391,693.60	\$ 343,587,611.26

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

EXHIBIT - D
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total Fund Balances - Governmental Funds \$ 263,793,984.98

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 579,412,071.91

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 3,215,898.30

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. 4,209,112.68

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. (2,244,987.65)

Deferred revenue associated with impact fee credits are accrued in the government-wide statements, but are not recognized in the governmental funds. (2,000,000.00)

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	\$ 2,801,843.72	
Bonds Payable	104,795,298.72	
Notes Payable	28,391,019.80	
Installment-Purchases Payable	4,962,092.70	
Certificates of Participation Payable	188,836,530.99	
Educational Facilities Benefit District Agreement Payable	8,912,463.61	
Compensated Absences Payable	14,706,815.00	
	(353,406,064.54)	

Total Net Assets - Governmental Activities \$ 492,980,015.68

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

EXHIBIT - E
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	General Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental:				
Federal Direct	\$ 351,735.90	\$	\$ 701,424.87	\$ 1,053,160.77
Federal Through State	174,075.72		37,792,940.57	37,967,016.29
Federal Through Local			300,499.49	300,499.49
State	231,999,177.98	468,408.65	12,188,050.38	244,655,637.01
Local	131,971,816.19	47,304,238.42	65,128,828.66	244,404,883.27
Total Revenues	364,496,805.79	47,772,647.07	116,111,743.97	528,381,196.83
Expenditures				
Current - Education:				
Instruction	214,991,033.35		13,935,318.07	228,926,351.42
Pupil Personnel Services	19,288,873.87		1,178,981.42	20,467,855.29
Instructional Media Services	5,017,944.82		65,267.33	5,083,212.15
Instruction and Curriculum Development Services	16,007,676.37		5,790,908.74	21,798,585.11
Instructional Staff Training Services	2,459,024.62		2,165,514.48	4,624,539.10
Instruction Related Technology	3,731,397.00		153,490.19	3,884,887.19
Board of Education	1,823,257.64			1,823,257.64
General Administration	1,581,151.72		605,423.86	2,186,575.58
School Administration	19,189,404.82			19,189,404.82
Facilities Acquisition and Construction	5,663,965.73	1,949,982.14	8,921,465.14	16,535,413.01
Fiscal Services	1,870,511.55			1,870,511.55
Food Services	28,108.57		20,535,215.35	20,563,323.92
Central Services	6,105,802.00		364,870.40	6,470,672.40
Pupil Transportation Services	16,458,872.30		555,529.58	17,014,401.88
Operation of Plant	27,703,621.44		7,304.09	27,710,925.53
Maintenance of Plant	7,809,981.01			7,809,981.01
Administrative Technology Services	2,860,024.98			2,860,024.98
Community Services	234,366.89		3,163,123.55	3,397,490.44
Fixed Capital Outlay:				
Facilities Acquisition and Construction	64,831.87	66,964,398.42	6,436,874.55	73,466,104.84
Other Capital Outlay	2,826,578.18	1,508,402.37	1,757,693.49	6,092,674.04
Debt Service:				
Principal	644,636.23		18,648,808.03	19,293,444.26
Interest and Fiscal Charges	101,716.07	1,097,329.21	13,180,315.67	14,379,360.95
Total Expenditures	356,462,781.03	71,520,112.14	97,466,103.94	525,448,997.11
Excess (Deficiency) of Revenues Over Expenditures	8,034,024.76	(23,747,465.07)	18,645,640.03	2,932,199.72
Other Financing Sources (Uses)				
Transfers In	9,380,905.44	7,383,918.39	18,413,896.92	35,178,720.75
Sales Tax Revenue Bonds Issued		79,835,000.00		79,835,000.00
Premium on Sales Tax Revenue Bonds		4,141,747.95		4,141,747.95
Inception of Installment-Purchase Agreements	600,480.87			600,480.87
Inception of Capital Lease		2,896,265.28		2,896,265.28
Certificates of Participation Issued			62,755,000.00	62,755,000.00
Discount on Certificates of Participation			(701,119.05)	(701,119.05)
Insurance Loss Recoveries	839,277.02	3,238,349.73		4,077,626.75
Payments to Escrow Agent for Refunded Debt		(32,879,239.59)	(61,244,239.25)	(94,123,478.84)
Transfers Out	(105,010.36)	(6,707,992.91)	(28,365,717.48)	(35,178,720.75)
Total Other Financing Sources (Uses)	10,715,652.97	57,908,048.85	(9,142,178.86)	59,481,522.96
Net Change in Fund Balances	18,749,677.73	34,160,583.78	9,503,461.17	62,413,722.68
Fund Balances, July 1, 2006	36,368,157.27	130,043,928.28	34,968,176.75	201,380,262.30
Fund Balances, June 30, 2007	\$ 55,117,835.00	\$ 164,204,512.06	\$ 44,471,637.92	\$ 263,793,984.98

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

**EXHIBIT - F
OSCEOLA 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, 2007**

Net Change in Fund Balances - Governmental Funds	\$ 62,413,722.68
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.	55,897,175.22
Capital assets donated to the District increase net assets in the government-wide statements, but are not financial resources and, therefore, are not reported in the governmental funds. This is the value of capital assets donated during the current year.	48,475.83
The cost of capital assets disposed of during the current year is expensed in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the undepreciated cost of the disposed assets.	(744,216.99)
Proceeds of refunding debt are reported as other financing sources in the governmental funds, while payments to the escrow agent for advance-refunding of outstanding debt are shown as other financing uses. Government-wide statements are affected only to the extent these amounts differ. Other long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the net effect of these transactions.	(32,776,347.32)
Deferred revenues associated with impact fee credits are accrued in the government-wide statements, but are not recognized in the governmental funds.	(2,000,000.00)
Premiums and discounts on bonds issued, along with debt issuance costs, are reported in the governmental funds, in the year debt is issued, but are deferred and amortized over the life of the debt in the statement of activities.	(2,672,952.06)
Deferred charges associated with long-term debt issued in a prior period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net increase in deferred charges during the current period.	1,105,268.59
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities.	(95,767.31)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.	(1,603,686.00)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.	(3,894,519.67)
Change in Net Assets - Governmental Activities	\$ 75,677,152.97

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

EXHIBIT - G
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 200,000.00	\$ 351,735.90	\$ 351,735.90	\$
Federal Through State	1,000,000.00	185,475.72	174,075.72	(11,400.00)
State	237,438,894.00	232,059,291.15	231,999,177.98	(60,113.17)
Local	124,055,666.00	128,155,315.33	131,971,816.19	3,816,500.86
Total Revenues	362,694,560.00	360,751,818.10	364,496,805.79	3,744,987.69
Expenditures				
Current - Education:				
Instruction	244,719,044.48	235,833,752.16	214,991,033.35	20,842,718.81
Pupil Personnel Services	18,147,510.63	19,369,745.55	19,288,873.87	80,871.68
Instructional Media Services	4,690,856.78	5,078,902.42	5,017,944.82	60,957.60
Instruction and Curriculum Development Services	15,653,437.26	16,865,280.00	16,007,676.37	857,603.63
Instructional Staff Training Services	1,556,939.20	2,827,152.01	2,459,024.62	368,127.39
Instruction Related Technology	2,671,026.03	3,785,262.33	3,731,397.00	53,865.33
Board of Education	2,158,099.11	2,293,289.09	1,823,257.64	470,031.45
General Administration	1,881,455.86	1,581,151.72	1,581,151.72	
School Administration	17,965,782.91	20,306,349.08	19,189,404.82	1,116,944.26
Facilities Acquisition and Construction	6,029,013.10	6,038,593.83	5,663,965.73	374,628.10
Fiscal Services	2,093,008.23	2,085,069.13	1,870,511.55	214,557.58
Food Services		28,109.51	28,108.57	0.94
Central Services	6,869,574.05	7,237,378.82	6,105,802.00	1,131,576.82
Pupil Transportation Services	16,532,406.82	16,848,029.45	16,458,872.30	389,157.15
Operation of Plant	30,657,122.08	30,186,644.82	27,703,621.44	2,483,023.38
Maintenance of Plant	8,235,912.06	8,961,838.61	7,809,981.01	1,151,857.60
Administrative Technology Services	3,088,264.62	3,035,513.14	2,860,024.98	175,488.16
Community Services	133,414.04	273,207.52	234,366.89	38,840.63
Fixed Capital Outlay:				
Facilities Acquisition and Construction	26,784.22	90,856.87	64,831.87	26,025.00
Other Capital Outlay	969,208.01	3,313,349.31	2,826,578.18	486,771.13
Debt Service:				
Principal	951,142.53	685,455.96	644,636.23	40,819.73
Interest and Fiscal Charges	3,508.98	106,293.84	101,716.07	4,577.77
Total Expenditures	385,033,511.00	386,831,225.17	356,462,781.03	30,368,444.14
Excess (Deficiency) of Revenues Over Expenditures	(22,338,951.00)	(26,079,407.07)	8,034,024.76	34,113,431.83
Other Financing Sources (Uses)				
Transfers In	8,686,142.00	9,553,935.44	9,380,905.44	(173,030.00)
Inception of Installment-Purchase Agreements		668,870.92	600,480.87	(68,390.05)
Insurance Loss Recoveries		147,375.73	839,277.02	691,901.29
Transfers Out		(110,000.00)	(105,010.36)	4,989.64
Total Other Financing Sources (Uses)	8,686,142.00	10,260,182.09	10,715,652.97	455,470.88
Net Change in Fund Balance	(13,652,809.00)	(15,819,224.98)	18,749,677.73	34,568,902.71
Fund Balance, July 1, 2006	36,368,157.27	36,368,157.27	36,368,157.27	
Fund Balance, June 30, 2007	\$ 22,715,348.27	\$ 20,548,932.29	\$ 55,117,835.00	\$ 34,568,902.71

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

EXHIBIT - H
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2007

		Governmental Activities - Internal Service Funds
<hr/>		
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	1,263,198.61
Cash with Fiscal Agent		210,076.07
Investments		5,741,388.23
Accounts Receivable		165,575.26
Due From Other Agencies		2,337.21
Due From Other Funds		500,000.00
		<hr/>
TOTAL ASSETS	\$	7,882,575.38
<hr/> <hr/>		
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	\$	2,527.82
Accounts Payable		858,899.55
Due to Other Agencies		374.92
Estimated Insurance Claims Payable		2,811,660.41
		<hr/>
Total Liabilities		3,673,462.70
<hr/>		
NET ASSETS		
Unrestricted		<hr/> 4,209,112.68
TOTAL LIABILITIES AND NET ASSETS	\$	7,882,575.38
<hr/> <hr/>		

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

EXHIBIT - I
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	\$ 36,000,725.45
Other Operating Revenues	206.06
Total Operating Revenues	36,000,931.51
OPERATING EXPENSES	
Salaries	4,828.94
Employee Benefits	845.15
Purchased Services	4,025,221.44
Materials and Supplies	13,112.01
Capital Outlay	23,191.96
Insurance Claims	36,162,487.24
Total Operating Expenses	40,229,686.74
Operating Loss	(4,228,755.23)
NONOPERATING REVENUES	
Interest	334,235.56
Change in Net Assets	(3,894,519.67)
Total Net Assets, July 1, 2006	8,103,632.35
Total Net Assets, June 30, 2007	\$ 4,209,112.68

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

EXHIBIT - J
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	\$ 35,843,307.42
Cash Payments to Vendors for Goods and Services	(4,002,234.05)
Cash Received from Employees and for Interfund Services	(453,379.00)
Cash Payments for Insurance Claims	(36,018,916.81)
Net Cash Used by Operating Activities	(4,631,222.44)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale and Maturity of Investments	4,165,764.44
Interest Income	334,235.56
Net Cash Provided by Investing Activities	4,500,000.00
Net Decrease in Cash and Cash Equivalents	(131,222.44)
Cash and Cash Equivalents, Beginning	1,604,497.12
Cash and Cash Equivalents, Ending	\$ 1,473,274.68
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (4,228,755.23)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(157,418.03)
Increase in Due from Other Funds	(500,000.00)
Increase in Due from Other Agencies	(2,337.21)
Decrease in Prepaid Expense	48,752.15
Increase in Due to Other Agencies	374.92
Increase in Accounts Payable	62,062.71
Increase in Salaries and Benefits Payable	2,527.82
Increase in Estimated Insurance Claims Payable	143,570.43
Total Adjustments	(402,467.21)
Net Cash Used by Operating Activities	\$ (4,631,222.44)

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

EXHIBIT - K
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2007

		Agency Funds
ASSETS		
Cash and Cash Equivalents	\$	4,602,159.13
Investments		1,034,165.04
Accounts Receivable, Net		19,191.00
Due from Other Agencies		2,431,424.36
TOTAL ASSETS	\$	8,086,939.53
LIABILITIES		
Salaries and Benefits Payable	\$	115,675.73
Payroll Deductions and Withholdings		13,776.30
Accounts Payable		5,059,148.04
Due to Other Funds		56,131.46
Internal Accounts Payable		2,842,208.00
TOTAL LIABILITIES	\$	8,086,939.53

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

EXHIBIT – L
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 Osceola County School District is considered part of the Florida system of public education. The governing body of the school district is the Osceola County District School Board which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Osceola 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 District's employee group health and life insurance program, described in Note 22, is administered through the Osceola County District School Board Group Health and Life Insurance Trust. Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust agreement, the District retains control of the assets. Therefore, the financial activities of the Trust are reported in the District's financial statements.
- **Discretely Presented Component Units.** The component units' columns in the basic financial statements, Exhibits A and B, include the financial data of the District's other component units as follows:

The Foundation for Osceola Education, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to provide charitable and educational aid to the School Board, to promote education, and to encourage research, learning, and dissemination of information. An annual audit of the organization's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office.

The Bellalago Educational Facilities Benefit District (Benefit District) is a separate district organized pursuant to Chapter 125, Florida Statutes, and Section 1013.355, Florida Statutes, to provide for the timely construction and maintenance of school facilities. The Benefit District is an alternate mechanism that allows for the sharing of educational facilities costs that are necessary to accommodate new growth and development. An audit of the Benefit District's annual financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

A second educational benefit district, The Flora Ridge Education Facilities Benefit District, was organized pursuant to Chapter 125, Florida Statutes, to provide for timely construction and maintenance of school facilities. Since the fiscal year for this Benefit District is September 30, 2007, and this Benefit District is in the start up phase, financial information is not yet available. Accordingly, this Benefit District has not been included in the component unit columns in the basic financial statements.

The New Dimensions High School, Inc., and the Four Corners Charter School, Inc., are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act; and Section 1002.33, Florida Statutes, to enhance the education of those Osceola County students attending these schools. The charter schools operate under a charter approved by their sponsor, the Osceola County District School Board. Audits of the charter schools' financial statements are conducted by independent certified public accountants and are filed in the District's administrative office.

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the transportation function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources which are restricted for capital outlay purposes.

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

- Internal Service Funds – to account for the District's individual self-insurance programs.
- Agency Funds – to account for resources of the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities, and to account for the various resources of the Educational Facilities Benefit Districts accounted for by the District.

➤ **Basis of Accounting**

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

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

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

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for employee health insurance premiums and general and automobile liability insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, the Foundation for Osceola Education, Inc., and the Benefit District, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

➤ **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 except for funds held in connection with an escrow account, are collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts and considers cash equivalents as those accounts used as demand deposit accounts and cash maintained with the District's fiscal agent.

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

Investments made locally consist of money market funds and investments procured by third-party providers through guaranteed investment contracts 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 held at the maintenance department, central warehouse, and for the District's food service program are stated at cost valued on a weighted-average basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Transportation inventories are stated at cost based on last invoice, which approximates the first-in, first-out basis. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750 for tangible personal property and \$25,000 for real property. 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.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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	8 - 40 years
Buildings, Fixed Equipment, and Educational Facilities Benefit District	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

➤ **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

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2006 tax levy on September 12, 2006. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Osceola 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.

➤ **Educational Impact Fees**

Osceola County imposes an educational impact fee based on an ordinance adopted by the County Commission in 1992. This ordinance has been amended from time to time, most recently in December 2003, when Ordinance No. 03-42 established the revised rates to be

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

collected. The educational impact fee is collected for all new residential construction within the County. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees can only be used for capital expenditures directly affected by new residential growth. Educational impact fee revenues are recognized similar to that for property taxes, but are reported as program revenue in the government-wide financial statements.

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2007, the District has the following investments and maturities:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Investment	Maturities	Fair Value
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool	26 Day Average	\$ 199,188,829.88
State Board of Administration Debt Service Accounts	6 Months	418,917.98
Guaranteed Investment Contract - Certificates of Participation, Series 2004	December 31, 2007	7,827,115.62
Guaranteed Investment Contract - Sales Tax Revenue Bonds, Series 2007	September 1, 2009	50,359,563.66
First American Money Market Fund	90 Day Average	<u>241.65</u>
Total Investments, Primary Government (1)		<u>257,794,668.79</u>
Component Units		<u>4,573,100.00</u>
Total Investments, Reporting Entity		<u><u>\$ 262,367,768.79</u></u>

Note (1): Excludes investments totaling \$1,034,165.04, reported in the Agency Fund that are held by the District and are also included in the amount reported for the component units.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy limits investments to a maximum of five years and the investment of current operating funds to no longer than two years.
- The District's investment policy authorizes investing in certificates of deposit, time deposits, securities of the United States Government, and other forms of authorized investments described in the Florida Statutes.
- The District's investments include two guaranteed investment contracts for the construction proceeds of its 2004 Certificates of Participation (COP) and its 2007 Sales Tax Revenue Bonds (STB) issues. The contracts guarantee a fixed rate of interest of 3.21 percent for the 2004 COP and 4.927 percent for the 2007 STB for the period the funds are on deposit or until the expiration date of the contract. The investments are subject to interest rate risk in a rising interest rate environment.

Credit Risk

- Section 218.415(17), Florida Statutes, provides the authority to invest in the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool and limits investments in money market funds to Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's investment policy allows for investments in money market funds that are rated "AAAP", "AAm" or "AAm-G" or better by Standard & Poor's, or the equivalent by another rating agency.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

- The District’s investments in the State Board of Administration Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2007, the District’s investment in the First American Funds Money Market Fund is rated “AAAm” by Standard and Poor’s.
- As of June 30, 2007, the District’s investment in the Local Government Surplus Funds Trust Fund investment pool is unrated.
- As of June 30, 2007, the District’s investments in the guaranteed investment contracts are not rated.

Concentration of Credit Risk

- The District’s investment policy limits the amounts the District may invest in any one issuer. This policy is in effect for funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. The Trust Agreements associated with the 2004 COP and 2007 STB issues provide for certain authorized investments but place no limit on the amount of proceeds that may be invested with one issuer. More than 5 percent of the District’s investments are in a guaranteed investment contract with Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., also trading under the name Rabobank International, which represents 19.53 percent of the District’s total investments, and 28.9 percent of the investments in the Capital Projects – Other Fund.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

4. RECEIVABLES

The majority of receivables are due from other agencies. These receivables and the remaining accounts receivable are considered to be fully collectible. As such, no allowance for uncollectible accounts receivable is accrued.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-06	Additions	Deletions	Balance 6-30-07
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 28,599,263.82	\$ 3,371,649.50	\$	\$ 31,970,913.32
Construction in Progress	38,043,329.04	52,454,491.97		90,497,821.01
Total Capital Assets Not Being Depreciated	66,642,592.86	55,826,141.47		122,468,734.33
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	22,029,354.52	1,256,567.54		23,285,922.06
Buildings and Fixed Equipment	520,563,522.49	10,590,095.38		531,153,617.87
Furniture, Fixtures, and Equipment	49,749,930.49	6,235,494.98	4,001,328.43	51,984,097.04
Motor Vehicles	28,315,094.50	408,742.80	964,633.42	27,759,203.88
Property Under Capital Leases	220,137.00	3,209,825.17	220,137.00	3,209,825.17
Investment in Educational Facilities Benefit District	8,255,000.50	4,584,996.77		12,839,997.27
Audio Visual Materials and Computer Software	6,119,331.09	252,136.88	216,944.19	6,154,523.78
Total Capital Assets Being Depreciated	635,252,370.59	26,537,859.52	5,403,043.04	656,387,187.07
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	9,108,438.10	1,279,139.61		10,387,577.71
Buildings and Fixed Equipment	119,509,753.86	15,730,110.57		135,239,864.43
Furniture, Fixtures, and Equipment	31,174,440.50	6,073,802.28	3,388,845.70	33,859,397.08
Motor Vehicles	12,865,328.82	2,238,214.67	927,091.12	14,176,452.37
Property Under Capital Leases	185,203.15		185,203.15	
Investment in Educational Facilities Benefit District	405,607.90	388,679.60		794,287.50
Audio Visual Materials and Computer Software	4,435,553.27	708,403.21	157,686.08	4,986,270.40
Total Accumulated Depreciation	177,684,325.60	26,418,349.94	4,658,826.05	199,443,849.49
Total Capital Assets Being Depreciated, Net	457,568,044.99	119,509.58	744,216.99	456,943,337.58
Governmental Activities Capital Assets, Net	\$ 524,210,637.85	\$ 55,945,651.05	\$ 744,216.99	\$ 579,412,071.91

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

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 2,195,232.00
Unallocated	24,223,117.94
Total Depreciation Expense - Governmental Activities	\$26,418,349.94

6. OBLIGATIONS UNDER CAPITAL LEASES

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

	Asset Balance
Districtwide Energy Contract	\$ 2,236,306
Capitalized Property Under Capital Leases	
Sports Authority Building	3,209,825
Total	\$ 5,446,131

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

Fiscal Year Ending June 30	Total	Principal	Interest
2008	\$ 2,820,384.78	\$ 2,801,843.72	\$ 18,541.06

The stated interest rates range from 4.00 to 5.74 percent.

7. INSTALLMENT-PURCHASES PAYABLE

The classes and amounts of property being acquired under installment-purchase agreements are as follows:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

	<u>Asset Balance</u>
School Buses	\$ 4,630,681
Computer Equipment	150,643
Copy Machines	397,828
Instructional Software	501,357
Maintenance Trucks	268,322
Capitalized Property Under Installment-Purchases	5,948,831
Districtwide Energy Contract	2,371,566
Total	\$ 8,320,397

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,361,768.53	\$ 1,167,617.78	\$ 194,150.75
2009	1,390,500.28	1,239,989.21	150,511.07
2010	1,196,939.70	1,100,411.56	96,528.14
2011	839,822.36	784,372.01	55,450.35
2012	352,974.54	326,055.90	26,918.64
2013-2014	356,652.61	343,646.24	13,006.37
Total Minimum Installment Payments	\$ 5,498,658.02	\$ 4,962,092.70	\$ 536,565.32

The stated and imputed interest rates range from 3.96 to 4.841 percent.

8. NOTES PAYABLE

Notes payable are comprised of the following:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Balance at
6-30-07

School District of Indian River County, Florida

Pursuant to Section 1013.68(6), Florida Statutes, the Board Entered into an Interlocal Agreement in which the Board Received \$9,308,048 in Classrooms First Funds Allocated to Indian River County District School Board by the State of Florida. In Return, the Board Agreed to Pay Indian River County District School Board the Classrooms First Funds it Would Have Otherwise Received From the State. The Effective Interest Rate on the Loan is 5.776 Percent. Proceeds Used as Capital Funding for New School Construction. The Board's Intent is to Repay the Loan and Related Interest in 15 Annual Installments of \$897,039, through August 1, 2016.

\$ 6,672,819.61

School District of Collier County, Florida

Pursuant to Section 1013.68(6), Florida Statutes, the Board Entered into an Interlocal Agreement in which the Board Received \$29,176,952 in Classrooms First Funds Allocated to Collier County District School Board by the State of Florida. In Return, the Board Agreed to Pay Collier County District School Board the Classrooms First Funds it Would Have Otherwise Received From the State. The Effective Interest Rate on the Loan is 5.26 Percent. Proceeds Used as Capital Funding for New School Construction. The Board's Intent is to Repay the Loan and Related Interest in 105 Installments of \$401,693, Seven per Year, through May 31, 2017.

21,718,200.19

Total Notes Payable

\$ 28,391,019.80

Amounts payable for the planned extended repayment of the Section 1013.68, Florida Statutes, interlocal agreements are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2008	\$ 3,708,892.00	\$ 2,217,449.38	\$ 1,491,442.62
2009	3,708,892.00	2,336,728.21	1,372,163.79
2010	3,708,892.00	2,462,433.64	1,246,458.36
2011	3,708,892.00	2,594,912.54	1,113,979.46
2012	3,708,892.00	2,734,530.53	974,361.47
2013-2017	<u>18,544,460.00</u>	<u>16,044,965.50</u>	<u>2,499,494.50</u>
Total	<u>\$ 37,088,920.00</u>	<u>\$ 28,391,019.80</u>	<u>\$ 8,697,900.20</u>

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

9. EDUCATIONAL FACILITIES BENEFIT DISTRICT AGREEMENT PAYABLE

Pursuant to Section 1013.355, Florida Statutes, the District entered into an interlocal agreement with Osceola County, Florida, dated September 15, 2003, authorizing the creation of the Bellalago Educational Facilities Benefit District (Benefit District). The purpose of the Benefit District is to finance the construction of school facilities using a combination of sources, including impact fees, non-ad valorem assessments from homeowners, charter capital, and payments from the District. The District also entered into a charter contract on April 6, 2004, with The Foundation for Osceola Education, Inc. (Foundation), creating Bellalago Charter School. The Foundation entered into an interlocal agreement with the Benefit District under which it agreed to pay to the Benefit District any charter capital received in exchange for use of the school facilities. On December 16, 2003, the District entered into an interlocal funding agreement with the Benefit District and Avatar Properties, Inc., to formalize the obligations of the parties. Under the terms of this agreement, the District is obligated to pay the portion of debt service on bonds issued by the Benefit District not otherwise funded by impact fees, non-ad valorem assessments, and charter capital. Phase I of the construction was funded through bonds issued by the Benefit District at a rate of 6.05 percent. Phase II of the construction was funded by issuing a second series of bonds by the Benefit District at a rate of 5.83 percent. Estimated amounts payable for the Benefit District agreement are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2008	\$ 273,612.92	\$ (110,815.92)	\$ 384,428.84
2009	273,612.93	(115,278.97)	388,891.90
2010	15,000.00	(381,430.67)	396,430.67
2011	217,768.00	(195,209.13)	412,977.13
2012	790,529.00	369,083.70	421,445.30
2013-2017	3,771,266.00	1,907,452.80	1,863,813.20
2018-2022	3,480,263.00	2,042,082.49	1,438,180.51
2023-2027	3,144,367.00	2,159,393.31	984,973.69
2028-2032	2,786,623.00	2,280,521.13	506,101.87
2033-2035	1,019,933.00	956,664.87	63,268.13
Total	\$ 15,772,974.85	\$ 8,912,463.61	\$ 6,860,511.24

The amounts that may be required from the District in the future are dependent on the amount of charter capital received which is dependent on enrollment at the school and the level of funding appropriated annually by the Legislature.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

10. CERTIFICATES OF PARTICIPATION

Certificates of Participation at June 30, 2007, are as follows:

Series	Amount Outstanding	Interest Rate	Lease Term Maturity	Original Amount
1999 COPS (Partially Refunded)	\$ 39,340,000.00	4.2 - 5.0	2024	\$47,365,000
2000 COPS (Partially Refunded)	1,835,000.00	5.100 - 5.375	2011	17,080,000
2002 COPS (Partially Refunded)	2,110,000.00	4.0 - 4.5	2012	59,730,000
2004 COPS, Series A	59,980,000.00	2.5 - 5.0	2028	63,245,000
2004 COPS, Series B and C, Refunding	15,840,000.00	2.5 - 5.0	2019	18,850,000
2005 COPS Refunding	11,935,000.00	2.8 - 4.5	2025	12,095,000
2007 COPS, Series A and B, Refunding	<u>62,755,000.00</u>	3.6 - 4.5	2027	62,755,000
Total	193,795,000.00			
Plus Unamortized Premium	1,346,528.23			
Less: Deferred Amount on Refunding Debt	<u>(6,304,997.24)</u>			
Total Certificates of Participation	<u><u>\$188,836,530.99</u></u>			

The District entered into a master financing arrangement on April 1, 1992, which arrangement was characterized as a lease-purchase agreement, with the Florida School Board Association, Inc., whereby the District secured financing of various educational facilities. The financings were accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given ground leases on District properties to the Florida School Board Association, Inc., with a rental fee of \$1 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the various Ground Lease Agreements for the benefit of the securers of the Certificates for a period of time specified by the arrangement as follows:

Certificates	Lease Term
Series 1999	Earlier of date paid in full or June 30, 2024
Series 2000	Earlier of date paid in full or June 30, 2024
Series 2002	Earlier of date paid in full or May 31, 2032
Series 2004A	Earlier of date paid in full or June 30, 2028
Series 2004 B and C	Earlier of date paid in full or June 30, 2019
Series 2005	Earlier of date paid in full or June 30, 2034
Series 2007	Earlier of date paid in full or June 30, 2027

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

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Certificates	Description of Properties
Series 1999	Horizon Middle School and Classrooms, Osceola High School Labs, Poinciana High School (correct defects/deficiencies to original construction), and Kissimmee Elementary School
Series 2000 and 2005, Refunding	Four Corners Charter School
Series 2002 and 2007, Refunding	Celebration High School and the Tupperware Performing Arts High School
Series 2004A, B, and C, Refunding	Poinciana High School (correct defects/deficiencies to original construction), Kissimmee Elementary School, High School EEE, and Chestnut Elementary School

The lease payments are payable by the District, semiannually, on June 1 and December 1 for Series 1999, 2002, 2004, and 2007, and February 1 and August 1 for Series 2000 and 2005. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2008	\$ 14,579,481.43	\$ 5,885,000.00	\$ 8,694,481.43
2009	14,577,975.04	6,225,000.00	8,352,975.04
2010	14,578,895.04	6,465,000.00	8,113,895.04
2011	14,580,698.17	6,725,000.00	7,855,698.17
2012	14,581,165.04	6,990,000.00	7,591,165.04
2013-2017	72,876,301.36	39,510,000.00	33,366,301.36
2018-2022	72,860,904.39	49,425,000.00	23,435,904.39
2023-2027	70,657,200.00	59,670,000.00	10,987,200.00
2028	13,503,737.50	12,900,000.00	603,737.50
Total Minimum Lease Payments	<u>\$ 302,796,357.97</u>	193,795,000.00	<u>\$ 109,001,357.97</u>
Plus: Unamortized Premium		1,346,528.23	
Less: Deferred Amount on Refunding Debt		<u>(6,304,997.24)</u>	
Total Certificates of Participation		<u>\$ 188,836,530.99</u>	

11. BONDS PAYABLE

Bonds payable at June 30, 2007, are as follows:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To	Original Amount
State School Bonds:				
Series 1998A	\$ 100,000.00	5.0	2008	\$ 285,000
Series 1999A	1,055,000.00	4.00 - 4.75	2019	1,400,000
Series 2000A	70,000.00	5.0 - 6.0	2010	110,000
Series 2001A	1,220,000.00	4.1 - 5.0	2021	1,775,000
Series 2002A	750,000.00	3.875 - 5.000	2022	935,000
Series 2003A	1,730,000.00	3.00 - 4.25	2023	1,985,000
Series 2004A	1,430,000.00	3.000 - 4.625	2024	1,595,000
Series 2005A	1,595,000.00	4.0 - 5.0	2025	1,685,000
Series 2005A, Refunding	5,160,000.00	4.0 - 5.0	2017	5,160,000
Series 2005B, Refunding	1,705,000.00	5.0	2020	1,715,000
Series 2006A	1,765,000.00	4.0 - 5.0	2026	1,810,000
District Revenue Bonds:				
Sales Tax Revenue Series 2001	6,310,000.00	4.2 - 4.5	2011	7,730,000
Sales Tax Revenue Series 2007A	47,580,000.00	3.5 - 5.0	2025	47,580,000
Sales Tax Revenue Series 2007B	<u>32,255,000.00</u>	3.5 - 5.0	2024	32,255,000
Total Bonds	102,725,000.00			
Plus: Unamortized Bond Premiums	4,659,594.28			
Less: Deferred Amount on Refunding	<u>(2,589,295.56)</u>			
Total Bonds Payable	<u>\$ 104,795,298.72</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 Revenue Bonds**

The School Board issued Sales Tax Revenue Bonds, Series 2001, in the amount of \$42,325,000 on May 1, 2001. These bonds are authorized by Chapter 1001, Florida Statutes, and Chapter 212, Part I, Florida Statutes. A resolution providing for the issuance of the bonds was adopted by the School Board on April 24, 2001. Proceeds of the discretionary local government infrastructure sales tax surtax received by the District pursuant to an interlocal agreement between Osceola County, the cities of Kissimmee and St. Cloud, and the District are pledged for the payment of bonds. Proceeds of the bonds were used to finance construction of new school facilities and renovations of existing school facilities.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

The School Board issued Sales Tax Revenue Bonds, Series 2007A and 2007B on April 12, 2007, totaling \$47,580,000 and \$32,255,000, respectively. These bonds are authorized by Chapter 1001, Florida Statutes and Chapter 212, Part I, Florida Statutes. A resolution providing for the issuance of the bonds was adopted by the School Board on March 20, 2007. Proceeds of the discretionary local government infrastructure sales tax surtax received by the District pursuant to an interlocal agreement between Osceola County, the cities of Kissimmee and St. Cloud, and the District are pledged for the payment of bonds. Proceeds of the 2007A bonds were used to finance the acquisition, construction, reconstruction, renovation, and equipping of certain capital improvements and educational facilities within the School District. Proceeds of the 2007B bonds were used to advance-refund a portion of the School District's outstanding Sales Tax Revenue Bonds, Series 2001.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2008	\$ 1,727,303.75	\$ 965,000.00	\$ 762,303.75
2009	1,734,103.75	1,015,000.00	719,103.75
2010	1,722,710.00	1,050,000.00	672,710.00
2011	1,724,803.75	1,100,000.00	624,803.75
2012	1,719,463.75	1,145,000.00	574,463.75
2013-2017	8,534,002.50	6,515,000.00	2,019,002.50
2018-2022	4,127,052.50	3,390,000.00	737,052.50
2023-2026	<u>1,528,575.00</u>	<u>1,400,000.00</u>	<u>128,575.00</u>
Total State School Bonds	<u>22,818,015.00</u>	<u>16,580,000.00</u>	<u>6,238,015.00</u>
District Revenue Bonds:			
2008	7,231,562.50	3,235,000.00	3,996,562.50
2009	7,234,202.50	3,370,000.00	3,864,202.50
2010	7,234,782.50	3,510,000.00	3,724,782.50
2011	7,232,442.50	3,645,000.00	3,587,442.50
2012	7,231,102.50	3,790,000.00	3,441,102.50
2013-2017	36,162,617.50	21,640,000.00	14,522,617.50
2018-2022	36,158,150.00	27,260,000.00	8,898,150.00
2023-2025	<u>21,696,750.00</u>	<u>19,695,000.00</u>	<u>2,001,750.00</u>
Total District Revenue Bonds	<u>130,181,610.00</u>	<u>86,145,000.00</u>	<u>44,036,610.00</u>
Total	<u>\$ 152,999,625.00</u>	<u>\$ 102,725,000.00</u>	<u>\$ 50,274,625.00</u>

12. DEFEASED DEBT

On May 15, 2007, the District issued \$62,755,000 in Certificates of Participation with an average interest rate of 4.36 percent to advance-refund \$57,620,000 of outstanding Certificates of Participation, Series 2002, with an average interest rate of 5.21 percent. The net proceeds of \$61,244,239.25 (after a discount

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

of \$701,119.05 and payment of \$809,641.70 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Certificates of Participation, Series 2002.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5,190,723.29. This difference, reported in the accompanying financial statements as a deduction from certificates of participation payable, is being amortized through the year 2027 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 20 years by \$2,027,254.84 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,878,054.71.

On April 12, 2007, the Board issued Sales Tax Revenue Bonds, Series 2007B, in the amount of \$32,255,000 with an average interest rate of 4.54 percent, to advance-refund a portion of the District's Sales Tax Revenue Bonds, Series 2001. The Refunding Bonds are being issued to advance-refund the \$34,595,000 principal amount of the District's Sales Tax Revenue Bonds, Series 2001, that mature on or after June 1, 2012. The net proceeds of \$32,879,239.59 (after payment of \$446,262.51 in underwriting fees, insurance, and other issuance costs) plus an additional \$3,982,405.63 of Series 2001 debt service reserve funds were placed in an irrevocable trust to provide for a portion of future debt service payments on the Series 2001 bonds. As a result, \$34,595,000 of the Series 2001 bonds are considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 2001 bonds were refunded to reduce total debt service payments over the next 18 years by approximately \$1,757,184 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,338,986.

In prior years, portions of the State School Bonds, Series 1998A and 2000A, were refunded by the Florida Department of Education and considered defeased in substance by placing a portion of the proceeds of new State School Bonds in an irrevocable trust to provide for all future debt service payments on the old State School Bonds. Accordingly, the trust account assets and the liability for the in-substance defeased State School Bonds are not included in the District's financial statements. On June 30, 2007, State School Bonds, Series 1998A and 2000A, totaling \$1,425,000 and \$345,000, outstanding respectively, are considered defeased in substance.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

13. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-06	Additions	Deductions	Balance 6-30-07	Due in One Year
GOVERNMENTAL ACTIVITIES					
Obligations Under Capital Leases	\$ 394,274.28	\$ 2,896,265.28	\$ 488,695.84	\$ 2,801,843.72	\$ 2,801,843.72
Installment-Purchases Payable	5,568,045.23	600,480.87	1,206,433.40	4,962,092.70	1,167,617.78
Notes Payable	30,495,287.95		2,104,268.15	28,391,019.80	2,217,449.38
Bonds Payable	63,716,001.86	83,976,747.95	42,897,451.09	104,795,298.72	4,319,306.03
Certificates of Participation Payable	194,270,401.50	62,053,880.95	67,487,751.46	188,836,530.99	5,634,126.08
Educational Facilities Benefit District Agreement Payable	8,805,939.34	335,805.72	229,281.45	8,912,463.61	
Compensated Absences Payable	13,103,129.00	5,301,379.00	3,697,693.00	14,706,815.00	1,279,329.00
Total Governmental Activities	\$316,353,079.16	\$155,164,559.77	\$118,111,574.39	\$353,406,064.54	\$ 17,419,671.99

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

14. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2007-08 fiscal year budget as a result of purchase orders outstanding at June 30, 2007.

15. RESTATEMENT OF COMPONENT UNIT NET ASSETS

At June 30, 2006, the financial statements of three District component units were restated as follows:

➤ **The Foundation for Osceola Education, Inc.**

During the year ended June 30, 2007, the Foundation determined it had received a land donation October 2005 and had not reflected the donation in its prior year financial statements. Therefore, a prior period adjustment was recorded in the financial statements to record land of \$700,000, the fair value of the donation, and to increase net assets as of June 30, 2006, by \$700,000.

➤ **New Dimensions High School, Inc. (Charter School)**

The School's net assets in the statement of activities has been restated by (\$8,398) to reflect the net effect of a payroll accrual that was not recorded and two capital leases that were previously recorded as operating leases.

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

➤ **Four Corners Charter School, Inc. (Charter School)**

The School's beginning net assets in the statement of activities has been restated to reflect an increase of \$31,453. In the prior year, the School expensed various assets that should have been recorded as capital assets.

16. 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:		
General	\$ 9,766,501.47	\$ 1,171,015.80
Capital Projects:		
Other	55,026.46	366,794.13
Nonmajor Governmental	671,015.80	9,398,602.34
Internal Service	500,000.00	
Fiduciary:		
Agency		56,131.46
Total	\$10,992,543.73	\$ 10,992,543.73

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 9,380,905.44	\$ 105,010.36
Capital Projects:		
Other	7,383,918.39	6,707,992.91
Nonmajor Governmental	18,413,896.92	28,365,717.48
Total	\$ 35,178,720.75	\$ 35,178,720.75

The transfers out of the Capital Projects and Nonmajor Governmental funds were to provide debt service principal and interest payments and to assist in funding maintenance operations of the District. The remaining transfers between funds were operational in nature.

17. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2006-07 fiscal year:

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 158,866,387.51
Categorical Educational Programs:	
Class Size Reduction	41,285,386.00
Transportation	9,701,290.00
Instructional Materials	5,388,872.00
School Recognition	1,986,208.00
Voluntary Prekindergarten Program	1,942,090.58
Florida Teachers Lead Program	887,242.00
Excellent Teaching Program	877,844.70
Gross Receipts Tax (Public Education Capital Outlay)	9,776,617.00
Workforce Development Program	5,017,236.00
Charter School Capital Outlay	3,570,610.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	2,118,063.35
Discretionary Lottery Funds	2,079,393.00
Food Service Supplement	305,942.94
Pari-Mutuel Tax	223,303.18
Miscellaneous	<u>629,150.75</u>
 Total	 <u><u>\$ 244,655,637.01</u></u>

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

18. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2006 tax roll for the 2006-07 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.022	\$ 109,757,532.55
Basic Discretionary Local Effort	0.510	11,146,224.93
Supplemental Discretionary Local Effort	0.250	5,463,835.75
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>43,710,686.00</u>
 Total	 <u><u>7.782</u></u>	 <u><u>\$ 170,078,279.23</u></u>

19. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System (FRS). FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes;

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 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 2006-07 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Teachers' Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment 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 or plan 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, 2005, June 30, 2006, and June 30,

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2007, totaled \$12,973,284, \$15,859,750, and \$19,443,791, 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. PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Elected County Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 1,102 District participants in PEORP during the 2006-07 fiscal year. Required employer contributions made to the program for the fiscal year ending June 30, 2007, totaled \$3,259,892.

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

20. EARLY RETIREMENT PROGRAM

The Board has established an early retirement program as authorized by Section 1012.685, Florida Statutes, which it offers on a year-to-year basis. Under this program, the Board purchased annuities for employees with at least 25 years of creditable service but less than 30 years, as of June 30, 2007, who have reached the age of 55 but are less than age 62 at the effective date of retirement and have applied for retirement under the Florida Retirement System (described in the previous note). The Board may also consider employees ages 50 through 54 if the Board determines that it is economically feasible to do so. The annuities provide for the early retirees to receive additional income after retirement, not to exceed the difference between their Florida Retirement System early retirement benefits, which are reduced by 5 percent for each year prior to age 62, and the benefits that would have been received had they been eligible for full Florida Retirement System benefits on the date of retirement. In the event an employee has earned experience in a public school system in another state, the Board may choose to purchase such out-of-state experience (up to five years) as is necessary to provide regular retirement benefits. This experience may not be purchased in addition to an annuity. Two employees retired

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

during the 2006-07 fiscal year. Annuities were purchased for these individuals at a total cost of \$186,145.37.

The Board did not cover the full amount by which pensions were reduced by the State Division of Retirement and did not guarantee that an early retirement program would be offered in future years.

21. CONSTRUCTION CONTRACT COMMITMENTS

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

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Project	Contract Amount	Completed to Date	Balance Committed
High School EEE (Liberty High School):			
Contractor: Turner Construction Co.	\$ 39,467,616.76	\$ 36,124,532.40	\$ 3,343,084.36
Architect: Schenkel & Schultz, Inc.	1,681,873.50	1,543,512.21	138,361.29
High School AAA (Celebration High School):			
Contractor: Centex Rooney	26,409,720.59	26,311,614.26	98,106.33
Contractor: Clancy & Theys Construction	399,112.00	399,112.00	
Architect: Schenkel & Schultz, Inc.	1,232,909.80	1,203,461.14	29,448.66
Elementary School J (Harmony Elementary School):			
Contractor: Clancy & Theys Construction	13,568,560.00		13,568,560.00
Architect: Schenkel & Schultz, Inc.	566,980.00	398,853.22	168,126.78
Elementary School I (Neptune Elementary School):			
Contractor: W. G. Mills, Inc.	12,562,602.73	12,490,020.77	72,581.96
Architect: Schenkel & Schultz, Inc.	353,675.00	330,905.76	22,769.24
Elementary School E (Sunrise Elementary School):			
Contractor: Williams Company	11,603,751.47	11,413,751.47	190,000.00
Architect: BRPH Architect/Engineers	325,769.09	325,769.09	
Architect: Schenkel & Schultz, Inc.	267,905.00	252,551.14	15,353.86
Elementary School H (St. Cloud Elementary School):			
Contractor: Clancy & Theys Construction	10,797,826.70	10,797,826.70	
Architect: Schenkel & Schultz, Inc.	357,540.00	346,724.91	10,815.09
Kmart Conversion for Zenith and Alternative Programs:			
Contractor: Turner Construction Company	4,975,927.84	4,968,472.84	7,455.00
Architect: Schenkel & Schultz, Inc.	323,839.95	323,839.95	
Ventura Elementary School Roof and Miscellaneous:			
Contractor: Clancy & Theys Construction	991,567.00	955,592.16	35,974.84
Architect: DBY Building Sciences, LLC	36,675.00	36,522.95	152.05
Boggy Creek Elementary School Roof:			
Contractor: Young Roofing of Central FL	719,600.00		719,600.00
Architect: DBY Building Sciences, LLC	48,650.00	29,590.00	19,060.00
Neptune Middle School Roof:			
Contractor: Coatings Application	681,845.00	655,841.70	26,003.30
Architect: DBY Building Sciences, LLC	25,415.00	24,558.30	856.70
Administration Building Roof Replacement			
Contractor: General Works, LLC	652,253.01	652,253.01	
Architect: DBY Building Sciences, LLC	30,580.00	29,251.40	1,328.60
Parkway Middle School Roof:			
Contractor: R.F. Lusa & Sons Sheet Metal	520,000.00		520,000.00
Architect: DBY Building Sciences, LLC	49,475.00	32,158.75	17,316.25
Mill Creek Elementary School Roof:			
Contractor: R.F. Lusa & Sons Sheet Metal	420,000.00		420,000.00
Architect: DBY Building Sciences, LLC	43,950.00	26,770.00	17,180.00
Lakeview Elementary School Roof:			
Contractor: R.F. Lusa & Sons Sheet Metal	420,000.00		420,000.00
Architect: DBY Building Sciences, LLC	43,950.00	26,770.00	17,180.00
Hickory Tree Elementary School Roof:			
Contractor: R.F. Lusa & Sons Sheet Metal	410,000.00		410,000.00
Architect: DBY Building Sciences, LLC	48,250.00	29,950.00	18,300.00
Pleasant Hill Elementary School Roof:			
Contractor: R.F. Lusa & Sons Sheet Metal	400,000.00		400,000.00
Architect: DBY Building Sciences, LLC	18,398.25	2,044.25	16,354.00
Curriculum Development Building Roof:			
Contractor: Young Roofing of Central FL	88,700.00		88,700.00
Architect: DBY Building Sciences, LLC	5,000.00	3,250.00	1,750.00
Total	\$ 130,549,918.69	\$ 109,735,500.38	\$ 20,814,418.31

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

22. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Osceola County District School Board is a member of the Florida School Boards Insurance Trust (Trust) which was established by the Florida School Boards Association, Inc., to provide combined self-insurance and risk management services to participating members. The Trust is a public entity risk pool and provides a combined self-insurance program for property protection, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Trust. Section 1001.42(10)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Trust is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Trust is composed of one board member from each participating district and a superintendent and a district-level business official selected from one of the participating districts. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Board has established the Osceola County School Board Group Health and Life Insurance Trust to provide for a health, hospitalization, and life insurance program. The program is on a self-insured basis up to specified limits. The District did not elect to purchase the aggregate stop-loss coverage due to the rising premium cost and the high attachment point. The District elected to continue coverage for a specific stop-loss for any one claim of \$275,000. The Board has contracted with a professional administrator to administer the self-insurance program, including the processing, investigating, and payment of claims.

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

A liability in the amount of \$2,390,000 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable for the group health program at June 30, 2007.

Effective July 1, 2003, the District's general liability and auto liability programs were established on a self-insured basis. These programs are administered by the Trust and are accounted for in the District's internal service funds. The District intends to accumulate a casualty loss fund of \$5,000,000 by funding approximately \$550,000 per year to the internal service fund established for these programs. The

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

program administrator held prefunded cash deposits of \$210,076.07 at June 30, 2007, which the District reports as cash with fiscal agent in the internal service funds. A liability of \$421,660.41 was established based on reserves for outstanding claims at June 30, 2007, as reported by the program administrator.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2005-06	\$ 2,664,572.98	\$ 28,371,865.00	\$(28,368,348.00)	\$ 2,668,089.98
2006-07	2,668,089.98	36,162,487.24	(36,018,916.81)	2,811,660.41

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2006-07 fiscal year:

	Total	Group Health Insurance	Auto and General Liability
Total Assets	<u>\$ 7,882,575.38</u>	<u>\$ 5,267,266.66</u>	<u>\$ 2,615,308.72</u>
Liabilities and Net Assets:			
Salaries and Benefits Payable	\$ 2,527.82	\$ 2,527.82	\$
Accounts Payable	858,899.55	858,899.55	
Due to Other Agencies	374.92	374.92	
Estimated Insurance Claims Payable	2,811,660.41	2,390,000.00	421,660.41
Net Assets:			
Unrestricted Net Assets	<u>4,209,112.68</u>	<u>2,015,464.37</u>	<u>2,193,648.31</u>
Total Liabilities and Net Assets	<u>\$ 7,882,575.38</u>	<u>\$ 5,267,266.66</u>	<u>\$ 2,615,308.72</u>
Revenues:			
Premium Revenues	\$ 36,000,725.45	\$ 35,038,660.23	\$ 962,065.22
Interest Income	334,235.56	242,264.00	91,971.56
Other	<u>206.06</u>	<u>206.06</u>	
Total Revenues	36,335,167.07	35,281,130.29	1,054,036.78
Total Expenses	<u>(40,229,686.74)</u>	<u>(39,988,597.61)</u>	<u>(241,089.13)</u>
Change in Net Assets	<u>\$ (3,894,519.67)</u>	<u>\$ (4,707,467.32)</u>	<u>\$ 812,947.65</u>

EXHIBIT – L (Continued)
OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

24. LITIGATION

The District is involved in several threatened and pending legal actions, which could result in material loss to the District. In the opinion of the District's legal counsel and management, it is not probable that a material loss will occur.

25. SUBSEQUENT EVENTS

As discussed in Note 3, at June 30, 2007, the Osceola County District School Board had \$199,188,829.88 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the District and the State Board of Administration. The District had \$55,528,924 invested in the Pool as of January 18, 2008. Funds on deposit with the Pool primarily resulted from deposits made by the Osceola County Tax Collector.

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



DAVID W. MARTIN, 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 Osceola County District School Board as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Osceola County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1 and 2, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described 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 not material to the basic financial statements which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** and ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** sections of this audit report.

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

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,



David W. Martin, CPA
January 18, 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2007. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S 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 the District's major Federal program is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. However, the results of our

auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

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,



David W. Martin, CPA
January 18, 2008

**OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007**

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	\$ 844,455.58	\$
Florida Department of Education: Child Nutrition Cluster:				
School Breakfast Program	10.553	321	2,206,261.40	
National School Lunch Program	10.555	300	9,377,375.78	
Summer Food Service Program for Children	10.559	323	630,758.69	
Total Child Nutrition Cluster			<u>12,214,395.87</u>	
Total United States Department of Agriculture			<u>13,058,851.45</u>	
United States Department of Education:				
Direct:				
Federal Pell Grant Program	84.063	N/A	196,136.53	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	194,653.75	
Fund for the Improvement of Education	84.215	N/A	310,634.59	
Total Direct			<u>701,424.87</u>	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	8,830,682.73	
Special Education - Preschool Grants	84.173	267	184,948.01	
Orange County District School Board:				
Special Education - Grants to States	84.027	None	24,733.98	
Washington County District School Board:				
Special Education - Grants to States	84.027	None	1,233.14	
Total Special Education Cluster			<u>9,041,597.86</u>	
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191, 193	317,943.07	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	8,269,239.24	
Migrant Education - State Grant Program	84.011	217	49,188.10	
Vocational Education - Basic Grants to States	84.048	151	538,101.11	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	207,303.29	
Education for Homeless Children and Youth	84.196	127	43,139.41	
Charter Schools	84.282	298	19,427.50	19,427.50
Twenty-First Century Community Learning Centers	84.287	244	2,018,222.70	
State Grants for Innovative Programs	84.298	113	96,911.47	
Education Technology State Grants	84.318	121, 122	203,632.19	
Comprehensive School Reform Demonstration	84.332	128	78,382.74	
English Language Acquisition Grants	84.365	102	1,764,929.16	
Mathematics and Science Partnerships	84.366	235	359,516.18	
Improving Teacher Quality State Grants	84.367	224	1,852,974.51	
Hurricane Education Recovery	84.938	104	62,659.46	
Valencia Community College:				
Tech-Prep Education	84.243	None	84,405.94	
Washington County District School Board:				
Title I Grants to Local Educational Agencies	84.010	None	2,651.43	
Reading First State Grants	84.357	None	84,619.00	
Total Indirect			<u>25,094,844.36</u>	<u>19,427.50</u>
Total United States Department of Education			<u>25,796,269.23</u>	<u>19,427.50</u>
United States Department of Health and Human Services:				
Indirect:				
Early Learning Coalition of Osceola County: Child Care and Development Block Grant	93.575	None	102,856.00	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	234	4,719.45	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	125,747.55	
Army Junior Reserve Officers Training Corps	None	N/A	114,708.79	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	51,059.12	
Navy Junior Reserve Officers Training Corps	None	N/A	60,220.44	
Total United States Department of Defense			<u>351,735.90</u>	
Total Expenditures of Federal Awards			<u>\$ 39,314,432.03</u>	<u>\$ 19,427.50</u>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2006-07 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 2006-07 fiscal year. Commodities, including cash received in lieu of donated food totaling \$3,379.19, are valued at fair value as determined at the time of donation.

**OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SUMMARY OF AUDITOR'S 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 Osceola County District School Board for the fiscal year ended June 30, 2007:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be significant deficiencies, though none of the significant deficiencies was considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- No significant deficiencies in internal control over major Federal programs were reported.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Child Nutrition Cluster [National School Lunch Program (CFDA No. 10.555), School Breakfast Program (CFDA No. 10.553), and Summer Food Service Program for Children (CFDA No. 10.559)].
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$1,179,432.96.
- The low risk entity threshold was applied.

**OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FINDINGS AND RECOMMENDATIONS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

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

Finding Type: Noncompliance

Questioned Costs: Not Applicable

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

During the 2006-07 fiscal year, the District made several payments pursuant to contracts or purchase orders, each exceeding \$25,000, without requiring contractors to certify that they were not suspended or debarred from receiving Federal funds, nor did the District verify the contractor's suspension or debarment status by checking the EPLS. Our review disclosed that District records did not evidence compliance with the suspension and debarment requirement for expenditures totaling approximately \$3,671,000 to nine contractors for food products and equipment related to the Child Nutrition Cluster program. Although we verified that the vendors included in our tests were not included on the GSA's *Excluded Parties List System*, our procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should establish procedures, as required, for determining if vendors are suspended or debarred prior to entering into contracts, and maintain documentation evidencing compliance.

District Contact Person: Todd Seis, Finance Director

*OSCEOLA COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007*

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
Cherry Bekaert & Holland 06-01	Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Procurement	District contracts involving Federal funds did not contain certain contract provisions as required by Title 34, Section 80.36(i), Code of Federal Regulations.	Corrected.	

MANAGEMENT RESPONSE SECTION

The School District of Osceola County, Florida

BLAINE A. MUSE – SUPERINTENDENT

817 BILL BECK BOULEVARD • KISSIMMEE, FLORIDA 34744-4495

PHONE: 407-870-4600 • FAX: 407-870-4010 • www.osceola.k12.fl.us



SCHOOL BOARD MEMBERS

THOMAS E. CHALIFOUX, JR.
DISTRICT NO. 2-KISSIMMEE
PHONE: 407-846-0977

TOM GREER
DISTRICT NO. 4-KISSIMMEE
PHONE: 407-892-8200

JOHN MCKAY
DISTRICT NO. 5-ST. CLOUD
PHONE: 407-957-4056

DAVID STONE
DISTRICT NO. 3-KISSIMMEE
PHONE: 407-933-2700

JAY WHEELER
DISTRICT NO. 1-KISSIMMEE
PHONE: 407-390-0505

ADMINISTRATIVE
COMPLEX OFFICES:

ALTERNATIVE PROGRAMS
805 BILL BECK BOULEVARD
KISSIMMEE, FL 34744-4495
PHONE: 407-343-8713
FAX: 407-343-8776

EXCEPTIONAL STUDENT ED.
805 BILL BECK BOULEVARD
KISSIMMEE, FL 34744-4495
PHONE: 407-343-8700
FAX: 407-343-8625

FACILITIES
809 BILL BECK BOULEVARD
KISSIMMEE, FL 34744-4495
PHONE: 407-518-2964
FAX: 407-518-2985

PROFESSIONAL DEVELOPMENT
709 BILL BECK BOULEVARD
KISSIMMEE, FL 34744-4495
PHONE: 407-518-2940
FAX: 407-518-2988

STUDENT SERVICES
801 BILL BECK BOULEVARD
KISSIMMEE, FL 34744-4495
PHONE: 407-870-4897
FAX: 407-870-4629

January 18, 2008

David W. Martin, CPA
Auditor General
5015 S. Florida Avenue, Suite 406
Lakeland, FL 33813

Dear Mr. Martin:

The District is audited by the Auditor General every third year, with audits performed by private independent Certified Public Accountants in the intervening years. Traditionally, audits performed by the Auditor General include much more extensive operational and compliance testing resulting in more recommendations than audits performed by private independent auditors. The last audit of the Osceola County District School Board performed by the Auditor General was for the fiscal year ended June 30, 2004 and included fifteen (15) operational findings and three (3) federal awards findings. The current report includes ten (10) operational findings and one (1) federal awards finding. We recognize and commend the efforts and diligence of staff that produced this improvement. For comparative purposes, the Auditor General's audit of Polk County District School Board for the year ended June 30, 2006, included twenty-three (23) operational findings and two (2) federal awards findings.

We appreciate the thorough review of District operations performed by the Auditor General's staff and the guidance they provided to us in our first production of a Comprehensive Annual Financial Report for submission to the Government Finance Officers Association excellence in financial reporting certificate program.

Board Meets First Tuesday of Each Month
DISTRICT-WIDE ACCREDITATION BY THE SOUTHERN ASSOCIATION OF COLLEGES AND SCHOOLS
An Equal Opportunity Agency

January 18, 2008
Page 2 of 9

Finding No. 1: Inventory Controls

Improvements were needed in order to strengthen controls over the District's inventories and provide for enhanced accountability and safeguarding of related assets.

Recommendation: To strengthen internal control over the District's inventories, physical inventory counts should be performed by someone other than the employees responsible for recorded accountability and all adjustments made to the District's inventory systems should be reviewed and approved by supervisory personnel independent of the transaction process. In addition, controls over fuel inventory could be enhanced through appropriate monitoring and supervisory review.

Response:

The transportation and maintenance departments have tightened their procedure manuals and taken steps to maintain an acceptable segregation of duties as recommended by the Auditor General.

As noted in the audit, 27 batteries valued at approximately \$1,215 were discovered missing from the transportation department inventory by transportation department personnel in the normal course of their duties. The missing batteries were reported to management and to the Auditor General. A police report was filed and an internal investigation was conducted. No perpetrators have been identified and no explanation has been found for the missing batteries.

The auditors also noted inadequate controls over fuel withdrawals and recordkeeping of employee PINs inactivated from the computer system. As a result, tighter controls have been implemented to ensure a monthly inventory is taken to detect any variance between the physical tank measurement and the meter on the pump, as well as properly documenting removal of employee access from the computer system. There has been no record of inappropriate withdrawals of gas from the tank.

A special purpose audit of the transportation department's inventory was conducted by the District's internal auditor. We are pleased that the internal audit detected no instances of fraud, detected no additional inventory shortages, and confirmed that items purchased for inventory were entered into the inventory subsidiary ledger records.

January 18, 2008
Page 3 of 9

Finding No. 2: Investments

Improvements could be made in control procedures to ensure investments of unspent bond and certificates of participation proceeds are appropriately secured.

Recommendation: The District should enhance procedures to ensure investments of unspent bond and COPs proceeds are appropriately secured.

Response:

The Guaranteed Investment Contracts purchased by the District are both legal and secure. The internal control system functioned properly to insure that these conditions were met.

The investment is authorized under Section 218.415(16)(i), F.S., which permits "Other investments authorized by law or by resolution for a school district or a special district." School Board Resolution 01-24, Article I, Section 1.01, "Authorized Investments, (11)(b)(i) authorizes this particular investment vehicle. The investment contracts were subject to rigorous legal review by the Board's bond counsel and bond insurers to guarantee compliance with all applicable laws.

The Guaranteed Investment Contract purchased with proceeds of the 2004 COPs matured on December 31, 2007, and all remaining funds were remitted to the School Board as expected. Draws totaling more than \$5 million have been requested and paid from the remaining Guaranteed Investment Contract according to plan.

This investment was recommended and structured by the district's financial advisor to meet a number of investment objectives, including safety. There is no indication that the investment is at risk. Our debtor is rated triple A by both Moody's and S&P. This rating is monitored daily by district staff and our financial advisor. The contract contains stringent provisions to protect the district's investment in the event the rating should deteriorate. The District will carefully consider collateralization options for future investments.

We note that Section 218.415(16)(a) specifically authorizes investments in the Local Government Investment Pool operated by the State Board of Administration. Presumably, we would not be criticized had we chosen that investment. The Guaranteed Investment Contracts have proven to be a better choice than the SBA pool and a valuable diversification of the school district's investment portfolio.

January 18, 2008
Page 4 of 9

Finding No. 3: Terminal Leave Payments

District procedures could be enhanced to ensure that the appropriate terminal leave payments are made to employees.

Recommendation: The District should strengthen procedures to ensure that clear guidelines for calculating leave are provided to applicable staff and that supervisory review and approval of terminal leave pay calculations are performed prior to payment. Additionally, the District should recover the overpayments, totaling \$3,419.27, identified by our tests and review all sick leave payments made to the remaining full-time employees that are not classified as instructional staff or educational support as well as all annual leave payments paid to persons with leave in excess of 60 days and attempt to recover any additional terminal leave overpayments that may have occurred.

Response:

Sick Leave

The District has written procedures for calculating sick leave payouts. These procedures have been reviewed with the appropriate staff.

We will attempt to recover the overpayment of \$1,270.12 identified in the audit.

We reviewed the auditor's list of 78 full-time employees that received sick leave payments and determined that only 30 of these were subject to restricted payments because they were not instructional staff or educational support employees. We have recalculated these 30 and determined that, on balance, the District underpaid its liability. The District will correct the balances due to or from the individuals involved.

Annual Leave

We will attempt to recover the two overpayments on the audit test in the amount of \$2,149.15. We have instituted a supervisory review of the calculations.

Terminal Leave Approval

The district has put in place appropriate supervisory review and approval by the Director of Budget of all terminal leave calculations before they are paid.

January 18, 2008
Page 5 of 9

Finding No. 4: Overtime Controls

Improvements were needed in procedures to demonstrate compliance with the Board policy related to overtime and to control overtime costs.

Recommendation: The District should review its policies and procedures relative to overtime usage. This should include adherence to the District's established policies and procedures that require pre-approval of extra and overtime hours.

Response:

In accordance with Board policy, all overtime is approved by administrators in writing and electronically on timesheets prior to being paid.

Almost all "overtime" payments are at straight time. The district's total payments for time and one-half overtime in fiscal year 2006-07 amounted to less than one-half of one per cent (.0046) of payroll expenditures. It is cheaper to pay current employees additional hours at straight time than to hire additional employees, each of whom carries a cost to the Board of \$5,160 for health insurance.

Of the 149 cases cited by auditors, 81 are teachers. Teachers do not receive time and one-half. The "overtime" is for teaching summer school, adult education courses, homebound students, mentoring, and other additional assignments beyond the regular school day or school year. 42 of the 149 are bus drivers. For this group, anything in excess of 5 hours per day is reported as overtime, but only hours exceeding 40 hours per week are paid at time and one-half. The assignment of work beyond 40 hours per week is governed by union contract; hiring additional bus drivers would do little to reduce the time and one-half pay for this group. Of the remaining 26, only 17 had any time and one-half overtime. These were scattered among various departments and occupations so that it would not be efficient to hire additional staff.

We acknowledge two cases of overtime abuse. These are included among the table of five as well as the 149 cases cited by auditors. Both of these were discovered by the District, both were investigated by the District, and both employees have been terminated.

We have reviewed the other three employees listed in the table of five. The two maintenance department employees worked on installing portables during the summer and correcting health and safety deficiencies (see comment 5). The school custodian worked on weekends due to the facility being used by outside organizations; the overtime was reimbursed to the District by these organizations.

The District is developing software enhancements to alert administrators to large cumulative amounts of overtime by individuals under their supervision. This will function as an additional control to help detect attempted abuse.

January 18, 2008

Page 6 of 9

Finding No. 5: Annual Facility Safety Inspections

Annual safety inspection reports noted numerous deficiencies which remained uncorrected from previous years, such as fire detectors not installed, rooms not accessible to those with disabilities, and other deficiencies.

Recommendation: The District should continue its efforts to provide for the timely correction of facility deficiencies as noted in the annual safety inspection reports.

Response:

As part of the District's commitment to identify and address all Health & Safety issues throughout the District, the Health & Safety department inspects and notes all identifiable issues in the annual Comprehensive Safety Report. This report identifies fire safety, casualty, and sanitation hazards, as well as handicap accessibility issues. These items are classified either as Maintenance, Capital, or Operational and are assigned a severity level based on the level of hazard to the students and staff. The District then prioritizes and corrects the items that pose the greatest hazard first, using available resources.

The District takes all Health & Safety issues seriously by consistently expending more than the mandatory amount of PECO funds provided to cover health and life-safety deficiency items. In the 2006-07 fiscal year, roughly \$1.80 million was earmarked to correct items noted on the annual Comprehensive Safety Report and the District holds every department head and principal responsible for maintaining an acceptable level of operational safety within their respective departments/facilities. For this reason the District shares the annual Comprehensive Safety report with these individuals, and successful completion of corrective action is a part of their annual evaluation. Through these efforts the District has greatly reduced the overall number of deficiencies disclosed in the report.

The District's goal is to correct all deficiencies within a timely manner as soon as they are noted. Since the 2003-04 fiscal year, the District has reduced the overall number of cited deficiencies by approximately 52%.

January 18, 2008
Page 7 of 9

Finding No. 6: Third-Party Administrators

The contracted provider of the District's flexible spending plans did not hold valid certificates of authority from the Florida Office of Insurance Regulation. Improvements were needed in monitoring claims paid for the flexible spending plans.

Recommendation: The District should take appropriate action to require its third-party administrators obtain a valid certificate of authority issued by the Florida Office of Insurance Regulation, as required by law. In addition, to assist in monitoring the activities of the TPA of the District's flexible benefits spending plans, the District should consider obtaining a service organization report to assess whether the organization's controls are suitably designed and provide adequate controls over claims processing.

Response:

The District contracted with Connecticut General Life Insurance Company (CGLIC) to administer the Group Health Self-Insurance Plan for the referenced fiscal year. While Florida Statute 626.8805 requires that Administrators have a valid Certificate of Authority, the definition of Administrator, as defined in Florida Statute 626.88, exempts insurance companies as well as numerous other entities that would otherwise be included in the definition and licensure requirements.

Florida Statute 626.88 provides:

- 1) *"Administrator" is any person who directly or indirectly solicits or effects coverage of, collects charges or premiums from, or adjusts or settles claims on residents of this state in connection with authorized commercial self-insurance funds or with insured or self-insured programs which provide life or health insurance coverage or coverage of any other expenses described in s. 624.33(1) or any person who, through a health care risk contract as defined in s. 641.234 with an insurer or health maintenance organization, provides billing and collection services to health insurers and health maintenance organizations on behalf of health care providers, other than any of the following persons;*
 - (c) *An insurance company which is either authorized to transact insurance in this state or is acting as an insurer with respect to a policy lawfully issued and delivered by such company in and pursuant to the laws of a state in which the insurer was authorized to transact an insurance business.*

As a licensed insurance company authorized to transact insurance in the State of Florida since January 13, 1939, Connecticut General Life Insurance Company (CGLIC) is exempt from the requirement to hold a Certificate of Authority as a third-party administrator.

During the Audit Period, the District contracted with two other providers to administer the district's flexible spending account (FSA) plans. The District has been unable to secure

January 18, 2008
Page 8 of 9

a valid Certificate of Authority from either provider. These contracts have been terminated, and effective 10/01/2007, the District has contracted with CGLIC for the administration of our FSA Plan, which is authorized as outlined above.

The District will include payments under its FSA plans in the annual review of claims payments. The district has a copy of the SAS 70 report for CIGNA which is the current FSA administrator.

Finding No. 7: Security Awareness Training

The District did not develop a written security awareness training program or perform ongoing information technology security awareness training for all who use the District's computer system.

Recommendation: The District should develop a written information technology security awareness training program and perform ongoing security awareness training to periodically remind all who use the District's computer system of the security risks and to reinforce adherence to the District's policies and procedures.

Response:

An online Security Awareness Training course has been developed and is in the final stages of completion. We anticipate that this training will be available for staff to take online before the end of June 2008.

Finding No. 8: Formal Security Program

The District did not develop formal written policies and procedures related to the District's information technology resources.

Recommendation: The District should ensure that written policies and procedures are developed, approved, distributed and made available to appropriate District staff.

Response:

The District already has many security policies in place and is working on expanding and consolidating them into one comprehensive manual.

Finding No. 9: Network Penetration Testing

Improvements were needed to ensure that penetration and vulnerability testing is performed on a regular basis.

Recommendation: The District should ensure that penetration and vulnerability testing is performed on a regular basis.

Response:

Plans for performing penetration and vulnerability tests on our network is in progress. We anticipate contracting with a third party vendor to conduct a network penetration test in the early part of the 2008-09 fiscal year.

January 18, 2008
Page 9 of 9

Finding No. 10: Security Administrator Function

The District has not formally established the duties and responsibilities of the security administrator position.

Recommendation: The District should formally establish duties and responsibilities of the security administrator position.

Response:

A job description for a security administrator position was drafted and will be sent to the School Board for approval by June 2008.

Federal Awards Finding No. 1: Suspension and Debarment

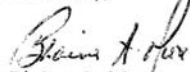
The District did not have the necessary controls in place to verify that, for certain Federal transactions, vendors were not suspended or debarred.

Recommendation: The District should establish procedures, as required, for determining if vendors are suspended or debarred prior to entering into contracts, and maintain documentation evidencing compliance.

Response:

The Purchasing Department has taken the necessary steps to correct this finding. A Debarment Certification Form is now included in all solicitations issued by the Purchasing Department. Each Buyer shall ensure that their solicitation's Debarment Form is completed by the vendor and shall verify the vendor's suspension or debarment status by checking the Excluded Parties Listing System (EPLS) issues by the General Services (GSA) on-line and print the results. In addition, all Debarment Forms shall include a clause requiring the vendor to self-report any changes to the School District if their Debarment status changes.

Sincerely,



Blaine A. Muse
Superintendent

BAM/pa