AUDITOR GENERAL

DAVID W. MARTIN, CPA

ORANGE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2007

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

	District No.
Joie Cadle	*1*
Timothy Shea to 11-20-06	*2*
M. Daryl Flynn from 11-21-06	*2*
Judge Richardson Roach	*3*
Karen Ardaman, Chair	*4*
Kathleen B. Gordon	*5*
Anne C. Geiger	*6*
Jim B. Martin, Vice-Chair	*7*

Ronald Blocker, Superintendent

AUDITOR GENERAL

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ORANGE COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Orange 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: QZAB Bond

Proceeds and interest earnings from the 2002 QZAB Bonds were not expended in a timely manner.

Finding No. 2: Professional Services

The District did not advertise separately for construction management services to construct four new high school projects, contrary to Section 287.055, Florida Statutes.

Finding No. 3: Construction Documents

Improvements could be made in District monitoring procedures over construction projects and related documents.

Finding No. 4: Acquisitions of Schools

The District did not adequately document that it had proper authority to purchase schools built by a developer.

Finding No. 5: Independent Reviews of Construction Projects

Reviews of construction manager billings and final payments by an independent CPA firm were not obtained in a timely manner, hindering the District's ability to implement timely corrective action.

Finding No. 6: Subcontractor Invoices

Pre-audit procedures could be enhanced for construction-related expenditures to ensure that construction manager payment applications are properly supported by subcontractor invoices.

Finding No. 7: Program Manager Contract

The District did not initially provide documentation to evidence the reasonableness of costs paid to an independent contractor for program management services. Subsequent efforts by the District resulted in changes to the costs paid for the service.

Finding No. 8: Annual Facility Safety Inspections

Many instances were noted in which previously cited firesafety deficiencies remained uncorrected.

Finding No. 9: School Advisory Councils

Seven of the ten school advisory council memberships reviewed included one to three additional administrative employees, contrary to Section 1001.452, Florida Statutes.

Finding No. 10: School Internal Funds

The independent audit of the District's school internal funds noted that many findings had been repeated from previous years, indicating that follow-up on audit findings and recommendations was insufficient.

<u>Finding No. 11</u>: Monitoring of Charter Schools

The District could make improvements in monitoring its charter schools to ensure that the schools maintain the required insurance coverage and that floor plans are submitted to area law enforcement agencies and fire departments.

<u>Finding No. 12</u>: Fee Collections

The District did not perform independent fee audits for adult and community educational course fee collections.

<u>Finding No. 13</u>: Time Records

Improvements could be made in payroll processing procedures to properly document and approve employee attendance.

<u>Finding No. 14</u>: Insurance Premiums

The Board approved the Board attorney's health insurance without documenting the educational purpose served by this approval.

<u>Finding No. 15</u>: Fingerprinting and Background Checks

The required fingerprint and background screening check was not performed for six of ten contracted employees tested.

<u>Finding No. 16</u>: Cellular Communication Devices

The District had not obtained Board approval of policies and procedures governing the use of cellular communication devices and had not implemented procedures established for the monitoring of cellular device usage.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Food Donation, Child Nutrition Cluster, Fund for the Improvement of Education, and Reading First State Grants programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, with the exception of the Fund for the Improvement of Education program. Internal control and compliance findings are summarized below.

<u>Federal Awards Finding No. 1</u>: Reporting – Reimbursement

The District's School Breakfast and National School Lunch Program reimbursement claims were overstated by approximately $27,460 due to the improper classification of some schools as severe need.

<u>Federal Awards Finding No. 2</u>: Special Tests and Provisions – Competitive Food Sales

Contrary to Federal regulations and State rules, competitive foods were sold to students outside the authorized times.

<u>Federal Awards Finding No. 3</u>: Matching

Documentation was not available to support $244,618 of $448,051 reviewed as claimed for matching funds, subjecting a total of $474,849 in program expenditures to disallowance by the grantor.

<u>Federal Awards Finding No. 4</u>: Special Tests and Provisions – Verifications

Contrary to Federal regulations, records indicate that the District did not limit its verification sample of free and reduced-price meal applications to error-prone applications.

Audit Objectives and Scope

Our audit objectives were to determine whether the Orange 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 prior 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 Jeffrey L. Cardinali, CPA, and supervised by Brenda C. Racis, 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 Deficiency (Combination of Control Deficiencies in Finding Nos. 1 through 7)

Finding No. 1: QZAB Bond

Our review of the District's capital construction program included an examination of the outstanding balances for active capital construction projects. The objective regarding outstanding balances was to analyze the reasonableness of the timing between the receipt and expenditure of capital construction funds, as discussed below.

QZABs are non-interest bearing bonds with tax credits provided to lenders by the Federal government to facilitate the financing of school renovations and repairs in qualifying areas. In December 2002, the District issued the 2002 QZABs to fund the comprehensive needs and renovations at one of its elementary schools and received proceeds totaling $3,840,300. Interest earned through June 30, 2007, was $521,789, for a total of $4,362,089 in proceeds and interest. As of June 30, 2007, the unexpended and unencumbered balance was $1,567,055, or 36 percent of the total funds available. Since QZABs are debt issued to fund specific renovations and remodeling projects, the debt proceeds should have been expended in a relative short time period. A similar finding was noted in our report No. 2005-205.

Recommendation: The District should enhance its efforts to expedite the completion of renovation, repair, replacement, and construction projects for which funding is readily available.

Finding No. 2: Professional Services

Section 287.055(3), Florida Statutes, requires that the District publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project in which the basic construction cost is estimated by the agency to exceed $250,000. The public notice must include a general description of the project and must indicate how interested consultants may apply for consideration. Sections 287.055(4) and (5), Florida Statutes, require the District to select in order of preference no fewer than three firms deemed to be the most highly qualified to perform the required services for each proposed project. Should the District be unable to negotiate a satisfactory contract with the firm considered to be the most qualified at a price the District determines to be fair, competitive, and reasonable, negotiations with that firm must be formally terminated. The District shall then undertake negotiations with the second most qualified firm. Failing accord with the second most qualified firm, the District shall then undertake negotiations with the third most qualified firm.

In December 2006, the District solicited a Request for Qualifications (RFQ) for construction management at risk services for four new high school projects. As of October 2, 2007, the estimated construction costs of the new high schools ranged from $80 million to $85 million. Eight firms were short-listed by the District's selection committee. The final rankings of these eight firms were completed on March 20, 2007, by the contractor selection committee members, who then determined the assignment of projects to the firms ranked number one, two, three, and four. These selections were approved by the Board on April 10, 2007. However, by grouping these major construction projects into a single RFQ and assigning the projects to four different firms, District records did not evidence that the most highly qualified firm was selected for each individual project, as required by law. A similar finding was noted in report No. 2005-205.

Recommendation: The District should enhance procedures to competitively select the most highly qualified firm for each project as required by Section 287.055, Florida Statutes.

Finding No. 3: Construction Documents

Improvements could be made in District monitoring procedures over construction projects and related documents as discussed below:

- Section 4.1 of the Florida Department of Education publication, *State Requirements for Educational Facilities – 1999 (SREF)*, requires the District to provide the Florida Department of Education – Office of Educational Facilities (OEF) a brief description of the facilities procurement process for each project over $200,000 prior to implementation. The description shall include the names of the architects and engineers, the plan review entity, the contractor/construction manager/design-build or program management entity, building inspector and threshold inspector on Form 110A, entitled Project Implementation Information. Upon completion of the project, the District must provide OEF with a signed Certificate of Occupancy, Form 110B. Additionally, Section 4.2(4) of the SREF requires the District to submit the Certificate of Final Inspection, Form 209, to OEF once these projects are inspected for occupancy, signed by the architect or engineer, signed by the building inspector, and approved by the Board.

  Our test of ten major projects over $200,000 disclosed that the District had the completed certificates of occupancy and certificates of final inspection forms for these projects, but the forms were not submitted to OEF. Further, the District did not complete a brief description of the facilities procurement process form (Form 110A) for these projects. Additional review and discussion with staff at OEF disclosed that the District had not submitted these forms for any project completed since 1999. When the required educational facility forms are not properly prepared and timely submitted to OEF, the Florida Department of Education's ability to monitor the District's construction projects is limited.

- Section 4.3 of the SREF requires the District to develop policies and procedures for the review of contract and construction documents for construction, remodeling, renovation, lease or lease-purchase of any educational plant or ancillary facility or day labor project, regardless of cost or fund source. Section 1013.37, Florida Statutes, provides that before a contract has been let for construction, the District or its authorized review agent must approve the Phase III construction documents of final design plans.

  Our test of five projects disclosed that District records did not clearly evidence that the District or an authorized review agent approved the Phase III documents before project contracts were let for construction. The Board approved the Phase III documents of final design plans for the projects after the construction contracts were awarded. Approval of final design plans in this manner may result in additional changes to plans which may affect the original bids received.

- Chapter 1, Section 110.1 of the Florida Building Code, requires that no building or structure shall be used or occupied, and no change in the existing occupancy classification of a building structure or portion thereof shall be made until the building official has issued a certificate of occupancy. Also, Section 110.3 of the Code allows the building official to issue a temporary certificate of occupancy before the completion of the entire work covered by the permit, provided that such portion or portions shall be safely occupied. The building official shall set a time period during which the temporary certificate of occupancy is valid.

Our test of eight projects disclosed that a conditional (temporary) certificate of occupancy was issued for seven of the projects. Of these seven, four of the conditional certificates of occupancy expired without issuance of another valid conditional certificate of occupancy or a final certificate of occupancy. The number of days from the expiration of the conditional certificates until the final certificates were issued ranged from 26 to 157, or an average of 95 days. Without a valid certificate of occupancy, the risk increases that the facilities may be unsafe for occupancy.

- Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract with a construction manager (CM) for the construction or renovation of facilities. The CM is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. Contracts with the CMs generally require that work be fully completed and ready for final acceptance by the Board within 30 calendar days after the projects are designated as substantially complete, and contracts contain provisions to assess liquidating damages if construction is not substantially complete by the designated date.

  Our review disclosed that actual completion dates for certain projects extended significantly beyond the 30 day deadline, and the respective contracts did not provide for liquidating damages in the event that the actual completion dates were not met. For 11 projects tested, the certificates of final inspection for 10 of the projects were issued and accepted by the Board from 58 to 251 days (two to eight months) after the 30-day substantial completion requirement. The certificate of final inspection for the 11th project was issued and approved by the Board in February 2007, or 27 months after the date of substantial completion.

Recommendation: The District should enhance procedures to ensure that the required educational facility forms are prepared and submitted timely to the Florida Department of Education; to ensure that final design plans are approved before awarding the construction contracts; and to ensure that all pending permit work is corrected in a timely manner so that conditional certificates of occupancy do not expire before a final certificate of occupancy is issued. Additionally, the District should enhance close-out procedures to ensure timely completion of construction projects and include provisions for liquidating damages.

Auditor's Clarification:

The District disagreed with our recommendation that liquidating damages provisions be included in the contracts for the period between substantial completion to final completion because such a clause would be unenforceable as a penalty since the "value associated with those items is not difficult to determine with a reasonable degree of certainty". The point of our Finding is that the District should contractually provide itself some recourse for damages should the contractor fail to timely complete projects after the projects are designated as substantially complete.

Finding No. 4: Acquisition of Schools

The District entered into two separate agreements with a local developer on April 12, 2005, to cooperatively construct an elementary school and a middle school. Under these agreements between the District and the developer, through his foundation, the District agreed to purchase the elementary school and the middle school from the developer once the schools were built and the required contractual conditions were met. In an earlier agreement, dated October 10, 2002, the developer had agreed to provide payment of impact fees in advance and a contribution of $1,500 for each new housing unit built by the developer, donation of land for a school site, certain off-site infrastructural improvements, and other benefits. The middle school was purchased by the District in November 2006, at a final cost of $29,262,464. The elementary school was purchased in August 2007, at a final cost of $16,873,048. District records indicate that the cost per square foot for the new middle school was $174.34, compared to the District's average cost of $168.73 for other new middle schools bid in calendar year 2005; the new elementary school cost $172.20 per square foot compared to the District's average cost, for other new elementary schools bid during calendar year 2005, of $145.45 per square foot.

The District's legal counsel provided reference to Section 380.06(15)(d)(4), Florida Statutes, as the authority that allows the District to enter into a contract with a developer to construct a school that would then be purchased by the District. This section states that construction of a public facility by a nongovernmental developer, as a condition of a development order to mitigate the impacts reasonably attributable to the proposed development, is not subject to competitive bidding or competitive negotiation for selection of a contractor or design professional for any part of the construction or design. However, this applies only if the developer pays for the construction and only if a development order includes such requirement. In this case, the developer was not required, as part of the development order, to construct the schools, only to reserve sites for the schools, and the District ultimately paid for the construction of the schools when the District purchased the schools upon completion. In this manner, the District has circumvented the competitive procurement process required by law.

Recommendation: The District should ensure that construction projects to be paid for with public funds are acquired pursuant to the competitive procurement processes provided in law.

Finding No. 5: Independent Reviews of Construction Projects

The District contracted with a local firm of certified public accountants (CPA) to review billings and final payments to construction managers. We reviewed 20 reports issued from January 2006 through October 2007 for projects exceeding $1 million. The following issues are examples noted in those reports:

- Subcontractor markups on change orders were sometimes excessive. For example, the actual markup for one subcontractor on the Whispering Hills Elementary School was 15 percent, while the contract allowed for a markup of 10 percent. The report recommended that the District seek reimbursement of $5,938; however, the construction manager indicated that since costs exceeded the guaranteed maximum price of the contract, no reimbursement would be made. District staff indicated that procedures would be implemented to limit future payments to the 10 percent markup limit.
- Labor burden rates for indirect costs such as social security tax, workers' compensation, and retirement were sometimes excessive. For example, the labor burden rate used for the West Creek Elementary School included 10 percent for retirement and 15 percent for an incentive compensation program. However, the report indicated that the District was negotiating substantially reduced labor burden rates for future projects.
- The District paid $55,000 to the construction manager (CM) of the West Creek Elementary School for excess liability insurance coverage that may have already been provided by the District's Owner-Controlled Insurance Program. The auditing firm noted confusion regarding the need for all of the liability coverages provided and what was required by the District.
- Liquidating charges were not assessed for projects that were not completed on time. For example, the date of substantial completion for the Lakeview Middle School – Phase C2 was seven days after that required by the contract; however, there was no evidence of the CM being charged liquidating damages.

We also noted that the time elapsing between the project substantial completion dates and the issuance of the CPA firm's reports ranged from 6 to 42 months, averaging 13 months. The delay in receiving the reports reduces the usefulnesss of the reviews.

Without timely review of results and corrective action, the benefits of the independent reviews were not being fully realized. A similar finding was noted in our report No. 2005-205.

Recommendation: The District should develop procedures to reduce the time required to obtain the project review reports thus allowing the District to review the results and generate timely corrective action plans.

Finding No. 6: Subcontractor Invoices

We reviewed six construction payment application documents submitted to the District during the 2006-07 fiscal year for three school construction projects. Our review disclosed that, although the payment applications were signed and approved for payment by District staff, four payment applications were either not supported by subcontractors' invoices or the invoices did not agree with the construction managers' billings. Although we subsequently obtained documentation from the construction managers that properly supported the subcontractors' invoices, absent timely District review of documentation supporting subcontractor invoices, there was an increased risk of overpayments to the construction managers. A similar finding was noted in our report 2005-205.

Our review of payment applications for small remodeling and renovation projects, performed by one construction manager on three continuing contracts, disclosed that the applications were not adequately supported by subcontractor invoices. For example, upon our request for additional supporting documentation for one payment application reviewed, we were provided, along with the requested documentation, a copy of a vendor invoice totaling $14,759. However, original documentation attached to the payment application included an invoice from the same vendor, with the same invoice number and date, totaling $18,415, which the District paid. Although the contract with the construction manager allowed for a 3 percent mark-up, there remained a difference of $3,213 between the allowable markup (3 percent of $14,759, or $443) and the actual markup ($18,415-$14,759, or $3,656). We noted similar discrepancies in other pay applications reviewed. Again, without an appropriate preaudit of supporting documentation, the District has limited assurance that payments are proper.

Recommendation: The District should enhance its preaudit procedures for construction-related expenditures to ensure that payment applications are properly supported by subcontractor invoices.

Finding No. 7: Program Manager Contract

On August 14, 2006, the District issued a work authorization for professional program management services to an independent contractor, pursuant to a contract negotiated in 1999. In accordance with this agreement, the contractor provided 23 employees during the 2006-07 fiscal year to perform functions such as program manager, design manager, project manager, close-out specialist, facility planner, estimator, electrical engineer, contracts specialist, and administrative assistant, at a cost of approximately $3,612,200, plus reimbursement of $47,900 for travel and cellular phone services.

The work authorization stated that labor costs for these employees would be charged at the hourly rates of the contracted employees increased by a multiplier of 2.32 for the 2006-07 fiscal year, although the multiplier was not part of the original negotiated contract in 1999. Although requested, District records were not initially provided to evidence the basis upon which the District determined the reasonableness of the costs of the program manager contract. Subsequent to our inquiry, the District performed procedures to determine the reasonableness of these costs and was able, for the 2007-08 fiscal year, to obtain a reduced multiplier rate of 2.20 for these services, and eliminated costs relating to five of the contracted positions and cellular phone use.

Recommendation: The District should continue its efforts to ensure the reasonableness of costs relating to program manager services.

Additional Matters

Finding No. 8: Annual Facility Safety Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the Commissioner of Education. Further, fire safety inspections are required to be made annually by persons certified by the Division of State Fire Marshall to conduct fire safety inspections in public educational and ancillary plants.

Our review of the District's annual comprehensive facilities inspection records for the school and ancillary plant facilities disclosed that the District had not, as of October 10, 2007, corrected many deficiencies cited in prior years' reports. We selected six schools and noted 28 repeat deficiencies relating to fire safety and cited as Priority No. 2, defined as "High" priority. The deficiencies had been cited in previous reports dating from as far back as the 2001-02 school year. Examples of these deficiencies included: lack of secondary means of egress for student-occupied room, need for a horn or strobe in area for fire alarms, need for an emergency light at stairs that lead to the exterior, and noncompliance with Chapter 10 NFPA 101 for fire rated finishes or content. Failure to provide for timely correction of facility deficiencies results in an increased risk of unsafe conditions. A similar finding was noted in our report No. 2005-205.

Recommendation: The District should review its procedures to ensure that facility fire and casualty safety, and sanitation needs, noted in the annual inspection reports, are timely corrected.

Finding No. 9: School Advisory Councils

Improvements in control procedures could be made for establishing school advisory councils. Section 1001.452, Florida Statutes, requires, in part, that the Board establish an advisory council for each school and develop procedures for the election and appointment of school advisory council members. Further, each school advisory council should be composed of the principal and an appropriately balanced number of teachers, education support employees, students, parents, and other business and community citizens who are representative of the ethnic, racial, and economic community served by the school.

Our review of ten school advisory council rosters disclosed that the membership of seven of the councils included at least one and as many as three assistant principals. District personnel's interpretation of the statute is that it does not prohibit the additional administrative employees, such as assistant principals, from membership on the councils; however, since the law does not provide for such membership, the legal basis for the District's interpretation is not apparent of record. As provided by Section 24.121(5)(d), Florida Statutes, school advisory councils that do not meet the composition requirements may jeopardize the District's ability to receive certain State funding. A similar finding was noted in our report No. 2005-205.

Recommendation: The District should review the school advisory council membership rosters to ensure that each school advisory council's composition is consistent with the requirements of Section 1001.452, Florida Statutes.

Finding No. 10: School Internal Funds

The District provided for an audit of the school internal funds (school and activity funds) for the 2005-06 fiscal year which disclosed various internal control weaknesses and instances of non-compliance. The audit report indicated that many of the schools' findings had been repeated from previous years, suggesting that follow-up by the District was not adequate. As many of the findings pertain to critical internal controls, and were relevant for a large number of the schools, the District is at an increased risk that errors and misappropriations may occur and not be detected in a timely manner. A similar finding was noted in our audit report No. 2005-205.

Recommendation: The District should determine responsibility for follow-up of audit reports of the school internal funds and monitor the status of timely corrective actions.

Finding No. 11: Monitoring of Charter Schools

During the 2006-07 fiscal year, the District sponsored 20 charter schools. The charter school agreements required, in part, that the charter schools provide the District with evidence of insurance. Our review of insurance certificates for 15 charter schools disclosed the following:

- Documentation was not provided to evidence general liability coverage for one charter school. Policy limits for another charter school were below those required by the charter school agreement. In addition, for seven charter schools, documentation was not provided to evidence whether the District had been included as an additional insured party.
- Documentation was not provided to evidence automobile liability coverage for one charter school.
- Documentation was not provided to evidence worker's compensation coverage for three charter schools. Policy limits for six other charter schools were below those required by the charter school agreement.
- Documentation was not provided to evidence errors and omissions coverage for eight charter schools. Policy limits for two other charter schools were below those required by the charter school agreement.

- Documentation was not provided to evidence directors' and officers' liability coverage for four charter schools.
- Thirteen of the charter schools tested had cancellation provisions that were not in compliance with the charter school agreement Although the required cancellation notice was 45 days, we noted that eight charter schools used a 30-day cancellation notice; four used a 10-day notice; and one had no provision for cancellation.

Additionally, we noted that the District's charter school agreement requires charter schools to provide the District with evidence of the renewal or replacement of insurance no less than 30 days before the expiration or termination of the required insurance. Our review of documentation maintained by the District indicated that 12 charter schools did not provide changes to policies within the timeframe required by the charter school agreement. Without adequate procedures to monitor the charter schools' insurance coverage, there is an increased risk that such coverage may not exist, subjecting the schools and the District to potential losses. A similar finding was noted in our report No. 2005-205.

Further, Section 1002.33(16)(a)5, Florida Statutes, provides that charter schools are subject to the provisions of Chapter 1013, Florida Statutes, pertaining to student health, safety, and welfare. Section 1013.13, Florida Statutes, requires each district to annually submit a copy of the floor plan for each educational facility in the district that was new or modified during the preceding year to the law enforcement agency and fire department with jurisdiction over that facility. The floor plans for the District's educational and ancillary plant facilities which were submitted to law enforcement agencies and fire departments, did not include the District's charter schools. Upon our inquiry, District personnel indicated that, per Section 1002.33(7)(a)(11), Florida Statutes, the responsibility for the submission lies with the charter school. Although the statute does state that the charter school responsibilities include development and implementation of procedures that identify various risks and provide for a comprehensive approach to reduce the impact of losses and plans to ensure the safety and security of students and staff, it is the District's responsibility to monitor the charter school's compliance with such.

Recommendation: The District should enhance monitoring procedures to ensure that its charter schools comply with the applicable contract provisions of the charters.

Finding No. 12: Fee Collections

Pursuant to Section 1009.22(2), Florida Statutes, and State Board of Education Rule 6A-6.084, Florida Administrative Code, the District assessed and collected fees for adult students enrolled in postsecondary vocational and continuing workforce education courses. Fees collected from these students totaled approximately $2.7 million for the 2006-07 fiscal year. Effective internal controls over the student fee collection function are necessary to promote the safeguarding of assets and the reliability of accounting records. Our review disclosed that the District did not reconcile fee deposit amounts to source documentation or perform independent comparisons of amounts collected and deposited to attendance records and approved fee rates. While our review did not disclose any material errors or misappropriations resulting from this deficiency, without adequate fee audit procedures, the risk increases for errors or misappropriations to occur and not be detected in a timely manner.

Recommendation: The District should perform independent student fee audits of the collections of postsecondary vocational and continuing workforce education course fees to ensure that fees are properly collected and deposited.

Finding No. 13: Time Records

Employee time records should be properly maintained and approved of record to evidence work attendance and support payroll costs for teachers, classified employees (support staff other than technology), and hourly employees. Our review of time records for 20 employees disclosed that two employees (instructor and education paraprofessional) had not documented their work attendance. We also noted records for five employees (four instructors and one educational support employee) did not indicate supervisory review and approval. While our review did not disclose any instances of errors or misappropriations involving payroll transactions, when time records are not properly prepared and approved of record, there is an increased risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: The District should enhance its payroll processing procedures to ensure that supervisory review and approval of employee time records are performed timely.

Finding No. 14: Insurance Premiums

The Board entered into a contract on January 10, 1995, to assign the responsibility of coordinating the District's legal affairs to the Board's attorney. The contract provided for the attorney to be paid a monthly retainer of $15,000, plus expenses. In addition, on November 18, 1998, the former Superintendent directed the District's insurance administrator to add the Board Attorney and his family to the Board's employee health insurance coverage, and this coverage was to be paid by the District.

In Florida Attorney General's Advisory Legal Opinion, No. AGO 2003-40, dated September 3, 2003, he states, "In sum, it does not appear that a school board attorney would come within the scope of section 112.08(2), Florida Statutes, which authorizes the payment of premiums for insurance for a school officer. However, under the home rule authority of the school board as expressed in section 1001.32(2), Florida Statutes, the board itself is required to determine whether a school purpose is accomplished by providing insurance for its school board attorney and assistant school board attorneys." We noted that the Board approved the payment of the attorney's health insurance for fiscal year 2006-07 on September 12, 2006. Subsequent to our inquiry, the District provided a school purpose for providing employee health insurance coverage to the Board Attorney; however, this purpose had not been presented to the Board for consideration in its decision to approve the attorney's insurance. A similar finding was noted in our report No. 2005-205.

Recommendation: The Board should document and approve the school purpose accomplished by providing employee health insurance benefits to the Board Attorney, or should discontinue the Board Attorney's participation in the employee health insurance plan.

Finding No. 15: Fingerprinting and Background Checks

The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students. Section 1012.465, Florida Statutes, requires contractual personnel who are permitted access on school grounds when students are present to undergo a background screening, including a requirement that such staff file a complete set of fingerprints.

During the audit period, the District used the services of construction managers and contractors on various renovation and remodeling construction projects. The projects were on-going throughout the 2006-07 school year and located on school grounds where students were present. Our review of ten contracted personnel employed by the construction managers or contractors disclosed that six of the ten had worked on District projects although they either had not been fingerprinted or had not been cleared by the background screening process. Additionally, once fingerprinted, the District determined that two of these employees failed the screening requirements and should not have been permitted to work on school grounds.

Absent timely background screenings of contractual personnel who were permitted direct contact with students or access to school grounds when students were present, there was an increased risk that such personnel may have backgrounds unsuitable in a school environment.

Recommendation: The District should enhance procedures to ensure that the required fingerprint and background screenings are timely performed and reviewed for contractual personnel as required.

Finding No. 16: Cellular Communication Devices

The District's policies and procedures governing the use of cellular (cell) communication devices, such as cell phones and blackberry devices, provided to District employees had not been approved by the Board and had not been fully implemented. According to District records, the District had approximately 1,100 active cell devices as of June 30, 2007, and spent approximately $639,000 for use of the devices during the 2006-07 fiscal year.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and the United States Treasury Regulations, Section 1.274-5T. Because cell devices are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6). In addition, employers must review the employee's cell phone bills to confirm the cell phone was only used for business.

The District's written procedures for the acceptable use of cell devices prohibited personal calls and required that periodic audits or random sampling of usage be performed. District personnel indicated that a review of cell device usage had not been performed during the 2006-07 fiscal year. Absent proper monitoring of cell device usage, the District should have reported to the Internal Revenue Service (IRS) the value of cell device use by each employee assigned such a device. Our review disclosed that the District did not include the value of the cell device use in the income reported to the IRS on the 2006 calendar year W-2 forms for these employees.

Recommendation: The District should obtain Board approval for procedures governing the use of cell devices and should implement procedures established for the monitoring of cell device usage. Additionally, the District should confer with the IRS regarding previously unreported income.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs and in the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS***, the District corrected the deficiencies and exceptions cited in the prior audit reports.

OTHER MATTERS

The State Attorney's Office is conducting an investigation into alleged construction contract improprieties involving a District employee, and final resolution of the investigation was pending as of March 5, 2008.

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 Orange 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 87.

FINANCIAL SECTION

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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 discretely presented component units, each major fund, and the aggregate remaining fund information of the Orange 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 12. 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 8 percent of the assets and 15 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements for the Foundation for Orange County Public Schools, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provides 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 discretely presented component units, each major fund, and the aggregate remaining fund information for the Orange County District School Board as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Orange 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 15 through 24) and the Budgetary Comparison Schedule (shown as exhibit L) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

Respectfully submitted,

David W. Martin

David W. Martin, CPA
March 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Orange County Public Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $1,864,207,517 (*net assets*). Of this amount, $90,441,214 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by $353,272,942. This increase is primarily attributable to the ongoing investment of the District in new schools and the renovation of existing schools supported by sales tax proceeds and other capital outlay revenues.
- Total revenues of $1,987,717,686 were comprised of general revenues in the amount of $1,765,408,174, or 89 percent, and program specific revenues from charges for services, grants and contributions in the amount of $222,309,512, or 11 percent.
- For the year ended June 30, 2007, the District had $1,634,444,744 in expenses related to governmental activities; $222,309,512 of which were offset by program specific charges for services, grants and other sources. General revenues (primarily taxes and state funding programs) of $1,765,408,174 were sufficient to provide for the District's programs.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,358,128,033, an increase of $296,398,925 in comparison with the prior year. Approximately 65 percent of this total amount, $883,723,079, is available for spending at the District's discretion for the purposes defined for each governmental fund (*unreserved fund balance*). Of this available amount, $747,861,409 has been earmarked for specific projects and activities by the School Board.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $135,861,670, or 11 percent of total General Fund expenditures.
- The District's total long-term debt for bonds, certificates of participation (COPs), and capital leases increased by $242,038,897, or 18 percent, during the 2006-07 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

All of the District's activities and services are reported in the government-wide financial statements, including instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes, State assistance, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here. The District currently does not report any business-type activities, which would include functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include not only the District itself (known as the primary government), but also report the Foundation for Orange County Public Schools, Inc., and the combined activities of 12 legally separate charter schools for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. This financial information was derived from separately issued audited financial statements on file at the District's administrative office. The School Board of Orange County Employee Benefits Trust (Trust) and the Orange County School Board Leasing Corporation (Corporation), although also legally separate, were formed to administer the District's group health and life insurance program and facilitate financing for the acquisition of facilities and equipment, respectively. Due to the substantive economic relationships between the District and the Trust and Corporation, their financial activities have been included as an integral part of the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term 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 District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 11 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service – Other Debt Service Fund, and the Capital Projects – Other Capital Projects Fund, which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget and is reported elsewhere in this report as required supplementary information.

Proprietary Funds. The District maintains one type of proprietary fund – internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its self-insurance programs, employee benefits trust, and printing services. Because these services benefit the District's governmental functions, they have been included within the governmental activities in the government-wide financial statements.

The three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of a disclosure note elsewhere in this report.

Fiduciary Funds. Fiduciary funds, which for the District consist solely of agency funds, are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds, except that agency funds do not report changes in fiduciary net assets, as agency fund assets should equal liabilities.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 exceeded liabilities by $1,864,207,517 at the close of the most current fiscal year.

The largest portion of the District's net assets (62 percent) reflects its investment in existing capital assets (e.g., land, buildings, machinery, and equipment), net of accumulated depreciation and less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide educational and related services to its students; 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. A large portion of the District's net assets (32 percent) reflects its restricted net assets for capital projects. The District will use these resources in a continuing effort to build and refurbish sufficient classroom space for the growing student population in Orange County, Florida.

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		
	6-30-07	6-30-06	Percentage Change
Current and Other Assets	$ 1,604,578,461	$ 1,285,988,742	24.8%
Capital Assets	2,156,910,177	1,839,814,726	17.2%
Total Assets	3,761,488,638	3,125,803,468	20.3%
Long-Term Liabilities	1,692,683,073	1,438,532,955	17.7%
Other Liabilities	204,598,048	176,335,938	16.0%
Total Liabilities	1,897,281,121	1,614,868,893	17.5%
Net Assets:			
Invested in Capital Assets - Net of Related Debt	1,159,685,088	897,046,110	29.3%
Restricted	614,081,215	528,520,142	16.2%
Unrestricted	90,441,214	85,368,323	5.9%
Total Net Assets	$ 1,864,207,517	$ 1,510,934,575	23.4%

An additional portion of the District's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $90,441,214, may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the 2006-07 fiscal year, the District is able to report positive balances in all three categories of net assets.

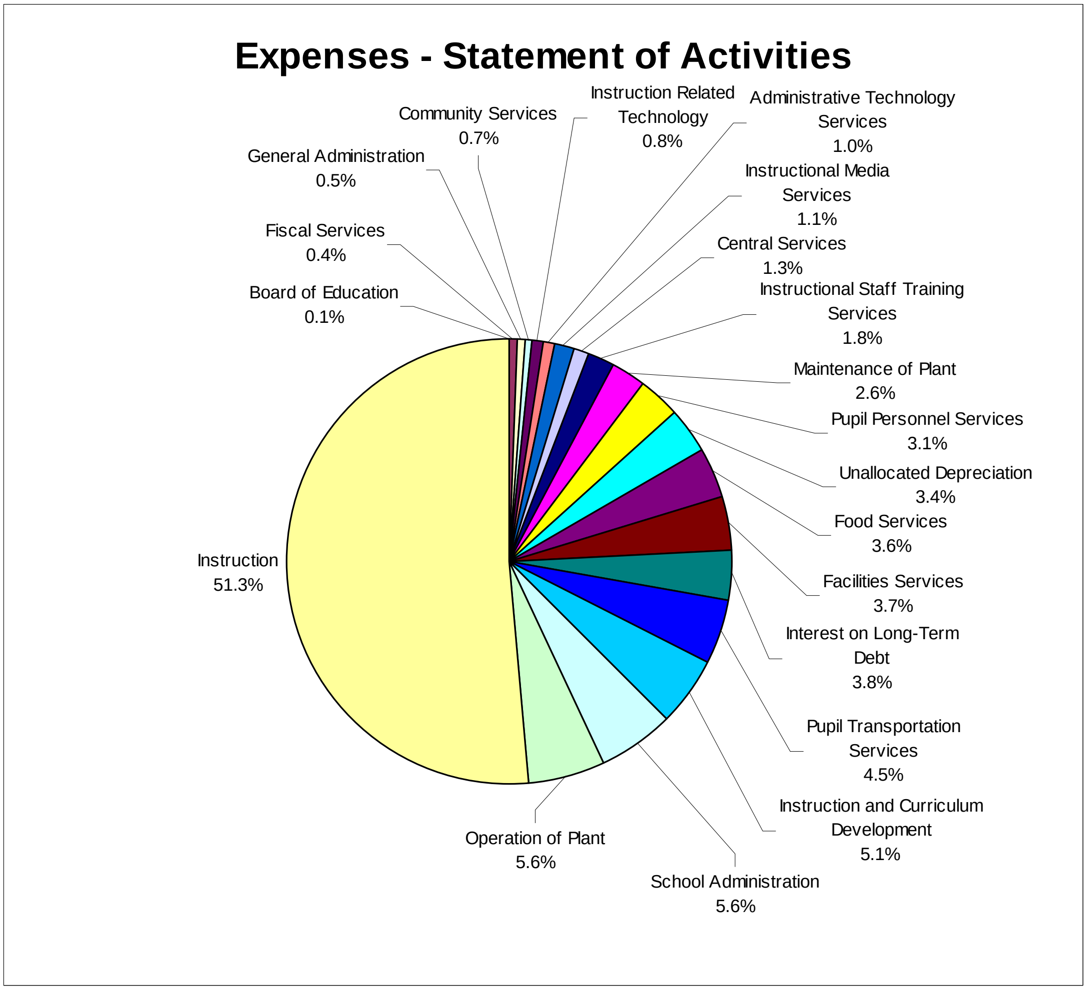
The District's net assets increased in total by $353,272,942 during the 2006-07 fiscal year. Key elements of the increase are as follows:

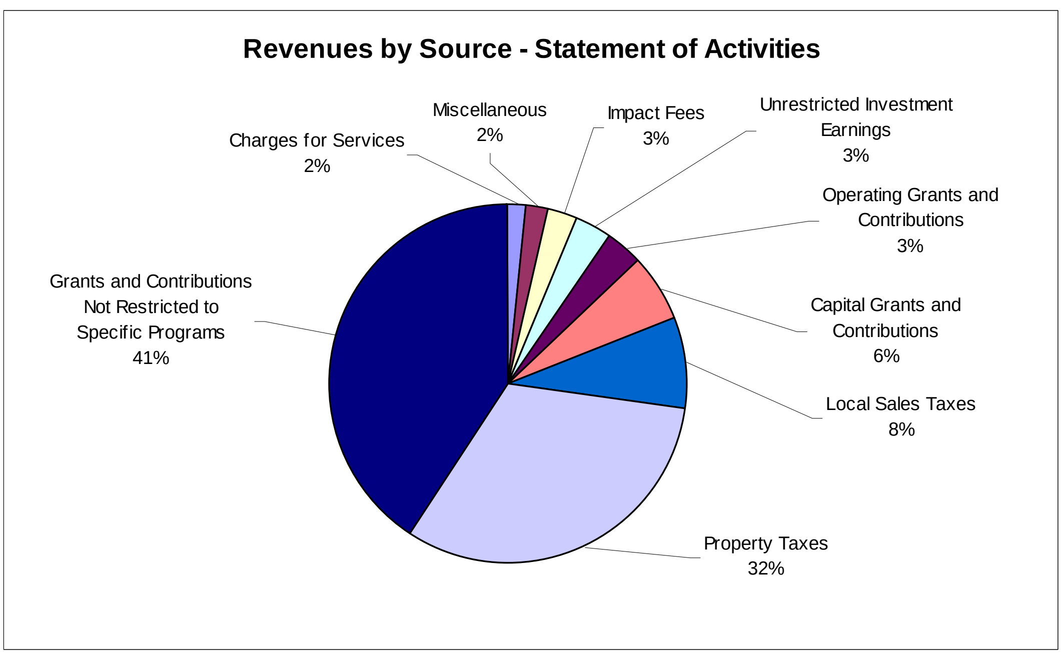
- Sales Tax, Public Education Capital Outlay, and Class Size Reduction Capital Outlay for the construction and renovation of school buildings.

- Other intergovernmental revenues restricted for the construction of schools.

Operating Results for the Year

	Governmental Activities 6-30-07	Governmental Activities 6-30-06	Percentage Change
Program Revenues:			
Charges for Services	$ 31,965,044	$ 30,716,576	4.1%
Operating Grants and Contributions	69,094,387	64,989,152	6.3%
Capital Grants and Contributions	121,250,081	46,834,937	158.9%
General Revenues:			
Property Taxes	638,346,160	566,808,628	12.6%
Local Sales Taxes	156,331,083	166,345,316	-6.0%
Impact Fees	55,413,704	88,253,759	-37.2%
Grants and Contributions Not Restricted to Specific Programs	809,810,782	733,606,050	10.4%
Unrestricted Investment Earnings	64,881,379	39,282,329	65.2%
Miscellaneous	40,625,066	24,967,577	62.7%
Total Revenues	1,987,717,686	1,761,804,324	12.8%
Functions/Program Expenses:			
Instruction	839,184,133	774,653,101	8.3%
Pupil Personnel Services	49,999,463	44,570,348	12.2%
Instructional Media Services	18,790,907	15,808,065	18.9%
Instruction and Curriculum Development Services	82,983,991	66,069,289	25.6%
Instructional Staff Training Services	29,291,038	29,441,454	-0.5%
Instruction Related Technology	12,934,339	16,923,257	-23.6%
Board of Education	2,197,126	2,139,583	2.7%
General Administration	7,915,232	6,108,450	29.6%
School Administration	91,130,653	83,202,219	9.5%
Facilities Acquisition and Construction	60,814,976	58,186,948	4.5%
Fiscal Services	6,434,143	5,737,938	12.1%
Food Services	59,129,381	56,535,253	4.6%
Central Services	20,908,765	16,535,869	26.4%
Pupil Transportation Services	74,173,428	68,271,447	8.6%
Operation of Plant	91,605,636	80,452,243	13.9%
Maintenance of Plant	42,417,718	41,298,132	2.7%
Administrative Technology Services	16,466,533	12,086,405	36.2%
Community Services	10,712,754	10,439,371	2.6%
Interest on Long-Term Debt	62,278,003	56,327,344	10.6%
Unallocated Depreciation Expense	55,076,525	47,831,685	15.1%
Total Functions/Program Expenses	1,634,444,744	1,492,618,401	9.5%
Increase in Net Assets	353,272,942	269,185,923	31.2%
Net Assets - Beginning	1,510,934,575	1,241,748,652	21.7%
Net Assets - Ending	$ 1,864,207,517	$ 1,510,934,575	23.4%


Expenses - Statement of Activities
Community Services 0.7%
Instruction Related Technology 0.8%
Administrative Technology Services 1.0%
General Administration 0.5%
Instructional Media Services 1.1%
Fiscal Services 0.4%
Central Services 1.3%
Board of Education 0.1%
Instructional Staff Training Services 1.8%
Maintenance of Plant 2.6%
Pupil Personnel Services 3.1%
Unallocated Depreciation 3.4%
Food Services 3.6%
Instruction 51.3%
Facilities Services 3.7%
Interest on Long-Term Debt 3.8%
Pupil Transportation Services 4.5%
Instruction and Curriculum Development 5.1%
Operation of Plant 5.6%
School Administration 5.6%


Revenues by Source - Statement of Activities
Miscellaneous 2%
Impact Fees 3%
Unrestricted Investment Earnings 3%
Charges for Services 2%
Operating Grants and Contributions 3%
Grants and Contributions Not Restricted to Specific Programs 41%
Capital Grants and Contributions 6%
Local Sales Taxes 8%
Property Taxes 32%

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.

Governmental Funds

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

As of the end of the 2006-07 fiscal year, the District's governmental funds reported combined ending fund balances of $1,358,128,033, an increase of $296,398,925 in comparison with the 2005-06 fiscal year. Approximately 65 percent of this total amount ($883,723,079) constitutes unreserved fund balances, which are available for spending at the government's discretion within the purpose of each fund. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders outstanding at year-end ($246,845,682); 2) to fund specific state categorical programs ($10,259,815); and 3) to retire long-term debt ($217,299,457).

The General Fund is the chief operating fund of the District. At the end of the 2006-07 fiscal year, unreserved fund balance of the General Fund is $135,861,670, while the total fund balance increased to $177,580,993. 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 11 percent of total General Fund expenditures, while total fund balance represents 14 percent of that same amount.

The fund balance of the District's General Fund increased by $20,719,375 during the current fiscal year. Key factors in this increase are as follows:

- Teaching positions were vacant throughout the year due to the lack of availability of qualified applicants.
- Enhanced fiscal management of resources.

The Debt Service – Other Debt Service Fund, which is used to account for debt service activity for Certificates of Participation and capital leases, has a total fund balance of $216,148,439, all of which is reserved for the payment of debt. The net increase in fund balance during the current year in the Other Debt Service Fund is $4,130,961.

The Capital Projects – Other Capital Projects Fund, which is used to account for capital project activity funding sources such as Certificates of Participation, Sales Tax, and Impact Fees, has a total fund balance of $910,744,471, all of which is reserved for specific capital projects. The net increase in fund balance during the 2006-07 fiscal year in the Other Capital Projects Fund is $253,289,785, and resulted primarily from the collection of sales tax at a rate that exceeds our present rate of expenditure of sales tax funds. It should also be noted that $198,205,111 of the total fund balance has been encumbered under specific engineering and construction contracts for projects in progress at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final amended General Fund budget in total and only minor differences between functions.

The General Fund actual revenues exceeded the budgeted revenues by over $19 million. The majority of the excess was attributable to the ad valorem taxes and interest income from local sources. Approximately $7.3 million of this excess was attributable to additional collections from ad valorem taxes over the amount budgeted and approximately $4.9 million was attributable to additional interest earned on investments. The General Fund actual expenditures were less than the budgeted appropriations by approximately $122 million. This was due to teaching positions remaining unfilled during the year as well as enhanced fiscal management of resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of June 30, 2007, amounts to $2,156,910,177 (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; 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 17 percent.

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

- Construction of Avalon High Technical School
- Construction of Moss Park Elementary School II Relief
- Construction of Audubon Park Elementary School Relief
- Rebuilding of Columbia Elementary School
- Rebuilding of Conway Elementary School
- Rebuilding of Jackson Middle School
- Rebuilding of Windermere Elementary School

Summary of Capital Assets
(net of depreciation)

	Governmental Activities	
	June 30, 2007	June 30, 2006
Land	$ 183,504,484	$ 180,364,652
Improvements Other Than Buildings	11,615,290	12,094,244
Buildings and Fixed Equipment	1,782,863,541	1,400,331,447
Furniture, Fixtures, and Equipment	59,762,184	56,022,945
Motor Vehicles	49,572,942	58,475,287
Construction in Progress	69,027,330	131,798,319
Audio Visual Materials and Computer Software	564,406	727,832
Total Capital Assets	$ 2,156,910,177	$ 1,839,814,726

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

Long-Term Debt

At June 30, 2007, the District had total long-term debt outstanding of $1,560,081,063, none of which is considered to be general "bonded debt" (i.e., backed by the full faith and credit of the District). The District's debt consisted of certificates of participation payable, state school bonds payable, and obligations under capital leases, which are secured by specific revenue sources or the underlying assets.

Summary of Outstanding Debt

	Governmental Activities	
	June 30, 2007	June 30, 2006
Certificates of Participation Payable	$ 1,455,271,255	$ 1,204,764,609
State School Bonds Payable	41,235,000	46,010,000
Obligations Under Capital Leases	63,574,808	67,267,557
Total Debt	$ 1,560,081,063	$ 1,318,042,166

During the current fiscal year, the District's total long-term debt increased by $242,038,897 (18 percent). The key factor contributing to this increase was new debt issued to fund six new schools.

The District maintains an "A+" rating from Fitch, an "A1" rating from Moody's, and an "A1" rating from S&P for its certificates of participation.

Additional information on the District's long-term debt can be found in Notes 6 through 11 to the financial statements.

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The unemployment rate for the District (Orange County, Florida) is currently 3.5 percent, which is slightly higher than the rate of 3.1 percent a year ago. This rate is on par with the State's average unemployment rate of 3.8 percent.
- Inflationary trends within the region compare favorably to national indices.
- Residential growth has slowed over the past year, with fewer housing developments being approved. With this slowed growth, the District's student population is expected to increase by less than 1 percent per year over the next few years.

All of these factors were considered in preparing the District's budget for the 2007-08 fiscal year.

During the 2006-07 fiscal year, unreserved fund balance in the General Fund increased to $135,861,670. The District has appropriated $31,791,102 of this amount for spending in the 2007-08 fiscal year budget. It is intended that this use of available fund balance will be replenished through vacant positions and unspent appropriations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finance. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Orange County Public Schools, 445 West Amelia Street, Orlando, FL 32801.

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

	Primary Government	Component Units	
	Governmental Activities	Charter Schools	The Foundation for Orange County Public Schools, Inc.
ASSETS			
Cash	$ 20,049,571	$ 3,201,245	$ 910,434
Investments	1,240,058,942		275,644
Restricted Investments:			
Escrow for 2005 Refunding COP's	203,423,485		
Accounts Receivable	630,905	1,848,180	10,253
Interest Receivable	18,589,579		
Deposits Receivable	5,000		1,513,440
Due from Other Agencies	102,377,211		
Inventories	7,373,430		
Deferred Issuance Costs	12,070,338		
Prepaid Expenses		1,491	5,392
Other Current Assets		192,087	
Capital Assets:			
Land	183,504,484	1,205,497	
Construction in Progress	69,027,330		
Improvements Other Than Buildings, Net	11,615,290	116,908	
Buildings and Fixed Equipment, Net	1,782,863,541	6,791,435	
Furniture, Fixtures, and Equipment, Net	59,762,184	436,459	3,465
Motor Vehicles, Net	49,572,942	59,503	
Audio Visual Materials and Computer Software, Net	564,406		
TOTAL ASSETS	$ 3,761,488,638	$ 13,852,805	$ 2,718,628
LIABILITIES			
Salaries and Benefits Payable	$ 4,892,124	$ 17,435	$
Payroll Deductions and Withholdings	312,875		
Accounts Payable	26,893,602	2,086,169	157,091
Construction Contracts Payable	13,525,711		
Construction Contracts Payable - Retainage	8,184,771		
Matured Interest Payable	1,389,731		
Accrued Interest Payable	22,525,422		
Due to Other Agencies	3,066,687		
Deferred Revenue	39,786,524		112,500
Estimated Insurance Claims Payable	7,900,000		
Notes Payable	76,120,601		
Other Liabilities		37,567	18,016
Long-Term Liabilities:			
Portion Due Within One Year:			
Notes Payable		633,896	
Obligations Under Capital Lease	10,298,899		
Bonds Payable	3,080,000		
Certificates of Participation Payable	23,858,739		
Estimated Insurance Claims Payable	6,300,000		
Estimated Liability for Arbitrage Rebate	126,908		
Compensated Absences Payable	10,217,477		
Portion Due After One Year:			
Notes Payable		5,279,223	
Obligations Under Capital Lease	53,275,909		
Bonds Payable	38,155,000		
Certificates of Participation Payable	1,431,412,516		
Estimated Insurance Claims Payable	14,093,582		
Compensated Absences Payable	101,864,043		
Total Liabilities	1,897,281,121	8,054,290	287,607
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,159,685,088	2,727,896	
Restricted for:			
State Categorical Programs	15,364,337		
Debt Service		129,716	
Capital Projects	596,118,762	370,922	
Other Purposes	2,598,116	64,818	
Scholarships, Endowments, and Other Programs			2,126,395
Unrestricted	90,441,214	2,505,163	304,626
Total Net Assets	1,864,207,517	5,798,515	2,431,021
TOTAL LIABILITIES AND NET ASSETS	$ 3,761,488,638	$ 13,852,805	$ 2,718,628

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

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

	Expenses	Program Revenues		
Functions/Programs		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	$ 839,184,133	$ 3,357,223	$	$
Pupil Personnel Services	49,999,463			
Instructional Media Services	18,790,907			
Instruction and Curriculum Development Services	82,983,991			
Instructional Staff Training Services	29,291,038			
Instruction Related Technology	12,934,339			
Board of Education	2,197,126			
General Administration	7,915,232			
School Administration	91,130,653			
Facilities Acquisition and Construction	60,814,976			102,518,959
Fiscal Services	6,434,143			
Food Services	59,129,381	18,765,375	40,145,529	
Central Services	20,908,765			
Pupil Transportation Services	74,173,428	584,596	28,948,858	
Operation of Plant	91,605,636			
Maintenance of Plant	42,417,718	264,653		12,269,486
Administrative Technology Services	16,466,533			
Community Services	10,712,754	8,993,197		
Interest on Long-Term Debt	62,278,003			6,461,636
Unallocated Depreciation Expense	55,076,525			
Total Primary Government	$ 1,634,444,744	$ 31,965,044	$ 69,094,387	$ 121,250,081
Component Units				
Charter Schools	$ 18,879,088	$ 262,170	$ 361,941	$ 728,488
The Foundation for Orange County Public Schools, Inc.	1,079,660			
Total Component Units	$ 19,958,748	$ 262,170	$ 361,941	$ 728,488

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
Impact Fees
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - July 1, 2006

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	Component Units	
Governmental Activities	Charter Schools	The Foundation for Orange County Public Schools, Inc.
$ (835,826,910)	$	$
(49,999,463)		
(18,790,907)		
(82,983,991)		
(29,291,038)		
(12,934,339)		
(2,197,126)		
(7,915,232)		
(91,130,653)		
41,703,983		
(6,434,143)		
(218,477)		
(20,908,765)		
(44,639,974)		
(91,605,636)		
(29,883,579)		
(16,466,533)		
(1,719,557)		
(55,816,367)		
(55,076,525)		
(1,412,135,232)		
	(17,526,489)	
		(1,079,660)
	(17,526,489)	(1,079,660)
504,809,925		
133,536,235		
156,331,083		
55,413,704		
809,810,782	17,510,964	1,117,255
64,881,379	11,598	
40,625,066		
1,765,408,174	17,522,562	1,117,255
353,272,942	(3,927)	37,595
1,510,934,575	5,802,442	2,393,426
$ 1,864,207,517	$ 5,798,515	$ 2,431,021

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

	General Fund	Debt Service - Other Debt Service Fund	Capital Projects - Other Capital Projects Fund
ASSETS			
Cash	$ 16,377,923	$	$
Investments	211,978,918	213,022,744	879,187,069
Accounts Receivable	560,513		
Interest Receivable		3,277,468	14,963,167
Due from Other Funds	3,723,269		
Due from Other Agencies	19,310,769		67,247,546
Inventories	4,561,557		
TOTAL ASSETS	$ 256,512,949	$ 216,300,212	$ 961,397,782
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 4,335,418	$	$
Payroll Deductions and Withholdings Payable	312,875		
Accounts Payable	19,827,245	151,773	2,079,902
Construction Contracts Payable			12,598,218
Construction Contracts Payable - Retainage			8,151,890
Matured Interest Payable	1,389,731		
Due to Other Funds			
Due to Other Agencies	3,066,687		
Notes Payable	50,000,000		26,120,601
Deferred Revenue			1,702,700
Total Liabilities	78,931,956	151,773	50,653,311
Fund Balances:			
Reserved for State Categorical Programs	10,259,815		
Reserved for Encumbrances	31,459,508		198,205,111
Reserved for Debt Service		216,148,439	
Unreserved, Reported in:			
General Fund	135,861,670		
Special Revenue Funds			
Capital Projects Funds			712,539,360
Total Fund Balances	177,580,993	216,148,439	910,744,471
TOTAL LIABILITIES AND FUND BALANCES	$ 256,512,949	$ 216,300,212	$ 961,397,782

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

EXHIBIT - C

Other Governmental Funds		Total Governmental Funds	
$	711,490	$	17,089,413
	50,205,562		1,354,394,293
	55,185		615,698
			18,240,635
			3,723,269
	15,818,896		102,377,211
	2,787,346		7,348,903
$	69,578,479	$	1,503,789,422
$	553,954	$	4,889,372
			312,875
	3,761,168		25,820,088
	927,494		13,525,712
	32,880		8,184,770
			1,389,731
	3,723,269		3,723,269
			3,066,687
			76,120,601
	6,925,584		8,628,284
	15,924,349		145,661,389
			10,259,815
	17,181,063		246,845,682
	1,151,018		217,299,457
			135,861,670
	8,672,393		8,672,393
	26,649,656		739,189,016
	53,654,130		1,358,128,033
$	69,578,479	$	1,503,789,422

EXHIBIT - D
ORANGE 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		$ 1,358,128,033
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		2,156,910,177
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, except for accrued interest received as part of a debt issue.		(22,525,422)
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.		12,070,338
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.		31,786,974
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 Lease	$ 63,574,808	
Bonds Payable	41,235,000	
Certificates of Participation Payable	1,455,271,255	
Compensated Absences Payable	112,081,520	(1,672,162,583)
Total Net Assets - Governmental Activities		$ 1,864,207,517

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

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EXHIBIT - E
ORANGE 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	Debt Service - Other Debt Service Fund	Capital Projects - Other Capital Projects Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 935,846	$	$
Federal Through State	4,317,857		
State	731,556,120		84,709,502
Local	534,997,733	11,685,825	281,220,504
Total Revenues	1,271,807,556	11,685,825	365,930,006
Expenditures			
Current - Education:			
Instruction	795,171,127		
Pupil Personnel Services	37,487,665		
Instructional Media Services	17,916,237		
Instruction and Curriculum Development Services	60,477,121		
Instructional Staff Training Services	8,872,964		
Instruction Related Technology	12,409,208		
Board of Education	2,190,448		
General Administration	5,247,217		
School Administration	90,034,790		
Facilities Acquisition and Construction	12,674,386		19,398,732
Fiscal Services	6,162,509		
Food Services	5,381		
Central Services	20,720,789		
Pupil Transportation Services	57,678,277		
Operation of Plant	91,215,541		
Maintenance of Plant	41,494,988		
Administrative Technology Services	16,441,356		
Community Services	703,119		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	171,637		367,769,896
Other Capital Outlay	7,027,144		
Debt Service:			
Principal		38,319,354	
Interest and Fiscal Charges	1,722,382	60,970,795	
Total Expenditures	1,285,824,286	99,290,149	387,168,628
Excess (Deficiency) of Revenues Over Expenditures	(14,016,730)	(87,604,324)	(21,238,622)
Other Financing Sources (Uses)			
Transfers In	33,970,778	89,358,125	1,226
Certificates of Participation Issued		826,291	269,598,709
Premiums on Long-Term Debt Issued		1,552,095	1,458,291
Inception of Capital Lease			13,500,000
Proceeds from Sale of Capital Assets	301,876		
Insurance Loss Recoveries	463,451		
Transfers Out		(1,226)	(10,029,819)
Total Other Financing Sources (Uses)	34,736,105	91,735,285	274,528,407
Net Change in Fund Balances	20,719,375	4,130,961	253,289,785
Fund Balances, July 1, 2006	156,861,618	212,017,478	657,454,686
Fund Balances, June 30, 2007	$ 177,580,993	$ 216,148,439	$ 910,744,471

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

EXHIBIT - E

Other Governmental Funds	Total Governmental Funds
$ 5,476,844	$ 6,412,690
141,932,890	146,250,747
37,514,544	853,780,166
163,554,832	991,458,894
348,479,110	1,997,902,497
39,251,957	834,423,084
12,186,592	49,674,257
765,986	18,682,223
21,930,056	82,407,177
20,239,345	29,112,309
449,901	12,859,109
	2,190,448
2,638,716	7,885,933
518,076	90,552,866
29,148,870	61,221,988
232,826	6,395,335
59,085,469	59,090,850
110,011	20,830,800
6,295,979	63,974,256
255,136	91,470,677
89,106	41,584,094
	16,441,356
9,971,343	10,674,462
3,955,896	371,897,429
3,297,687	10,324,831
4,775,000	43,094,354
1,726,083	64,419,260
216,924,035	1,989,207,098
131,555,075	8,695,399
	123,330,129
	270,425,000
	3,010,386
	13,500,000
	301,876
2,813	466,264
(113,299,084)	(123,330,129)
(113,296,271)	287,703,526
18,258,804	296,398,925
35,395,326	1,061,729,108
$ 53,654,130	$ 1,358,128,033

EXHIBIT - F
ORANGE 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	$	296,398,925
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 and donations in excess of depreciation expense and net gain on sale of capital assets in the current period.		317,121,228
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(285,134,821)
Premiums and debt isssuance 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 government-wide statements.		669,961
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		43,094,354
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.		(329,269)
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.		(11,245,940)
Revenues in the governmental fund statements that related to the prior year are not reported in the statement of activities.		(15,228,767)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		7,927,271
Change in Net Assets - Governmental Activities	$	353,272,942

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

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

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,960,158
Investments		89,088,134
Accounts Receivable		15,207
Interest Receivable		348,944
Deposits Receivable		5,000
Inventories		24,527
Total Current Assets		92,441,970
Noncurrent Assets:		
Furniture, Fixtures, and Equipment, Net		64,728
TOTAL ASSETS	$	92,506,698
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	$	2,752
Accounts Payable		1,200,422
Deferred Revenue		31,158,240
Estimated Insurance Claims Payable		14,200,000
Total Current Liabilities		46,561,414
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		14,093,582
Total Liabilities		60,654,996
NET ASSETS		
Invested in Capital Assets		64,728
Unrestricted		31,786,974
Total Net Assets		31,851,702
TOTAL LIABILITIES AND NET ASSETS	$	92,506,698

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

EXHIBIT - H
ORANGE 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		
Charges for Services	$	2,124,556
Premium Revenues		128,644,548
Other Operating Revenues		2,135,091
Total Operating Revenues		132,904,195
OPERATING EXPENSES		
Salaries		352,442
Employee Benefits		114,525
Purchased Services		8,460,409
Energy Services		52,344
Materials and Supplies		232,496
Capital Outlay		68
Claims Expense		119,856,009
Depreciation		11,678
Total Operating Expenses		129,079,971
Operating Income		3,824,224
NONOPERATING REVENUES (EXPENSES)		
Interest		4,098,179
Loss on Disposition of Assets		(6,810)
Total Nonoperating Revenues (Expenses)		4,091,369
Change in Net Assets		7,915,593
Total Net Assets, July 1, 2006		23,936,109
Total Net Assets, June 30, 2007	$	31,851,702

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

EXHIBIT - I
ORANGE 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 Services	$	130,767,030
Cash Payments to Suppliers for Goods and Services		(8,645,949)
Cash Payments to Employees for Services		(466,639)
Cash Payments for Insurance Claims		(118,517,636)
Other Operating Cash Receipts		2,135,091
Net Cash Provided by Operating Activities		5,271,897
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Disposition of Capital Assets		31,300
Acquisition and Construction of Capital Assets		(12,334)
Net Cash Provided by Capital and Related Financing Activities		18,966
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(10,935,772)
Interest Income		4,108,698
Net Cash Used by Investing Activities		(6,827,074)
Net Decrease in Cash and Cash Equivalents		(1,536,211)
Cash and Cash Equivalents, Beginning		4,496,369
Cash and Cash Equivalents, Ending	$	2,960,158

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

Operating Income	$	3,824,224
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		11,678
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(2,074)
Increase in Inventory		(8,858)
Decrease in Accounts Payable		(802,641)
Increase in Salaries and Benefits Payable		328
Increase in Deferred Revenue		910,867
Increase in Estimated Insurance Claims Payable		1,338,373
Total Adjustments		1,447,673
Net Cash Provided by Operating Activities	$	5,271,897
Noncash Investing Activities		
Net Decrease in the Fair Value of Investments	$	(16,227)

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

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

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	9,914,064
Investments		2,543,263
Accounts Receivable, Net		337,844
Inventories		507,288
TOTAL ASSETS	$	13,302,459
LIABILITIES		
Accounts Payable	$	1,064,789
Internal Accounts Payable		12,237,670
Total Liabilities	$	13,302,459

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ <u>Reporting Entity</u>

Orange County Public Schools (the District) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education.

The governing body of the District is the Orange County District School Board (the Board) which is composed of seven elected members. The appointed Superintendent of Schools (Superintendent) is the executive officer of the Board. Geographic boundaries of the District correspond with those of Orange County, Florida.

Pursuant to Section 1001.51(11)(f), Florida Statutes, the Superintendent is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the Florida State Board of Education.

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 that the Board is financially accountable and other organizations that the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

As required by accounting principles generally accepted in the United States (GAAP), these basic financial statements present the District (the primary government) and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

- <u>Blended Component Units</u>. The District's employee group health and life insurance program, described in Note 20, is administered through the School Board of Orange County Employee Benefits Trust (Trust). Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust Agreement, the School Board retains control of the assets. Due to the substantive economic relationship between the District and the Trust, the financial activities are reported in the accompanying basic financial statements as an internal service fund.

  The Orange County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 8. The Board of Directors of the Leasing Corporation are members of the Board who elect to serve as ex-officio Directors. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements as part of the debt service and capital project funds. Separate financial statements for the Leasing Corporation are not published.

- <u>Discretely Presented Component Units</u>. The component unit columns in the government-wide financial statements include the financial data of the District's component units that are required to be presented separately. These component units consist of the following charter schools: Hope Charter School, Inc., Lake Eola Charter School, Inc., Nap Ford Community School, Inc., Passport High School, Inc. (d/b/a Northstar Charter School), The Passport School, Inc., Legacy High School, Inc., Princeton House Charter School, Inc., Rio Grande Charter School of Excellence, Inc., Summit Charter Schools, Inc., Summit Charter School – Central Campus, Inc., Summit Charter School – West Campus, Inc., and Workforce Advantage Academy, Inc. (collectively referred to as the Charter Schools); and the Foundation for Orange County Public Schools, Inc. (the Foundation). The Charter Schools and the Foundation are reported in separate columns in the basic financial statements to emphasize that they are legally separate from the District.

The Charter Schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under charters approved by their sponsor, the Board, and are fiscally dependent on the District. The financial data reported on the accompanying basic financial statements was derived from the financial statements of the Charter Schools for the fiscal year ended June 30, 2007, which were audited by independent certified public accountants and are on file at the District's administrative office. As of June 30, 2007, Summit Charter School – West Campus, Inc., ceased its operation.

The following five charter schools are not included in the District's basic financial statements in accordance with generally accepted accounting principles. Origins Montessori Charter School, West Orange County Charter School (d/b/a Oakland Charter School), Westminster Academy Charter School, and United Cerebral Palsy Charter Schools (two Charter Schools) are organized under existing not-for-profit corporations, and each is considered to be a component unit of their respective not-for-profit corporation.

The Foundation is a separate nongovernmental not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Foundation was formed to provide charitable and educational aid to the District and to receive, hold, invest, and administer property and to make expenditures for the benefit of the District, which is able to impose its will on the Foundation. An audit of the Foundation's financial statements for the fiscal year ended June 30, 2007, was conducted by an independent certified public accountant. A copy of the separate financial statements of the Foundation is on file at the District's administrative office.

- **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The 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 measurement made, regardless of the measurement focus applied.

Government-wide Financial Statements – The Government-wide Financial Statements are prepared under the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the government in its entirety, except for those that are fiduciary. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are generally supported by fees charged. The District currently does not have any business-type activities.

The Statement of Net Assets includes all assets and liabilities of the District. The Statement of Activities presents a comparison between the 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 program or function and, therefore, are clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments is allocated to the transportation and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

Amounts reported as program revenues include 1) charges for services provided to students for tuition, fees, rental, material, supplies, or other services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

The District eliminates from the Statement of Net Assets and the Statement of Activities most interfund receivables and payables and transfers between funds as well as the transactions associated with its Internal Service Funds.

Fund Financial Statements – The Governmental Fund Financial Statements are prepared utilizing the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues "susceptible to accrual" include ad valorem taxes, reimbursable-type grants, and interest on investments. The District considers revenues from ad valorem taxes as available if they are collected within sixty (60) days after year-end. Expenditures are recorded when the fund liability is incurred. However, exceptions include unmatured principal and interest on general long-term debt and accumulated sick and vacation pay, which are recorded when payment is due.

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

The Agency (Fiduciary) Funds are purely custodial in nature (assets equal liabilities) and as such do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables.

The Proprietary Fund Financial Statements are prepared under the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are for self-insurance (property, casualty, liability, and workers' compensation), employee benefits (health and prescription), and printing provided to other funds. Operating expenses for the internal service funds include salaries, employee benefits, purchased services, energy services, materials and supplies, claims expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The District reports the following major funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes. The General Fund is the District's primary operating fund.

- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs for capital leases and certificates of participation.

- Capital Projects – Other Capital Projects Fund – to account for the financial resources generated by certificates of participation, impact fees, the lottery, sales taxes, and other local sources to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments.

Additionally, the District reports the following nonmajor fund types:

- Special Revenue Funds – to account for the financial resources of the school food service program, certain grant program resources, the extended day childcare program, and other such restricted resources.

- Debt Service Funds – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs.

- Capital Projects Funds – to account for financial resources generated from local property taxes and allocated from State revenues that are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments.

- Internal Service Funds – to account for the District's limited self-insurance programs and printing service operations.

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

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

- **Cash and Cash Equivalents**

Cash deposits are held in banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes. For the Internal Service Funds, the statement of cash flows considers cash and cash equivalents as those accounts used as demand deposit accounts.

Cash balances from all funds are combined and invested to the extent available. Earnings are allocated monthly to each fund based on average daily balances of cash and investments.

- **Investments**

Investments are reported at fair value with unrealized gains and losses recorded as investment income. Investments consist of amounts placed in the State Board of Administration Debt Service accounts for investment of debt service moneys, amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool (a 2a7-like external investment pool), created by Section 218.405, Florida Statutes, and those made locally. A 2a-7-like external investment pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. The Local Government Surplus Funds Trust Fund is administered by the State Board of Administration, under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code. The District's investment in this external investment pool is reported at amortized cost, which approximates fair value and is the same as the value of the pool shares. The investment earnings from the investment pool are allocated to each fund based on end of month investment balances in that fund. Investments made locally consist of repurchase agreements reported at amortized cost and of United States government securities and corporate debt securities reported at fair value based on quoted market prices. Types and amounts of investments held at fiscal year-end are described in Note 3 on investments.

- **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Transportation, custodial, and school supply inventories are stated at cost on a weighted average basis. Food service inventories are stated at cost on the last invoice basis, which approximates the first-in, first-out basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

- **Capital Assets and Depreciation**

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 $1,000 for furniture, fixtures, and equipment; motor vehicles; audio visual materials and computer software; improvements other than buildings; buildings and fixed equipment; and construction in progress and which have an estimated life of two or more years. All land purchases are capital assets regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets lives are not capitalized and are expensed as incurred.

Capital assets of the primary government, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	5 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

Current-year information relative to changes in capital assets is described in Note 5.

- **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 and deferred amounts on refunding, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and deferred amounts on refunding, during the current period. The face amount of debt issued and premiums on debt issued are reported as other financing sources while discounts on debt issuances and deferred amounts on refunding 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 portion due and payable at year-end.

Changes in long-term debt for the current year are reported in Note 11.

- **State Revenue Sources**

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

The State provides financial assistance to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental funds 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 Class Size Reduction Construction program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of these 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 Note 14.

- **District Property Taxes**

The 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. The Orange County Property Appraiser determines the real and personal property values within the District. The Orange County Tax Collector then collects the taxes and remits them to the District.

The Board adopted the 2006 tax levy on September 12, 2006. Taxes become an enforceable lien on property as of January 1; 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 the District receives taxes, except the revenue that is accrued for taxes collected by the Orange County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

Millages and taxes levied for the current year are presented in Note 15.

- **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 for 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 INFORMATION

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

- Annually, budgets are prepared, public hearings are held, and original budgets are adopted for all governmental fund types in accordance with procedures and time intervals prescribed by State Statutes and State Board of Education rules.
- Appropriations are controlled at the function level (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any 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.
- The reported budgetary data consists of the original budget as well as the final appropriated budget after amendments approved by the Board.

3. INVESTMENTS

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

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		Investment Maturities Less Than				
Investment	Fair Value	6 Months	1 Year	2 Years	3 Years	5 Years
Governmental Activities:						
State Board of Administration						
Local Government Surplus Funds						
Trust Fund Investment Pool	$ 927,597,186	$ 927,597,186	$	$	$	$
State Board of Administration						
Debt Service Accounts	15,404,985	15,404,985				
United States Treasury Securities	1,169,460	254,540	256,650	262,380	395,890	
Repurchase Agreements	142,138,856	142,138,856				
Obligations of United States						
Government Sponsored Agencies/						
Federal Instrumentalities	357,171,940	131,887,794	47,591,312	14,981,255	28,923,412	133,788,167
Total Investments,						
Governmental Activities	1,443,482,427	1,217,283,361	47,847,962	15,243,635	29,319,302	133,788,167
Fiduciary Funds:						
State Board of Adminstration						
Local Government Surplus						
Funds Trust Fund						
Investment Pool	2,543,263	2,543,263				
Total Investments, Primary Government	$ 1,446,025,690	$ 1,219,826,624	$ 47,847,962	$ 15,243,635	$ 29,319,302	$ 133,788,167

Interest Rate Risk

- District policies limit the maturity of investments to five years as a means of limiting its exposure to fair value losses arising from rising interest rates. The average overall maturity should be less than two years. Also, at least three months of average disbursements should be invested in highly liquid funds with a maturity range of 0-90 days.

- The District has $357,171,940 in Obligations of United States Government Sponsored Agencies/Federal Instrumentalities. These securities included embedded options to call the entire security or a portion thereof, at the option of the issuer; or, depending on market conditions, the issuer may decide to leave the security intact, at stated interest rate, until final maturity. These securities have various call dates, with final maturity dates between October 2007 and June 2012.

Credit Risk

- Investments authorized by District policy are:

  - Florida Local Government Surplus Funds Trust Fund (SBA);
  - Direct Obligations of the United States Treasury;
  - United States Federal Government Agency Securities;

- United States Government Sponsored Agencies or Federal Instrumentalities;

- Repurchase Agreements fully collateralized at 102 percent of market value by United States Treasuries, United States Federal Agencies, United States Government Sponsored Agencies or Federal Instrumentalities;

- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;

- Corporate Securities with at least an "AA" rating; Commercial Paper rated A1, P1;

- Certificates of Deposit collateralized at 102 percent of market value, by United States Treasuries, United States Government Agencies, United States Government Sponsored Agencies/Federal Instrumentalities;

- Securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 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

- Passbook savings accounts and interest bearing time deposits with banks organized under the laws of the State of Florida or in banks doing business in the State of Florida and with banks not listed with any recognized credit watch information services.

➢ As of June 30, 2007, the District's investments in the State Board of Administration (SBA) are unrated.

Custodial Credit Risk

➢ Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in a book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other State or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's $357,171,940 investments in obligations of United States Government Agencies and Instrumentalities are held by the safekeeping agent, in the name of the District.

Concentration of Credit Risk

➢ Composition of the investment portfolio is limited by District policy to:

- SBA is limited to 100 percent of portfolio;

- Direct Obligations of the United States Treasury are limited to 100 percent;
- United States Government Sponsored Agencies and Federal Instrumentalities are limited to 50 percent of portfolio, and 15 percent for any individual agency;
- Any other investment, not listed above, authorized by the District Policy is limited to between 5 percent and 25 percent of the portfolio.

As of June 30, 2007, the District's investments in the SBA Investment Pool were $943,002,171. The District has $309,729,184 held in the SBA under a trust indenture in connection with the Certificates of Participation, Series 1999, 2000A, 2000B, 2002A, 2002B, 2002-QZAB, 2004, 2006A, and 2007 A/B for unspent construction proceeds. The SBA Investment Pool is a 2a-7 like fund and has a portfolio weighted average maturity not to exceed 90 days. As of June 30, 2007, this fund is not rated. The SBA allocates investment earnings to participants monthly, based on a prorated dollar days participation of each account in the pool. The fair value of pool investments is determined on a monthly basis. On June 30, 2007, the investment pool's portfolio's average days to maturity was 26 and the security distribution was as follows: Federal Agency Obligations - .324 percent; Commercial Paper – 45.004 percent; and Medium Term and Floating/Variable Rate – 54.672 percent.

Subsequent events related to the SBA are reported in Note 23.

All District investments are in compliance with District policy in relation to interest rate risk, credit risk, and concentration of credit risk.

4. RECEIVABLES

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

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5. CHANGES IN CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, is as follows:

	Balance 7-1-06	Additions	Deletions	Balance 6-30-07
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 180,364,652	$ 3,139,832	$	$ 183,504,484
Construction in Progress	131,798,319	359,110,737	421,881,726	69,027,330
Total Capital Assets Not Being Depreciated	312,162,971	362,250,569	421,881,726	252,531,814
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	16,899,688	385,295		17,284,983
Buildings and Fixed Equipment	1,756,127,161	421,881,726		2,178,008,887
Furniture, Fixtures, and Equipment	150,739,706	20,577,585	15,866,018	155,451,273
Motor Vehicles	109,608,761	560,940	1,368,967	108,800,734
Audio Visual Materials and Computer Software	4,333,965	89,208	164,329	4,258,844
Total Capital Assets Being Depreciated	2,037,709,281	443,494,754	17,399,314	2,463,804,721
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,805,444	864,249		5,669,693
Buildings and Fixed Equipment	355,795,714	39,370,090	20,458	395,145,346
Furniture, Fixtures, and Equipment	94,716,761	15,808,674	14,836,346	95,689,089
Motor Vehicles	51,133,474	9,461,212	1,366,894	59,227,792
Audio Visual Materials and Computer Software	3,606,133	240,710	152,405	3,694,438
Total Accumulated Depreciation	510,057,526	65,744,935	16,376,103	559,426,358
Total Capital Assets Being Depreciated, Net	1,527,651,755	377,749,819	1,023,211	1,904,378,363
Governmental Activities Capital Assets, Net	$ 1,839,814,726	$ 740,000,388	$ 422,904,937	$ 2,156,910,177

Furniture, Fixtures, and Equipment, and Motor Vehicles include $496,932 and $94,840,793, respectively, of assets being acquired under capital leases presented in Note 7.

All depreciation expense was charged to functions/programs of the primary government as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 9,979,435
Maintenance of Plant	688,975
Unallocated	55,076,525
Total Depreciation Expense - Governmental Activities	$ 65,744,935

6. CHANGES IN SHORT-TERM DEBT

Following is a description of the District's notes payable:

	Balance 7-1-06	Additions	Deletions	Balance 6-30-07
Tax Anticipation Note	$ 35,000,000	$ 50,000,000	$ 35,000,000	$ 50,000,000
Revenue Anticipation Note		26,120,601		26,120,601
Total	$ 35,000,000	$ 76,120,601	$ 35,000,000	$ 76,120,601

The District borrowed $50,000,000 on October 19, 2006, under provisions of Section 1011.13(1), Florida Statutes, at an interest rate of 4 percent. Proceeds were used to provide interim funds for payment of operating expenses of the District for the fiscal year ended June 30, 2007, in anticipation of the receipt of ad valorem taxes levied and collected for such fiscal year. The note matured on September 14, 2007.

On September 1, 2005, the District entered into an agreement to issue revenue anticipation notes for up to $32,000,000 under provisions of Section 1011.14, Florida Statutes, at an interest rate of 0.001 percent. The funds were to be drawn as needed in order to construct one middle school pursuant to a community enhancement agreement (CEA). These funds were received starting in August 2006 and totaled $26,120,601 at June 30, 2007. The original note matured on August 31, 2006, but was renewed for one year with a maturity date of August 30, 2007. Interest on the notes will be paid by the developers listed under the CEA, and the notes are payable from and secured by a prior lien upon and pledge of impact fees.

7. CAPITAL LEASES

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

Asset Description	Asset Balance
Buses and Equipment	$ 95,337,725

Amortization of assets recorded under capital leases are included with depreciation expense in the accompanying financial statements.

Following are the future minimum lease payments and the present value of the minimum lease payments as of June 30, 2007:

Fiscal Year Ending June 30	Total	Principal	Interest
2008	$12,318,658	$10,298,899	$2,019,759
2009	12,589,039	10,072,579	2,516,460
2010	11,421,873	9,662,429	1,759,444
2011	10,041,633	8,669,829	1,371,804
2012	10,041,633	9,013,200	1,028,433
2013-2015	17,121,051	15,857,872	1,263,179
Total Minimum Lease Payments	$73,533,887	$63,574,808	$9,959,079

The stated and imputed interest rates range from 3.20 to 4.97 percent. Proceeds from the Local Capital Improvement Tax are used to pay the principal and interest payments for the capital leases.

8. CERTIFICATES OF PARTICIPATION

The District entered into a master financing arrangement on May 1, 1997, which was characterized as a lease-purchase agreement, with the Orange County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, vehicles, and equipment. The financing was accomplished through the issuance of Certificates of Participation (COPs):

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Series	Amount Issued	Amount Outstanding	Remaining Interest Rates (Percent) (9)	Facility Lease Term Maturity (10)
1997A	$351,057,075	$ 225,142,075	5.1 - 6.0	2022
1999A	140,000,000	33,815,000	4.0 - 4.8	2017
2000A	114,495,000	78,085,000	4.8 - 5.5	2025
2000B	54,450,000	48,980,000	Synthetic 4.615	2025
2001A - Refunding (1)	78,230,000	76,700,000	3.30 - 5.25	2019
2002A	129,585,000	98,395,000	3.25 - 5.50	2027
2002B	49,665,000	48,110,000	Variable (8)	2027
2002 - QZAB (2)	3,900,000	2,116,047	None	2016
2003	11,720,000	9,330,000	2.00 - 3.75	2013
2004	91,300,000	91,300,000	3.375 - 5.000	2029
2005A (3)	125,460,000	125,460,000	3.125 - 5.000	2022
2005B (4)	66,585,000	66,585,000	3.25 - 5.00	2025
2006A (5)	145,215,000	145,215,000	5.0	2031
2006B (6)	111,165,000	111,165,000	4.0 - 5.0	2024
2007A (7)	165,425,000	165,425,000	3.75 - 5.00	2032
2007B (7)	105,000,000	105,000,000	Synthetic 4.412	2032
Total		$1,430,823,122		

(1) On February 15, 2002, the Leasing Corporation issued COPs Series 2001A to advance refund a portion of the COPs Series 1997A and Series 2000A.

(2) On December 11, 2002, the master financing agreement was amended and the Leasing Corporation issued COPs Series 2002 – Qualified Zone Academy Bonds (QZAB). Under the terms of this lease agreement, the District is required to make 13 annual payments of $211,605, which are deposited with a Trustee and are to be invested with a qualified financial institution until maturity date and, when combined with interest earnings and net appreciation in market value, will be sufficient to pay off the principal balance, in full, at maturity on December 11, 2016.

(3) On March 14, 2005, the Leasing Corporation issued COPs Series 2005A to advance refund with crossover debt a portion of COPs Series 1997A and Series 1999A.

(4) On March 14, 2005, the Leasing Corporation issued COPs Series 2005B to advance refund with crossover debt a portion of COPs Series 2000A.

(5) On March 9, 2006, the Leasing Corporation issued COPs Series 2006A to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2006A COPs.

(6) On March 9, 2006, the Leasing Corporation issued COPs Series 2006B to advance refund a portion of COPs Series 1999A and Series 2002A.

(7) On June 29, 2007, the Leasing Corporation issued COPs Series 2007A and Series 2007B to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2007A and Series 2007B COPs.

(8) The variable rates are reset on a daily basis and are set by the Bond Market Association.

(9) The lease payments are payable by the District, semiannually, on July 25 and January 25, except for the Series 2002 QZAB, which is paid annually on December 10, and interest is paid by the Federal government in the form of annual tax credits to the bank or other eligible financial institution that holds the Certificates.

(10) As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of $1 per year. The properties covered by the ground lease are, together with the improvements constructed thereon (facilities) and the vehicles and equipment purchased from the financing proceeds, leased back to the District. The lease agreements are automatically renewable through varying dates unless early terminated following the occurrence of an event of default or a nonappropriation of funds to make lease payments, all as described and defined in the leases. If the District fails to renew the lease and to provide for rent payments through to term, it may be required to surrender all facilities, vehicles, and equipment included under the terms of the lease agreements for the benefit of the securers of the COPs.

The District properties funded by the above-financing arrangement include the following:

Certificates	Description of Property
Series 1997A	Renovation and remodeling at eighteen elementary schools, four middle schools, two high schools, and two 9th grade centers.
Series 1999A	Three new elementary schools and one new middle school; replacement of modular buildings; and a high school expansion/replacement.
Series 2000A	Three elementary schools.
Series 2000B	One high school.
Series 2001A	Refunding of COPs, Series 1997A and 2000A.
Series 2002A	Two alternative education schools; the replacement of one elementary, one middle, and one high school; an addition at one middle school; and concrete modular buildings at various sites.
Series 2002B	Three new elementary schools and the replacement of one elementary school.
Series 2002-QZAB	Comprehensive needs and renovation at one elementary school.
Series 2003	Financing and refinancing 295 premanufactured concrete modular structures.
Series 2004	Two middle schools, two elementary schools, portable classrooms to meet immediate needs and portable replacements.
Series 2005A	Refunding of COPs, Series 1997A and 1999A.
Series 2005B	Refunding of COPs, Series 2000A.
Series 2006A	One replacement high school and four elementary schools.
Series 2006B	Refunding of COPs, Series 1999A and 2002A.
Series 2007A&B	One replacement high school, one replacement middle school, one technical center, one high school, and two elementary schools.

The following is a schedule by years of future minimum lease payments under the above-referenced lease agreements together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2008	$ 86,690,496	$ 22,056,604	$ 64,633,892
2009	93,863,487	25,201,605	68,661,882
2010	94,919,667	27,561,605	67,358,062
2011	98,510,036	32,626,605	65,883,431
2012	101,807,456	37,636,604	64,170,852
2013-2017	492,639,155	185,850,099	306,789,056
2018-2022	558,416,966	320,795,000	237,621,966
2023-2027	490,628,757	341,230,000	149,398,757
2028-2032	419,322,283	355,895,000	63,427,283
2033	83,819,389	81,970,000	1,849,389
Total Minimum Lease Payments	2,520,617,692	1,430,823,122	1,089,794,570
Add: Unamortized Premium	24,448,133	24,448,133	
Total Certificates of Participation	$ 2,545,065,825	$ 1,455,271,255	$ 1,089,794,570

Fixed Rate Spread Basis Swap

Series 2000B COPs Swap Agreement. As a means to lower its issuance and interest costs, when compared against fixed-rate debt, the District entered into an interest rate swap in connection with its $54,450,000 Series 2000B variable-rate COPs ("Series 2000B COPs"). The intention of the swap is to effectively change the District's variable interest rate on the debt to a synthetic fixed rate of 4.615 percent. The Series 2000B COPs and the related swap agreement mature on August 1, 2025, and the swap's notional amount of $53,740,000 matched the $53,740,000 variable-rate COPs value at the time the swap was entered. The swap was entered into in January 2002. Under the swap, the District pays the counterparty a fixed payment of 4.615 percent and receives a variable payment (The Securities Industry and Financial Markets Association Index, or SIFMA Index, previously known as the TBMA Index) from the counterparty. The District's Series 2000B COPs are currently priced in a daily mode while the SIFMA Index is comprised of weekly interest rates.

The swap has a negative fair value of $2,756,882 as of June 30, 2007. The swap's negative fair value may be countered by an increase in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate.

The swap's fair value represents the District's credit exposure to the counterparty as of June 30, 2007. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the District is left with variable rate bonds. As of June 30, 2007, the swap counterparty was rated "Aa2" by Moody's Investors Service, "AA+" by Standard & Poor's Ratings, and "AAA" by Fitch Ratings. The swap exposes the District to basis risk should the variable rate it receives under the agreement be different than the rate it pays on its COPs. Should daily rates become higher than weekly rates, the District maintains the option to change the mode on the Series 2000B COPs from a daily mode to a weekly mode.

Swap Payments and Associated Debt. Assuming interest rates remain the same as June 30, 2007, annual debt service requirements on the Series 2000B COPs and the interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 1,135,000	$ 1,861,240	$ 433,473	$ 3,429,713
2009	1,205,000	1,818,110	423,428	3,446,538
2010	1,280,000	1,772,320	412,764	3,465,084
2011	1,355,000	1,723,680	401,436	3,480,116
2012	1,440,000	1,672,190	389,444	3,501,634
2013-2017	8,570,000	7,473,650	1,740,574	17,784,224
2018-2022	11,490,000	5,636,160	1,312,632	18,438,792
2023-2026	22,505,000	2,776,090	646,537	25,927,627
Total	$ 48,980,000	$ 24,733,440	$ 5,760,288	$ 79,473,728

Series 2007B COPs Swap Agreement. The District entered into an interest rate swap in connection with its $105,000,000 Series 2007B variable-rate COPs. The intention of the swap is to effectively change the District's variable interest rate on the debt to a synthetic fixed rate of 4.412 percent. The Series 2007B COPs and the related swap agreement mature on August 1, 2032. The swap has a negative $1,457,053 fair value as of June 30, 2007. Under the requirements of the swap, the District receives a variable payment based on the SIFMA index from the conterparty. The District's Series 2007B COPs are currently priced in a daily mode while the SIFMA index reflects weekly interest rates.

The swap's fair value represented the District's credit exposure to the counterparty as of June 30, 2007. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the District is left with variable rate bonds. As of June 30, 2007, the swap counterparty was rated "Aaa" by Moody's Investors Service, "AA+" by Standard & Poor's Ratings, and "AA" by Fitch Ratings. The swap exposes the District to basis risk should the variable rate it receives under the agreement be different than the rate it pays on its COPs. Should daily rates become higher than weekly rates, the District maintains the option to change the mode on the Series 2007B COPs from a daily mode to a weekly mode.

Swap Payments and Associated Debt. Assuming interest rates remain the same as June 30, 2007, annual debt service requirements on the Series 2007B COPs and the interest rate swap would be as follows:

EXHIBIT - K (Continued)
ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$	$ 3,990,000	$ 600,600	$ 4,590,600
2009		3,990,000	600,600	4,590,600
2010		3,990,000	600,600	4,590,600
2011		3,990,000	600,600	4,590,600
2012		3,990,000	600,600	4,590,600
2013-2017		19,950,000	3,003,000	22,953,000
2018-2022		19,950,000	3,003,000	22,953,000
2023-2027		19,950,000	3,003,000	22,953,000
2028-2032	37,020,000	17,919,660	2,697,380	57,637,040
2033	67,980,000	2,583,240	388,846	70,952,086
Total	$ 105,000,000	$ 100,302,900	$ 15,098,226	$ 220,401,126

Crossover Refunding – Series 2005A and 2005B COPs

On March 14, 2005, the District issued COPs, Series 2005A and 2005B, to advance refund certain COPs. The COPs Series 2005A of $125,460,000 (par value) with interest rates ranging from 3.125 percent to 5 percent was issued to advance refund portions of COPs, Series 1997A and 1999A, with interest rates of 5.375 percent and ranging from 4.3 percent to 4.8 percent with par values totaling $105,095,000 and $23,460,000, respectively. The COPs final maturity is on August 1, 2022. The COPs were issued at a net premium of $8,448,657 and, after paying issuance costs of $1,242,968, the net proceeds were $132,665,689. The net proceeds from the issuance of the COPs are being used to provide funds for the purpose of funding an escrow deposit, the proceeds of which will be applied to (i) fully prepay on the first crossover date of August 1, 2007, all of the Series 1997A COPs maturing on or after August 1, 2018; (ii) pay interest through August 1, 2007, on that portion of the Series 2005A COPs, the proceeds of which will be applied to prepay the Refunded Series 1997A COPs; (iii) fully prepay on the second crossover date of August 1, 2009, all of the Series 1999A COPs maturing on or after August 1, 2010; and (iv) pay interest through August 1, 2009, on that portion of the Series 2005A COPs, the proceeds of which will be applied to prepay the Refunded Series 1999A COPs. On August 1, 2007, and August 1, 2009, the advance refunding will meet the requirements of an in-substance debt defeasance and the liability for the Refunded Series 1997A and Refunded Series 1999A COPs, respectively, will be removed from the District's financial statements.

As a result of the advance refunding of the Series 1997A and 1999A COPs, the District will reduce its total debt service requirements by $10,518,916, which will result in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $7,020,571.

The COPs Series 2005B of $66,585,000 (par value) with interest rates ranging from 3.25 percent to 5 percent was issued to advance refund COPs payments for portions of COPs, Series 2000A, with interest rates ranging from 5 percent to 5.5 percent and par values totaling $67,540,000. The COPs final maturity is on August 1, 2025. The COPs were issued at a net premium of $3,545,846 and, after paying issuance costs of $689,495, the net proceeds were $69,441,351. The net proceeds from the issuance of the COPs are being used to provide funds for the purpose of funding an escrow deposit, the proceeds of which will be applied to (i) fully prepay on the crossover date of August 1, 2010, all of the Series 2000A COPs maturing on or after August 1, 2011, except for those maturing in 2018 and 2019; and (ii) pay interest through August 1, 2010, on the Series 2005B COPs. On August 1, 2010, the advance refunding will meet the requirements of an in-substance debt defeasance and the liability for the Refunded Series 2000A COPs will be removed from the District's financial statements.

As a result of the advance refunding of the Series 2000A COPs, the District will reduce its total debt service requirements by $5,996,590, which will result in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $3,549,373.

Swaption

Objective of the Swaption. The District entered into a swaption contract that provided the District an up-front payment of $3,176,000. As a synthetic refunding of a portion of its 1997A COPs, this payment represents the risk-adjusted, present-value savings of a refunding as of August 1, 2007, without issuing refunding bonds on April 27, 2005. The swaption gave the counterparty the option to make the District enter into a pay-fixed, receive-variable interest rate swap. If the option is exercised, the District would then expect to issue variable-rate refunding COPs.

The swaption was entered into on April 27, 2005. The $3,176,000 payment was based on a notional amount of $51,020,000. The counterparty has the option to exercise the agreement on August 1, 2007, then on February 1 and August 1 in 2008 and 2009. The District's first call date on this portion of the 1997A COPs is August 1, 2007. If exercised, the swaption will commence on the respective option date. The fixed swaption rate (5.09 percent) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swaption's variable payment would be the Bond Market Association (BMA) municipal swap index.

Fair Value. As of June 30, 2007, the swaption has a negative fair value of $3,491,601 estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaption, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Market-access risk. If the option is exercised and refunding COPs are not issued, the 1997 COPs would not be refunded and the District would make net swaption payments as required by the terms of the contract, making a fixed payment to the counterparty for the term of the swap at 5.09 percent and receiving a variable payment of BMA Municipal Swap Index. If the option is exercised and the variable-rate COPs issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate COPs versus the variable payment on the swaption (BMA Municipal Swap Index).

9. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1998A	$ 1,530,000	4.5	2008
Series 1999A	3,205,000	4.00 - 4.75	2019
Series 2000A	270,000	5.000 - 5.125	2010
Series 2001A	1,110,000	4.80 - 5.00	2021
Series 2002A	2,575,000	3.9 - 5.0	2022
Series 2005A	12,360,000	5.0	2016
Series 2005B	20,185,000	5.0	2020
Total Bonds Payable	$ 41,235,000		

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**

  The State Board of Education on behalf of the District issues these bonds. 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. The State Board of Education and the State Board of Administration are responsible for administering principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements.

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	$ 5,106,669	$ 3,080,000	$ 2,026,669
2009	5,039,669	3,155,000	1,884,669
2010	5,045,871	3,315,000	1,730,871
2011	5,063,496	3,495,000	1,568,496
2012	5,086,771	3,690,000	1,396,771
2013-2017	23,580,074	19,505,000	4,075,074
2018-2022	5,438,500	4,995,000	443,500
Total	$54,361,050	$41,235,000	$13,126,050

10. DEFEASED DEBT

In prior years, the Board defeased in substance certain outstanding bonds and certificates of participation (COPs) by placing the proceeds of new bonds and new COPs in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the in-substance defeased debt are not included in the District's financial statements. On June 30, 2007, debt considered defeased in substance is as follows:

Debt Issues	Amount Outstanding
State School Bonds, Series 1998A	$ 19,920,000
State School Bonds, Series 2000A	1,220,000
Certificates of Participation, Series 1997A	49,805,000
Certificates of Participation, Series 1999A	87,620,000
Certificates of Participation, Series 2000A	24,015,000
Certificates of Participation, Series 2002A	24,720,000
Total Defeased Debt	$207,300,000

11. 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					
Certificates of Participation Payable	$1,181,524,727	$ 270,425,000	$ 21,126,605	$1,430,823,122	$ 22,056,604
Add: Unamortized COP Premium	23,239,882	3,171,984	1,963,733	24,448,133	1,802,135
Total Certificates of Participation Payable	1,204,764,609	273,596,984	23,090,338	1,455,271,255	23,858,739
Estimated Liability for Arbitrage Rate		126,908.00		126,908.00	126,908.00
Bonds Payable	46,010,000		4,775,000	41,235,000	3,080,000
Obligations Under Capital Lease	67,267,557	13,500,000	17,192,749	63,574,808	10,298,899
Estimated Insurance Claims Payable	19,655,209	6,824,575	6,086,202	20,393,582	6,300,000
Compensated Absences Payable	100,835,580	22,027,207	10,781,267	112,081,520	10,217,477
Total Governmental Activities	$1,438,532,955	$ 316,075,674	$ 61,925,556	$1,692,683,073	$ 53,882,023

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

12. RESERVE FOR ENCUMBRANCES

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

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.

Because revenues of grants accounted for in Special Revenue Funds – Other Federal Programs Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Other Federal Programs Fund total $4,853,620 at June 30, 2007.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 3,723,269	$
Nonmajor Governmental		3,723,269
Total	$ 3,723,269	$ 3,723,269

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 33,970,778	$
Debt Service:		
Other Debt Service	89,358,125	1,226
Capital Projects:		
Other Capital Projects	1,226	10,029,819
Nonmajor Governmental		113,299,084
Total	$ 123,330,129	$ 123,330,129

The interfund transfers represent the payments of expenditures by one fund for another fund. The transfers in for the General Fund are from the Capital Projects Funds. Most of the transfers were for three purposes: $13.6 million for facility rentals (relocatables); $7.2 million for the facility department; and $12.3 million for PECO maintenance. The transfers in for the Debt Service – Other Debt Service Fund are all from Capital Projects Funds for the debt service payments for capital leases and COPs payments recorded in the Debt Service Funds.

14. SCHEDULE OF STATE REVENUE SOURCES

A principal source of District revenues is the State, which provided approximately 43 percent of total revenues in the 2006-07 fiscal year. The following is a schedule of State revenue sources and amounts:

Source	Amount
Florida Education Finance Program	$ 473,406,084
Categorical Educational Programs:	
Class Size Reduction	142,594,972
Transportation	28,948,858
Instructional Materials	16,995,733
School Recognition Funds	8,748,850
Voluntary Prekindergarten	4,581,941
Excellent Teaching Program	4,048,898
Florida Teacher Lead Program	3,024,641
Class Size Reduction Capital Outlay	84,709,502
Workforce Development Program	36,543,632
Gross Receipts Tax (Public Education Capital Outlay)	28,186,877
Motor Vehicle License Tax (Capital Outlay and Debt Service)	8,353,702
Discretionary Lottery Funds	7,235,048
Food Service Supplement	1,056,037
State License Tax	500,938
Miscellaneous	4,844,453
Total	$ 853,780,166

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

15. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	4.954	$ 457,632,063
Basic Discretionary Local Effort	0.715	66,049,063
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	138,564,411
Total	7.169	$ 662,245,537

16. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System (FRS). FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida

Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of FRS.

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

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in 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
Florida Retirement System, Senior Management Service	0.00	13.12
Teacher's Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	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 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 ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled

$53,992,143, $56,311,619, and $75,399,941, 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 FRS 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 5,800 District participants in PEORP during the 2006-07 fiscal year. Required employer contributions made to the program for the fiscal year ended June 30, 2007 totaled $9,622,441.

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.

17. OTHER POSTEMPLOYMENT BENEFITS

Pursuant to Section 112.0801, Florida Statutes, the District pays the cost of health care benefits for retired former employees who elected to participate in the District's retirement incentive plan offered during the 1997 fiscal year and selected the option that the District pay the cost of health insurance premiums. Under this program, eligible employees must qualify for normal retirement under the Florida Retirement System with either 30 years of service regardless of age or must have reached the age of 62 with a minimum of 10 years qualified service. In addition, eligibility requires a minimum of 10 consecutive years with the District and retirement must have taken place between February 28, 1997, and December 31, 1997. An employee who chose to participate in the incentive program had an option of either health insurance up to 10 years or a lump sum payment of $7,400. There are 39 employees currently covered under the health insurance benefit. The expenses of the insurance benefit are accrued on a pay-as-you-go basis. For the fiscal year ended June 30, 2007, the cost of the health insurance benefit was $289,922.

18. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Apopka High School Replacement Phase I:			
Architect	$ 1,688,555	$ 1,163,528	$ 525,027
Contractor	61,328,353	12,992,778	48,335,575
Conway Elementary School Replacement:			
Contractor	11,291,876	4,051,259	7,240,617
Shenandoah Elementary School Comprehensive:			
Architect	954,036	793,318	160,718
Contractor	9,092,539	1,431,744	7,660,795
Union Park Middle School Comprehensive Phase I:			
Architect	1,415,000	1,318,400	96,600
Contractor	22,743,412	13,273,863	9,469,549
West Orange High School Replacement Phase I:			
Architect	1,388,515	955,302	433,213
Contractor	52,199,563	15,965,815	36,233,748
Total	$ 162,101,849	$ 51,946,007	$ 110,155,842

19. JOINT PROJECTS

Stone Lake Elementary School – The School Board entered into a school purchase agreement on April 12, 2005, with the Avalon Park Foundation, Inc., to construct Stone Lake Elementary School. The school was constructed in fiscal year 2005-06 and opened for students in August 2006, one year earlier than planned in the District's Five Year Capital Outlay Improvement Plan. The cost for the school was developed by the Avalon Park Foundation, Inc., which was primarily based on Vista Lakes Elementary School that was currently under construction with an established guaranteed maximum price. This elementary school was designed and constructed to house 830 student stations. The scope of this project did not include the purchase and installation of any furniture, fixtures, and equipment. The initial contract and base purchase price, including change orders and legal fees, totaled $16,884,080 to the Avalon Park Foundation, Inc., Akerman, Senterfitt, Trust Account, and Swann Hadley. As of June 30, 2007, the District had paid $16,800,712. The final amounts were paid and the contract closed on August 29, 2007.

Avalon Park Center for Technical Excellence – The School Board entered into a ground lease and purchase option agreement on October 9, 2006, with Avalon Associates of Delaware Limited Partnership (Partnership) for a high tech academy, currently renamed Avalon Park Center for Technical Excellence. The project cost was established as a lump sum amount of $13,905,740. The scope of this project consists of a two-story structure and was designed to house 760 student stations. A construction bid presented by Doster

Construction was approved to construct the school. Total project costs including site survey, architect and engineering services and security, inspections, contingency, supervision, and developer's fees are not to exceed $13,905,740. This amount does not include furniture, fixtures, and equipment; unanticipated soil conditions; or any additional change orders. Payments to Avalon Associates of Delaware Limited Partnership are made on a monthly basis. As of June 30, 2007, payments totaling $8,689,429 have been made to the Partnership.

20. RISK MANAGEMENT PROGRAMS

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

A liability was actuarially determined to cover estimated incurred but not reported insurance claims payable at June 30, 2007. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are estimated based on claims history and are reported at their present value using an investment yield rate of 5.4 percent as determined by the State Board of Administration. These liabilities are $20,393,582 at June 30, 2007.

The District provides both group health and life insurance to benefitted employees. There are three health plans offered with two health maintenance organization (HMO) plans and one preferred provider organization (PPO) plan. Under these plans, the Board contributes employee premiums as fringe benefits to employees. Premiums for coverages provided for employee dependents and retirees and their dependents are paid in advance by the employee or retiree. These plans provide for maximum premiums based on the number of participants which includes employee, employee plus spouse, employee plus dependent, and family coverages. The two HMO plans are administered by CIGNA Healthcare of Florida and Florida Hospital Healthcare System (FHHS) who are reimbursed by the District: CIGNA is on a claims paid basis and FHHS is capitated. The District reimburses the claims revolving fund (CIGNA) from a detailed check run basis of claims paid. The District reported an estimated unpaid claims liability of $7,900,000 ($3,400,000 for the CIGNA PPO and $4,500,000 for the CIGNA HMO) in the Internal Service Funds for the group health insurance program at June 30, 2007.

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

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

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2005-06	$ 27,343,703	$ 105,679,583	$ (106,068,077)	$ 26,955,209
2006-07	26,955,209	119,856,009	(118,517,636)	28,293,582

21. INTERNAL SERVICE FUNDS

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

EXHIBIT - K (Continued)
ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

	Total	Employee Benefit Insurance	Self-Insurance	District Print Center
Total Assets	$ 92,506,698	$ 66,123,115	$ 25,983,911	$ 399,672
Liabilities and Net Assets:				
Salaries and Wages Payable	$ 2,752	$	$	$ 2,752
Accounts Payable	1,200,422	1,089,175	31,051	80,196
Estimated Insurance Claims Payable	28,293,582	7,900,000	20,393,582	
Deferred Revenues	31,158,240	31,158,240		
Net Assets:				
Invested in Capital Assets	64,728			64,728
Unrestricted Net Assets	31,786,974	25,975,700	5,559,278	251,996
Total Liabilities and Net Assets	$ 92,506,698	$ 66,123,115	$ 25,983,911	$ 399,672
Revenues:				
Premium Contributions	$128,644,548	$119,938,993	$ 8,705,555	$
Charges for Services	2,124,556			2,124,556
Interest Income	4,098,179	2,758,178	1,327,408	12,593
Other	2,135,091	1,351,100	783,991	
Total Revenues	137,002,374	124,048,271	10,816,954	2,137,149
Total Expenses	129,086,781	117,709,636	9,283,011	2,094,134
Change in Net Assets	$ 7,915,593	$ 6,338,635	$ 1,533,943	$ 43,015

22. LITIGATION AND CONTINGENCIES

The District is a defendant in several lawsuits as of June 30, 2007. It is the opinion of management, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations on governmental liabilities on uninsured risks, that the amount of loss resulting from litigation that exceeds the above mentioned limits would not be material to the financial position of the District.

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

23. SUBSEQUENT EVENTS

The District issued Tax Anticipation Notes, Series 2007, on October 18, 2007, in the amount of $60,000,000. The notes will mature on September 14, 2008. The notes were issued by the District to provide interim funds for the payment of operating expenses of the District for the 2007-08 fiscal year in anticipation of the receipt of ad valorem taxes levied for that fiscal year.

As described in Note 8, the District had two interest rate swap agreements at June 30, 2007. The District's Series 2000B Certificates of Participation Swap Agreement, on February 29, 2008, had a negative fair value of $4,777,899, a decline of $2,021,017, from the June 30, 2007 value. Similarly, the District's Series 2007B Certificates of Participation Swap Agreement, on February 29, 2008, had a negative fair value of $7,670,351, a decline of $6,213,298, from the June 30, 2007 value.

The counterparty exercised its option that required the District to issue debt on the swaption described in Note 8. On July 17, 2007, the District issued Certificates of Participation, Series 2007C, in the amount of $51,020,000 as variable rate debt in order to refund, on a current basis, a portion of the District's outstanding Certificates of Participation Series, 1997A. Due to the issuance of variable rate debt for COPs 2007C, the District entered into a swap agreement. As a result of the counterparty exercising this swaption, the District received $843,649.

As discussed in Note 3, at June 30, 2007, the Orange County District School Board had over $930 million invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). During the week of November 26, 2007, the District withdrew substantially all funds invested at that date from the Pool, leaving a $1,000 balance.

EXHIBIT - L
ORANGE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
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	$ 940,000	$ 940,000	$ 935,846	$ (4,154)
Federal Through State	1,500,000	1,500,000	4,317,857	2,817,857
State	740,348,845	740,348,845	731,556,120	(8,792,725)
Local	509,700,041	509,700,041	534,997,733	25,297,692
Total Revenues	1,252,488,886	1,252,488,886	1,271,807,556	19,318,670
Expenditures				
Current - Education:				
Instruction	887,374,399	809,752,453	795,171,127	14,581,326
Pupil Personnel Services	61,825,710	43,238,875	37,487,665	5,751,210
Instructional Media Services	17,633,424	18,133,424	17,916,237	217,187
Instruction and Curriculum Development Services	7,307,980	67,307,980	60,477,121	6,830,859
Instructional Staff Training Services	23,650,052	23,650,052	8,872,964	14,777,088
Instruction Related Technology	17,284,689	17,284,689	12,409,208	4,875,481
Board of Education	2,361,246	2,361,246	2,190,448	170,798
General Administration	1,592,400	5,592,400	5,247,217	345,183
School Administration	88,109,741	90,109,741	90,034,790	74,951
Facilities Acquisition and Construction	48,046,715	48,046,715	12,674,386	35,372,329
Fiscal Services	5,962,451	6,462,451	6,162,509	299,942
Food Services		10,000	5,381	4,619
Central Services	23,114,963	23,114,963	20,720,789	2,394,174
Pupil Transportation Services	66,509,000	66,509,000	57,678,277	8,830,723
Operation of Plant	80,650,561	100,650,561	91,215,541	9,435,020
Maintenance of Plant	57,502,676	57,502,676	41,494,988	16,007,688
Administrative Technology Services	14,968,217	16,968,217	16,441,356	526,861
Community Services	2,077,786	2,077,786	703,119	1,374,667
Fixed Capital Outlay:				
Facilities Acquisition and Construction		171,637	171,637	
Other Capital Outlay		7,027,144	7,027,144	
Debt Service:				
Interest and Fiscal Charges	1,807,055	1,807,055	1,722,382	84,673
Total Expenditures	1,407,779,065	1,407,779,065	1,285,824,286	121,954,779
Deficiency of Revenues Over Expenditures	(155,290,179)	(155,290,179)	(14,016,730)	141,273,449
Other Financing Sources				
Transfers In	34,088,190	34,088,190	33,970,778	(117,412)
Proceeds from Sale of Capital Assets			301,876	301,876
Insurance Loss Recoveries			463,451	463,451
Total Other Financing Sources	34,088,190	34,088,190	34,736,105	647,915
Net Change in Fund Balances	(121,201,989)	(121,201,989)	20,719,375	141,921,364
Fund Balances, July 1, 2006	158,776,656	158,776,656	156,861,618	(1,915,038)
Fund Balances, June 30, 2007	$ 37,574,667	$ 37,574,667	$ 177,580,993	$ 140,006,326

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

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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 discretely presented component units, each major fund, and the aggregate remaining fund information of the Orange 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 discretely presented component units, as described in our report on the Orange County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation for Orange County Public Schools, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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 combined control deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1 through 7, to be a significant deficiency 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 and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

We noted certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** and in the ***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
March 14, 2008

AUDITOR GENERAL
STATE OF FLORIDA
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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 each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of 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.

As described in Federal Awards Finding No. 3 in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS***, the District did not comply with the requirements regarding Matching applicable to the Fund for the Improvement of Education program. Compliance with this requirement is necessary, in our opinion, for the District to comply with the requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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 some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding Nos. 1, 2, and 4.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies and one that we considered to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** as Federal Awards Finding Nos. 1 and 3 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS***, we consider Federal Awards Finding No. 3 to be a material weakness.

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

David W. Martin, CPA
March 14, 2008

ORANGE 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	$ 3,507,240	$
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	5,340,617	
National School Lunch Program	10.555	300	30,222,184	
Total Child Nutrition Cluster			35,562,801	
Washington County District School Board:				
State Administrative Expenses for Child Nutrition	10.560	304	1,719	
Total United States Department of Agriculture			39,071,760	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
WIA Adult Program	17.258	None	49,482	
National Farmworker Jobs Program	17.264	405	288,087	
Total United States Department of Labor			337,569	
United States Department of Transportation:				
Indirect:				
Florida Department of Education:				
Commercial Driver License State Programs	20.232	None	6,422	
United States Department of Treasury:				
Indirect:				
University of Central Florida:				
Aerospace Education Services Program	43.001	None	400	
United States Department of Energy:				
Indirect:				
Florida Department of Environmental Protection:				
State Energy Program	81.041	G0192	37,068	
United States Department of Education:				
Direct:				
Federal Pell Grant Program	84.063	N/A	1,102,167	
Magnet Schools Assistance	84.165	N/A	652,340	
Fund for the Improvement of Education	84.215	N/A	2,261,760	
Bilingual Education - Comprehensive School Grants	84.290	N/A	271,327	
Advanced Placement Program	84.330	N/A	579,085	
Transition to Teaching	84.350	N/A	330,980	
Arts in Education	84.351	N/A	22,689	
Total Direct			5,220,348	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	36,470,827	46,130
Special Education - Preschool Grants	84.173	266, 267	966,586	
Washington County District School Board:				
Special Education - Grants to States	84.027	None	2,064	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	44,053	
University of South Florida:				
Special Education - Grants to States	84.027	None	9,000	
Total Special Education Cluster			37,492,530	46,130

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
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 Education (Continued):				
Indirect (Continued):				
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191, 192, 193	$ 876,181	$
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	37,379,154	447,664
Migrant Education - State Grant Program	84.011	217	669,093	
Vocational Education - Basic Grants to States	84.048	151	2,275,392	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	691,410	
Education for Homeless Children and Youth	84.196	127	90,207	
Even Start - State Educational Agencies	84.213	219	4,268	
Charter Schools	84.282	298	112,330	112,330
Twenty-First Century Community Learning Centers	84.287	244	1,806,654	
State Grants for Innovative Programs	84.298	113	331,130	
Education Technology State Grants	84.318	121	972,929	
Comprehensive School Reform Demonstration	84.332	128, 129	232,334	
Reading First State Grants	84.357	211	3,570,800	
Voluntary Public School Choice	84.361	299	69,800	
English Language Acquisition Grants	84.365	102	5,293,531	
Mathematics and Science Partnerships	84.366	235	841,862	
Improving Teacher Quality State Grants	84.367	224	7,678,644	
Valencia Community College:				
Tech-Prep Education	84.243	None	107,024	
Washington County District School Board:				
Title I Grants to Local Educational Agencies	84.010	None	2,000	
Reading First State Grants	84.357	None	140,968	
Center for Civic Education:				
Center for Civic Education	84.929	None	37,703	
Total Indirect			100,675,944	606,124
Total United States Department of Education			105,896,292	606,124
United States Department of Health and Human Services:				
Direct:				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	259,391	
Indirect:				
Florida Department of Health:				
Temporary Assistance for Needy Families	93.558	None	355,051	
Refugee and Entrant Assistance - State Administered Programs	93.566	LK651, LK751	1,098,489	
Child Care and Development Block Grant	93.575	R02, SR377	300,655	
Refugee and Entrant Assistance - Discretionary Grants	93.576	None	91,213	
Total Indirect			1,845,408	
Total United States Department of Health and Human Services			2,104,799	
Corporation for National and Community Service:				
Direct:				
Learn and Serve America - School and Community Based Programs	94.004	N/A	804	
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	133,429	
Americorps	94.006	None	7,224	
Total Indirect			140,653	
Total Corporation for National and Community Service			141,457	

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
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 Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	$ 182,665	$
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039	None	3,750	
Florida Department of Law Enforcement:				
Homeland Security Grant Program	97.067	None	2,046	
Total United States Department of Homeland Security			188,461	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	428,825	
Army Junior Reserve Officers Training Corps	None	N/A	52,143	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	222,440	
Navy Junior Reserve Officers Training Corps	None	N/A	229,543	
Total United States Department of Defense			932,951	
Total Expenditures of Federal Awards			$ 148,717,179	$ 606,124

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 received during the 2006-07 fiscal year. Commodities are valued at fair value as determined at the time of donation.

ORANGE 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 Orange 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 a significant deficiency, in the aggregate, though the significant deficiency was not considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- Significant deficiencies in internal control over major Federal programs were reported, one of which was considered a material weakness.
- A qualified opinion was issued on the Fund for the Improvement of Education program. An unqualified opinion was issued on major program compliance for the District's other major programs.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Food Donation (CFDA No. 10.550); Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)]; Fund for the Improvement of Education (CFDA No. 84.215); and Reading First State Grants (CFDA No. 84.357).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was $3,000,000.
- The low risk entity threshold was applied.

ORANGE 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 [School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)]
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $27,460

Reporting – Reimbursement. The District received monthly Federal reimbursements for the School Breakfast and National School Lunch Programs through the Florida Department of Education based on the number of student meals reported in the free, reduced-price, and full-price categories. Schools which are designated as severe need may claim a higher reimbursement rate for meals if the schools have at least 40 percent of their students receiving free or reduced-price meals in the second preceding year. Our review disclosed nine schools designated by the District as severe need that did not meet the requirements for the designation. Consequently, the District's reimbursement claims for the 2006-07 fiscal year were overstated by approximately $27,460, which represents questioned costs subject to disallowance by the grantor. Eight of the schools were provided meals by other area schools that qualified as severe need schools; however, according to guidance from the Florida Department of Education, this relationship does not allow the school receiving the meals to qualify for the higher reimbursement rate.

Recommendation: The District should contact the Florida Department of Education for instructions regarding the return of the questioned costs. The District should also enhance its procedures for identifying severe need schools to ensure accurate reimbursement claims.

District Contact Person: Lora Gilbert, Director, Food & Nutrition Services

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Competitive Food Sales. The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items. Title 7, Section 210.11, Code of Federal Regulations, requires that state agencies and school food authorities establish such rules or regulations as are necessary to control the sale of foods in competition with lunches served under the National

Lunch Program. State Board of Education Rule 6A-7.0411, Florida Administrative Code, provides that competitive food and beverage items may be sold in secondary schools, with the approval of the school board, one hour following the close of the last lunch period. This Rule further provides that when competitive food and beverage items are sold during the school day, all proceeds from such sales shall accrue to the food service program or to a school organization approved by the school board.

The District's Guidelines for Food Vending Machine policy states that food vending machines outside of the food service areas shall begin one hour following close of the last lunch period. It further states that vending machines in the cafeteria or in areas where meals are being served or eaten, may remain in operation due to the fact that all revenue will be sent to Food and Nutrition Services Department. Our review of five of the District's high schools and one middle school disclosed that vending machines, containing competitive foods such as cookies and chips, were operated before one hour after the last lunch period. These schools were Boone High School, Cypress Creek High School, West Orange High School, Winter Park High School, Edgewater High School, and Robinswood Middle School. Sales of these items appear to be in conflict with the intent of the State Board Rule which precludes the sale of competitive foods before one hour after the last lunch period. A similar finding was noted in our report No. 2005-150.

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

District Contact Person: Lora Gilbert, Director, Food & Nutrition Services

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Award Numbers: V215L052222, Q215F050081-06, S215L060219
Program: Fund for the Improvement of Education (CFDA No. 84.215)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: $474,849

Matching. Title 34, Section 80.24, Code of Federal Regulations, states, in part, "Costs and third-party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees for cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived." Documentation supporting salary allocations should be similar to that required to support direct personnel costs charged to the grant, while the value claimed for donated space or equipment should be based on the documented fair rental rate.

Several of the District's Fund for the Improvement of Education grant applications required cash or in-kind match. Per the approved grant awards, various items were to make up this in-kind matching, including a portion of certain salaries and benefits, office supplies, donated space, equipment, and printing.

Our review of selected committed matching costs and in-kind contributions totaling $448,051 for these grants at four schools disclosed that documentation was not available to support $244,618, or approximately 54.6 percent, of the required match. For example, personnel activity reports, documentation to evidence the value of donated space and equipment, and invoices for supplies, materials, and printing costs were not provided by the District. In the absence of verifiable documentation supporting the reasonableness of all amounts claimed as matching or in-kind contributions, program expenditures totaling approximately $474,849 (54.6 percent of 2006-07 program expenditures for the selected grants) represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should document to the grantor (United States Department of Education) the required matching costs prior to the end of the grant periods, or the questioned costs totaling $474,849 should be returned to the grantor. The District should enhance procedures to ensure that proper documentation is retained to evidence compliance with matching requirements.

District Contact Person: Kim Gilbert, Senior Manager, Grant Services
Janet Bush, Senior Administrator, Grants

Federal Awards Finding No. 4:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)]
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Verifications. Title 7, Section 245.6, Code of Federal Regulations, provides application and other documentation requirements for a child to qualify for meals served free or at a reduced-price under the School Breakfast and National School Lunch programs. Further, Public Law 108-265 provides, in part, that the District must verify the household income of 3 percent of the free and reduced-price applications. A United States Department of Agriculture memorandum dated November 19, 2004, provides that the basic sample must generally be drawn from error-prone applications defined as within $1,200 of the annual or $100 of the monthly income limit for free or reduced-price meal eligibility. In lieu of the basic sample size, the District may elect to use an alternative sample size if one of the two following conditions is met: (1) The District's nonresponse rate for the preceding school year is less than 20 percent; or (2) The District's nonresponse rate for the preceding school year was at least 10 percent below the verification nonresponse rate for the second preceding school year.

The District's nonresponse rates were 48 percent for the preceding school year (2005-06) and 54 percent for the second preceding school year (2004-05). As such, District records indicate that the District should have selected its verification sample from error-prone applications only; however, for the 2006-07 school year, the District selected its sample from all approved applications, contrary to the Federal requirements. Following this verification process, the District potentially decreased its chance of selecting applications that contained errors.

Recommendation: The District should enhance its procedures to ensure that free and reduced-price meal verification samples are selected pursuant to Federal requirements.

District Contact Person: Lora Gilbert, Director, Food & Nutrition Services

ORANGE 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
2005-150 (2)	National School Lunch Program (CFDA No. 10.555) - Special Tests and Provisions	The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items.	Not corrected.	Several high schools and a middle school sold competitive foods outside of the hours allowed.

MANAGEMENT RESPONSE SECTION

Orange County Public Schools

445 West Amelia Street • Orlando, FL 32801-1129 • Phone 407.317.3200 • www.ocps.net

March 13, 2008

Mr. David W. Martin, CPA
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

RE: Audit of Orange County District School Board - Fiscal Year Ended June 30, 2007

Dear Mr. Martin:

The following are our responses to the findings in your letter dated February 8, 2008.

Finding No. 1: QZAB Bond

Response: The renovations at Princeton Elementary funded through the QZAB were completed under budget. Federal regulations will be reviewed by legal counsel to determine how the remaining funds can be used or returned.

Finding No. 2: Professional Services

Response: The procedures used to advertise and select construction management firms will be reviewed with legal counsel. Changes to these procedures will be if deemed necessary.

Finding No.3: Construction Documents

Response: The District has revised its procedures within the Facilities Department to ensure that all state requirements for the construction documents are in compliance.

With regard to provisions for liquidating damages, the standard construction contracts (collectively referred to as the "Contract") for the Orange County School Board ("OCSB") generally contain provisions requiring the contractor, design-builder or construction manager, as applicable (collectively referred to as the "Contractor"), to pay liquidated damages in the event the Contractor fails to substantially complete the work within the specified timeframe under the Contract, (i.e. the date when the work is sufficiently complete so that OCSB can take beneficial occupancy thereof). The recommendation contained in the Letter appears to suggest that OCSB should also provide a provision requiring the Contractor to pay liquidated damages in the event the Contractor fails to achieve final completion of the work within the designated timeframe under the Contract (i.e. within a specified number of days from the date Contractor achieves Substantial Completion of the Work).

OCSB has discussed this recommendation with its outside legal counsel and they are of the opinion that such liquidated damages would likely be unenforceable under Florida law. Florida law allows for the assessment of liquidated damages against a Contractor who fails to timely perform its obligations with respect to a contract. However, there are certain requirements that must be complied with, and restrictions that apply, with respect to such liquidated damages. Generally, liquidated damages are appropriate only when the owner's actual damages would be difficult to determine with any reasonable degree of certainty if the Contractor was unable to

Page 2

complete its work within the specified timeframe under the contract. Accordingly, liquidated damages are intended to be in lieu of the owner's actual damages incurred as a result of the Contractor's failure to perform its work within the required timeframe. Additionally, the liquidated damages will not be enforced by a court if they are construed to be a penalty against the Contractor for its failure to timely complete its work. Therefore, the amount of liquidated damages to be assessed against the Contractor must bear a reasonable relationship to the estimated amount of actual damages, as determined at the time the parties enter into the contract, that the owner might incur if the Contractor fails to timely complete the work.

OCSB's current Contract states that upon Contractor achieving Substantial Completion of the Work, the Design Professional is to provide the Contractor with a list of corrective work and pending items required to be completed by the Contractor prior to final payment and retainage becoming due ("Punch List"), with a fixed dollar amount to be set on the Punch List. Because the Punch List typically contains a distinct number of smaller items to be completed by Contractor, the value associated with such work is generally easy to determine with a high degree of certainty. Consequently, if OCSB were to assess liquidated damages against the Contractor for its failure to achieve final completion of the Work (i.e. Contractor's failure to complete the Punch List) within the required time period, it is possible such liquidated damages would be construed as a penalty because the value associated with those items is not difficult to determine with a reasonable degree of certainty, in which event such liquidated damages would be unenforceable.

Finding No. 4: Acquisition of Schools

Response: The District recognizes that its outside legal counsel and the Auditor General's legal counsel have differing interpretations of applicable statutes, regulations and/or development orders. The District will continue to consult with its legal counsel when entering into new agreements to construct and purchase schools.

Finding No. 5: Independent Reviews of Construction Projects

Response: The District has implemented procedures to reduce the length of time from the contracted substantial completion date to the certificate of final completion, which will allow us to obtain and complete the final audit in a more expedient time frame and therefore provide for timely corrective action.

Finding No. 6: Subcontractor Invoices

Response: Procedures have been updated and enhanced to ensure that payment applications are properly supported by subcontractor invoices.

Finding No. 7: Program Management Contract

Response: The District will continue to negotiate and document the cost analysis process for the program management contract to ensure payment of competitive rates.

Finding No. 8: Annual Facility Safety Inspections

Response: The District has reduced its outstanding fire and safety deficiencies by approximately 30% per year. In addition, we review the deficiencies on the list with the Orange County Council of Chiefs (fire chiefs) to prioritize the annual list. Some of these deficiencies are mitigated by retrofitting items such as fire sprinkler systems into the buildings until major renovation work is planned and completed. The District will continue to review and revise its procedures in an effort to timely address the inspection findings.

Finding No. 9: School Advisory Councils

Page 3

Response: The District enforces this provision of law diligently and reviews every SAC roster to ensure that it complies with the requirements. The District followed guidance from the Department of Education. In January, 2008, the District was notified that a legal opinion was forthcoming changing DOE's opinion and that the only administrator allowed on the SAC's would be the principal. The District immediately changed its guidelines for reviewing the SAC rosters to allow only the principal as the sole administrator.

Finding No. 10: School Internal Funds

Response: The school internal fund audit will be reviewed by District's Internal Audit Department for major deficiencies, numerous deficiencies, and multiple year deficiencies. The schools with these deficiencies will be pooled and, if necessary, a sampling will be made to verify that the schools have corrected, or are in the process of correcting, the deficiencies. The findings of this review will be given to District management for follow-up.

Finding No. 11: Monitoring of Charter Schools

Response: A spreadsheet has been completed in order to more effectively monitor the receipt of insurance documentation and the submission of the floor plans to the appropriate law enforcement and fire departments.

Finding No. 12: Fee Collections

Response: The Internal Audit Department has conducted fee audits at various times in the past. During the development of the district's annual audit plan, all district operations are considered as part of the annual entity-wide risk assessment process. This risk assessment process and the subsequent prioritization of audit areas, did not result in the fee collections being included in the annual audit plan for the 2006-07 fiscal year. The entity-wide risk assessment process for the 2008-09 fiscal year will again include consideration of selected fee collection audits, but those audits may again be ranked a lower priority than other district audit areas of greater significance or concern.

Finding No. 13: Time Records

Response: The District's payroll procedures include the preparation and retention of appropriate time records at the schools and departments. These procedures are reviewed with the school/departmental payroll processors several times during the year. In order to verify that these procedures are being followed, Internal Audit will include appropriate steps in its next payroll department audit and note its findings to District management for follow-up.

Finding No. 14: Insurance Premiums

Response: The School Board has decided the public purpose for providing employee health insurance coverage to the Board's attorney and attached hereto is the approved resolution.

Finding No. 15: Fingerprinting and Background Checks

Response: The District is concerned about obtaining fingerprints and background checks for the contractual personnel who have access to school grounds when students are present. We immediately began implementation of the background check and badging process when this requirement became effective during the 2005-06 fiscal year. The District will continue to revise and improve procedures to comply with this statute.

Finding No. 16: Cellular Communication Devices

Page 4

Response: The District revised its cellular communication device procedures during the 2007-08 fiscal year. Effective January 1, 2008, the District began including the value of the cell devices in the gross income of the employees assigned such devices, and will therefore include this amount in the income reported to the IRS on the 2008 calendar year W-2 forms for these employees.

FEDERAL AWARDS

Finding No. 1: Child Nutrition- Reimbursement

Response: The District has revised the student meal counts in accordance with the audit finding. FDOE recalculated the Federal reimbursements and the questioned cost totaling $27,462 has been returned. Severe need schools will be identified in accordance with Federal regulations.

Finding No. 2: Special Tests and Provisions-Competitive Food Sales

Response: District management has taken comprehensive steps to inform all relevant schools regarding state and Federal regulations prohibiting the sale of competitive foods before one hour after the last lunch period. We will take appropriate action when we identify schools that are not in compliance.

Finding No. 3: Matching - Fund for the Improvement of Education

Response: The District is continuing to monitor, collect, and review the match for these grants in order to provide appropriate documentation. Questioned costs disallowed by the grantor will be returned. Effective in the 2007-08 fiscal year procedures were revised to review match requirements prior to submission of the grants and to insure the documentation is appropriate for financial audit requirements. In addition, Grants Services will review, collect and maintain documentation of the match.

Finding No. 4: Special Tests and Provisions - Verifications

Response: The verification of free and reduced lunch applications in the 2008 fiscal year was drawn from error-prone applications in accordance with USDA Memo dated November 19, 2004. We will continue to verify free and reduced lunch applications pursuant to Federal requirements.

Should you have any questions please contact Frank C. Kruppenbacher, General Counsel, Legal/Audit. I would also like to express my thanks to the Auditor General's staff for their cooperation and professionalism in conducting the audit.

Sincerely,

Ronald Blocker
Superintendent

cc: The School Board of Orange County, Florida
Frank Kruppenbacher, General Counsel, Legal/Audit
Linda J. Lindsey, Senior Director, Internal Audit
Richard Collins, Chief Financial Officer
Margo Marten, Director of Finance

Agenda Item

10.02 Request Approval of Inclusion of Certain Non-Employees for Health Insurance Benefits for Fiscal Year 2007-2008 Under the Health Benefits Trust

Meeting: 09/11/2007 School Board Meeting 5:30 p.m. and Public Hearing 7:00 p.m.
Category: 10. Consent - Approve Business and Finance Functions
Agenda Type: Action (Consent)
Public Access: Yes

Agenda Item Content

APPROVED
BY BOARD ACTION
9/11/07

BACKGROUND:

The Board needs to approve the issuance of health insurance coverage under the Benefits Trust for the Orange Service Unit (CTA & OESPA staff). Generally only employees can be covered under a Benefits Trust, but we are allowed to add up to ten percent of people that are determined to have "an employment-related common bond" as noted by the Department of the Treasury 7.25.9.3 (02-09-1999) Membership Requirements for 501 (c) 9 Trust. These two units do have a common employment bond with OCPS. The members of the Orange Service Unit represent no cost to the district. These costs are reimbursed through the Service Unit. This statute also allows the attorney of the School Board to be covered under the Benefits Trust provided that the majority of his work is for the School Board.

FISCAL IMPACT STATEMENT:

The members of the Orange Service Unit represent no cost to the District. These costs are reimbursed through the Service Unit. By approving this action the Board is giving them access to health insurance through the Benefit Trust.

The cost to the district is $11,560.20 for the Board's Attorney and his family to have health insurance in fiscal year 2007-2008. The premium paid by the Board will come from monies paid to the Benefits Trust.

RECOMMENDED RESOLUTION:

Request Approval of Inclusion of Certain Non-Employees for Health Insurance Benefits for Fiscal Year 2007-2008 Under the Health Benefits Trust

SUBMITTED AND PREPARED BY:

Richard L. Collins, Chief Financial Officer
Lee Nicolls, Senior Director, Risk Management

Additional Administrative Content

Action Agenda Details
Motion:

Motion By: Judge (Rick) Roach	**Second:** Anne Geiger
Action:	Unanimous
Voting Record	
Karen Ardaman (Chairman)	Yea
Jim Martin (Vice Chairman)	Yea
Joie W Cadle	Yea
Daryl Flynn	Yea
Anne Geiger	Yea
Kathleen (Kat) Gordon	Yea
Judge (Rick) Roach	Yea