AUDITOR GENERAL

DAVID W. MARTIN, CPA

PALM BEACH COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2007

Palm Beach 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.
Dr. Monroe Benaim, Vice-Chair from 11-21-06	*1*
Paulette Burdick	*2*
William G. Graham, Vice-Chair to 11-20-06, Chair from 11-21-06	*3*
Thomas E. Lynch, to 11-20-06, Chair	*4*
Robert J. Kanjian from 11-21-06	*4*
Mark Hansen	*5*
Dr. Sandra S. Richmond	*6*
Dr. Debra L. Robinson	*7*

Dr. Arthur C. Johnson, Superintendent

AUDITOR GENERAL

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PALM BEACH COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Palm Beach 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: Financial Monitoring and Reporting

The District did not present monthly financial statements to the Board, contrary to State Board of Education Rules. Additionally, the District submitted its annual financial report to the Florida Department of Education on November 20, 2007, which was 56 days after the approved due date extension.

Finding No. 2: Information Technology – PeopleSoft Implementation Project Management

Our audit disclosed control deficiencies, management decisions, and contractual compliance issues that may have contributed to the PeopleSoft functionality problems and the additional implementation costs.

Finding No. 3: Information Technology – PeopleSoft Application Access Controls

Enhancements were needed in the District's PeopleSoft access controls protecting the PeopleSoft application, the supporting network, and the computer room.

Finding No. 4: Board Minutes

Board minutes for the regular Board meetings during the 2006-07 fiscal year were not approved, of record, by the Board Chair and Superintendent or approved by the Board at a subsequent meeting.

Finding No. 5: Bank Reconciliations

The District staff did not prepare monthly bank reconciliations for all accounts and did not always document the date, preparer, and reviewer's approval of the reconciliations.

Finding No. 6: Check Collection Procedures

Improvements were needed in the District's internal controls over checks received by the District's Accounting Services Department.

Finding No. 7: Cash Management

Advances of cash were not sufficient to meet the immediate needs of the various Federal programs necessitating the use of other non-Federal moneys to temporarily pay Federal costs and resulting in lost investment opportunities for these moneys.

Finding No. 8: Tangible Personnel Property Deletions

The District reported deletions for furniture, fixtures, and equipment and audio visual and software with an original cost of $28.5 million; however, none of these disposals were reported to the Board and recorded in the Board minutes, contrary to Florida Statutes.

Finding No. 9: Payroll Taxes

The Internal Revenue Service assessed penalties, totaling $518,846, to the District for late filings of Federal withholding and social security taxes.

Finding No. 10: Salary Overpayments

Due to implementation issues with the new PeopleSoft system, 635 employees were overpaid by approximately $1.8 million during the 2006-07 fiscal year. Collection procedures have been initiated and should be monitored by the District to ensure subsequent collection of the overpayments.

Finding No. 11: Overtime Monitoring

Due to increasing overtime costs, the District should monitor overtime charges to ensure staffing and personnel utilization is adequate.

Finding No. 12: Architect Insurance

The District did not always ensure that architectural insurance was maintained in accordance with architect agreements.

Finding No. 13: Building Certificates of Occupancy

District procedures did not ensure that certain facility deficiencies were timely resolved or that expiration dates were established for temporary certificates of occupancy.

Finding No. 14: Annual Facility Inspections

Deficiencies noted on the annual safety inspection reports were not always timely corrected.

Finding No. 15: Information Technology – District Security Program

Enhancements were needed in the District's entitywide security program; including performance of a risk assessment, on-going education and training, and expanding the written security policies and procedures.

Finding No. 16: Information Technology – Disaster Recovery Plan

The District has not completed a test of its disaster recovery plan needed to ensure efficient and effective recovery in case of an actual disaster.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I; Migrant Education; Special Education Cluster; Reading First State Grants; English Language Acquisition Grants; and Disaster Grants programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note internal control and compliance findings that are summarized below.

Federal Awards Finding No. 1: Allowable Costs/Cost Principles

Enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries and benefits to the Special Education – Grants to States, Reading First, and English Language Acquisition Grants.

Federal Awards Finding No. 2: Financial Reporting

Enhancements were needed in District procedures regarding the timely preparation and submittal of the annual Distributive Aid and Cash Advance Reconciliation report to the Florida Department of Education.

Audit Objectives and Scope

Our audit objectives were to determine whether the Palm Beach 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 previous audit reports.**

The objectives of the information technology (IT) audit were to determine the appropriateness of the District's acquisition procedures used in selecting the PeopleSoft ERP software and the vendor to implement the system; and to determine the appropriateness of the District's management of the implementation process, including contract management policies, procedures, and documentation in promoting, encouraging, and demonstrating compliance with controlling laws and administrative rules and application of prudent business practices in the procurement of IT resources.

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. Additionally, for the Information Technology portion of this report, our scope focused on selected controls applicable to the acquisition and implementation of the PeopleSoft ERP software during the period July 2006 through March 2007, and selected actions through June 2007.

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.* In addition, for our Information Technology audit, we interviewed appropriate District personnel, observed District processes and procedures, and performed various other audit procedures to evaluate selected IT controls.

This audit was coordinated by Diana G. Garza, CPA, and supervised by Ida Marie Westbrook, 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. The information technology portion of this audit was coordinated by Bill Allbritton CISA, and supervised by Nancy M. Reeder, CPA, CISA. Please address inquiries regarding information technology findings included in this report to Jon Ingram, CPA, CISA, Audit Manager, via e-mail at joningram@aud.state.fl.us or by telephone at (850) 488-0840.

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

FINDINGS AND RECOMMENDATIONS

Significant Deficiencies

Finding No. 1: Financial Monitoring and Reporting

The District did not timely monitor and report financial statement information, as noted below:

- The District did not present monthly financial statements to the Board, contrary to State Board of Education Rule 6A-1.008, Florida Administrative Code. Board minutes indicate quarterly financial statements were presented to the Board on April 18, 2007 and May 16, 2007, for the quarter ended September 30, 2006 and December 31, 2006, respectively. Additionally, the financial statement information for the quarters ended March 31, 2007 and June 30, 2007 were not presented to the Board. Monthly financial statements that provide practical and understandable summary financial information, such as total revenues and expenditures by fund, projected and revised student enrollment counts and the effects of such revisions, and current anticipated ending fund balance amounts, would allow the Board to monitor the financial condition of the District and provide information for financial decision-making.
- State Board of Education Rule 6A-1.0071, Florida Administrative Code, requires the District to submit the annual financial report (AFR) to the Florida Department of Education (FDOE) by September 11th. The District obtained an extension from FDOE to submit the AFR by September 25, 2007; however, the District did not submit its AFR to FDOE until November 20, 2007, or 56 days after the required due date, and did not obtain Board approval of the AFR until December 12, 2007. When the AFR is not prepared timely, the Board, Superintendent, District management, and FDOE are without a proper basis for evaluating District operations and budgetary compliance, and assessing the District's financial condition.

District staff indicated that the delay in preparing and presenting the financial statement information was a result of the District changing to the new PeopleSoft system, staff turnover, and untimely payroll postings.

Recommendation: The District should enhance procedures to ensure that financial information is timely presented to the Board and the Florida Department of Education, as required.

Finding No. 2: Information Technology – PeopleSoft Implementation Project Management

The District selected PeopleSoft enterprise resource planning (ERP) software to replace its legacy human resource management and financial management applications. The District implemented the budget and purchasing modules in May 2006 and the human resource and financial modules in July 2006.

In September 2004, the District acquired the license to use PeopleSoft ERP software at a cost of $4,107,253. Subsequently, in December 2004, the District procured the consulting services of eVerge for a requirements definition ($150,000 fixed fee) and implementation services ($12,913,698 fixed fee). In addition, $841,080 was reserved for contingencies, resulting in initially approved implementation services costs of $13,754,778.

Upon implementation, the District experienced problems within the PeopleSoft modules, as similarly noted in Finding Nos. 1, 5, 8, and 10. These problems included incorrect amounts being paid to employees, delays in posting to the general ledger, delays in paying vendors, untimely closing of accounting periods, and incorrect cost allocations when employees worked in multiple positions or at multiple schools. As of June 30, 2007, the District continued to work through the problems that were preventing the system from being used at its full functionality.

The need for planned post-implementation maintenance and remediation of functionality problems resulted in the District having to obtain additional consulting services for the PeopleSoft project from eVerge and other independent contractors. As of June 30, 2007, District staff indicated that $4,000,584 had been paid ($2,197,646 to eVerge plus the $841,080 contingency amount noted above and $961,858 to other contractors) for additional PeopleSoft support. District staff estimated that $2,790,168 of the $4,000,584 additional implementation costs was for unplanned support needed to bring the system up to its full functionality and that $1,210,416 was for normal post-implementation maintenance.

Our audit disclosed control deficiencies, management decisions, and contractual compliance issues that may have contributed to the PeopleSoft functionality problems and the additional implementation costs. Specifically:

- The District lacked a full-time project manager, directly responsible and accountable for accomplishing the project's objectives, during much of the implementation process. A full-time PeopleSoft implementation project manager was employed from January 20, 2005, through January 6, 2006, but terminated employment with the District before any modules were implemented. A local consultant was subsequently employed from January 12, 2006, through November 10, 2006, but only managed the project on a part-time basis. Since his departure, subsequent PeopleSoft project managers included an off-site consultant and two District employees, none of whom served in a full-time capacity. The absence of a consistently and continuously available project manager can limit project decision-making capacity and reduce the degree of monitoring of project progress.
- District personnel acknowledged that end user training was insufficient and contributed to data inaccuracies. Additionally, the transfer of knowledge to (training and preparing) District personnel responsible for configuring, operating, and maintaining the ERP software was not accomplished by the July 2006 go-live implementation date. As a result, the District contracted with eVerge for additional support through June 30, 2007. Subsequent to the go-live date, to obtain the skills necessary to operate and maintain the system, the District hired experienced PeopleSoft specialists to lead various functional and technical areas.
- The District's documentation of the PeopleSoft system testing for the human resource and financial modules and the time collection application was insufficient. Testing was to be done through standard test scenarios (scripts) that test functionality in various system and user areas. Many of the test script forms indicating the details of what should be tested were blank or incomplete, did not indicate whether the test had been done, and did not disclose the test results. Additionally, the District did not have written procedures requiring testers to maintain testing results. Without properly documenting test results, the District could not demonstrate that the system was adequately tested. Inadequate system testing can increase the risk that the installed system will not function properly or meet users' requirements.
- District management decisions to implement significant business process changes not required for the PeopleSoft implementation may have complicated the implementation process and thereby contributed to functionality problems in utilizing the system. The business process changes included the following:
  - A change from a 24- to a 26-pay-period pay cycle.
  - A change from "pay by exception" to "positive pay" for many employees.
  - An unsuccessful attempt to implement the use of time clocks and the associated software. This change has now been postponed by the District until the system has been stabilized.

  In addition, a major reorganization of the HR department occurred effective July 1, 2006. According to the District project manager, the decision to reorganize was unrelated to the PeopleSoft implementation and was made by the Superintendant to better define the role and responsibilities of HR to better support the schools and other departments. However, the reorganization was initiated during the time when HR staff was preparing to go-live with the PeopleSoft implementation.

- Documentation of the District's contractually required acceptance of various deliverables and work products such as system tests, parallel tests, stress test activities, and pre-live and go-live acceptance of the various software components could not be provided by the District in response to audit inquiry, with the exception of system test go-live acceptance documentation for the asset management module. Absent the signed acceptance forms, the District could not demonstrate that it had properly reviewed and accepted the contractor's deliverables and work products as required by the contract.
- District and eVerge staff used a parallel testing approach that differed from what was detailed in the Statement of Work for the implementation phase because they determined that the required approach was an inefficient use of resources. Although the contract provided for a formal amendment process, there was no written amendment to the Statement of Work to reflect the testing change. When changes in the expectations of either party to a contract are not documented through contract amendments, the risk is increased that the modified expectations will not be clearly communicated to both parties.

In addition, our audit disclosed that, contrary to Section 5.3 of the contract, the eVerge consultants did not sign District confidentiality agreements, thereby limiting the District's assurance that the contractor understood and agreed to abide by District requirements for safeguarding confidential information.

Recommendation: The District should ensure that proper consideration of the management, training, testing, and contract monitoring issues noted above is given to future software development projects of this nature.

Finding No. 3: Information Technology - PeopleSoft Application Access Controls

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or loss. We noted certain District access controls related to the PeopleSoft application that needed improvement, as described below:

- The District did not have adequate policies and procedures in place to ensure that access capabilities were timely revoked or modified, as necessary, for individuals who had terminated employment. During our testing of user access to the PeopleSoft application for 23 users who had terminated during the 2006-07 fiscal year, we noted 8 of 23 user accounts on the Human Resources module security file and 12 of 23 accounts on the Finance module security file still in an active status as of July 2007. In response to audit inquiry, District staff indicated that they are reviewing the PeopleSoft application security files and are in the process of locking all terminated employee accounts.
- The District granted inappropriate or unnecessary access privileges. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of this issue.
- District monitoring of security events in the PeopleSoft environment needed improvement. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of this issue.
- As of July 2007, 259 people had keycard access to the computer room. In response to audit inquiry, District staff indicated that many of the people who had access to the computer room were District law enforcement officers. This appeared to be an excessive number of people with access and could be difficult to properly manage assuming the possibility of turnover of law enforcement officers. District staff could not readily identify which of the 259 people were law enforcement officers, but indicated they were in the process of reviewing the necessity for all of the individuals to have computer room access.

- Certain password controls within the PeopleSoft application and supporting network environment needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of these issues.

Without appropriate access controls, there is an increased risk that information resources are not adequately protected from improper disclosure, modification, or loss.

Recommendation: The District should improve its access controls protecting the PeopleSoft application, the supporting network, and the computer room.

Additional Matters

Finding No. 4: Board Minutes

Section 1001.42(1), Florida Statutes, provides that the School Board shall require minutes and records to be kept as necessary to set forth clearly all actions and proceedings of the Board. Section 1001.42(1)(a), Florida Statutes, provides that the minutes of each Board meeting shall be reviewed, corrected if necessary, and approved at the next regular meeting, or at an intervening special meeting if the Board desires.

During the 2006-07 fiscal year, the District used an electronic system to record the Board minutes on-line as the meetings took place, and the system allowed for on-line viewing and voting by the Board members. While all Board minutes were available on-line at the District's web site and were open to the public, District records did not evidence that any of the 12 regular Board meetings were approved, of record, by the Board Chair and Superintendent or approved by the Board at a subsequent meeting. In November 2007, the District implemented a new version of the system that designates a space for official signatures. District staff indicated that, as of February 2008, minutes are now being printed, signed, and presented for approval at subsequent meetings. Properly approved Board minutes provide a public record to clearly set forth the actions and proceedings of the Board.

Recommendation: The Board should continue its efforts to ensure that its minutes are reviewed and approved as required.

Finding No. 5: Bank Reconciliations

Improvements could be made in the District's bank reconciliation procedures. The District maintained seven bank accounts during the audit period. We noted that the District did not prepare monthly bank reconciliations for the payroll, general, and general disbursement accounts, but prepared bank reconciliations for these accounts which encompassed the period from July 2006 through June 2007. Also, the bank reconciliations for these accounts did not evidence who prepared and reviewed the reconciliations or the date these procedures were performed. Further, of the remaining four bank accounts, our test of eight monthly reconciliations disclosed that seven reconciliations were not signed or dated by the preparer and none were signed or dated by the reviewer. Inquiry with District staff confirmed that staff who prepared the bank reconciliations was independent of the record keeping and custody of cash functions, and the reconciliations supported the amounts reported on the financial statements. Failure to provide for timely preparation and supervisory review of bank reconciliations increases the risk that errors or fraud related to cash could occur and not be promptly detected. District staff indicated that these control deficiencies were due to implementation of the new PeopleSoft accounting system and staff turnover.

Effective internal control procedures require that bank account reconciliations be performed on a routine basis and reviewed by supervisory personnel. This provides reasonable assurance that cash assets agree with recorded accountability and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions.

Recommendation: The District should enhance procedures to timely reconcile bank accounts, investigate and resolve any unreconciled differences, and document the date, preparer, review and approval of the reconciliations.

Finding No. 6: Check Collection Procedures

The majority of the District's revenues are received by wire transfers and checks. The Secretary to the Accounting Services Director receives checks through the mail and from the various District departments and school sites. We noted that improvements were needed in the District's internal controls over checks received by the District's Accounting Services Department as follows:

- A receipt log was not maintained to document receipt of the checks.
- Checks were not restrictively endorsed upon receipt to limit potential misappropriation.
- Checks were transferred to an Accounting Technician for deposit without a transfer document used to evidence the transfer of responsibility for collections.

In these circumstances, check collections were exposed to increased risk of loss or theft while awaiting deposit.

Recommendation: The District should strengthen its procedures to document receipt of collections, restrictively endorse all checks upon receipt, and document the transfer of collections through to deposit.

Finding No. 7: Cash Management

Our review of Federal cash advances received through both the Florida Department of Education (FDOE) and the United States Education Department e-Payments system (GAPS) during the 2006-07 fiscal year to fund various Federal programs included a comparison of the monthly beginning cash balance plus draws (available cash) for the month to expenditures for that month. Our review disclosed that advances of cash sufficient to meet expenditure needs of Federal programs were not requested by the District, resulting in ending monthly cash deficits for each month ranging from $8.4 million to $23.2 million for the Federal programs through FDOE and $493,140 to $1,086,666 for the Federal programs through GAPS. District staff indicated that delays in payroll posting created difficulties in estimating the amounts that would be needed. These cash deficits necessitated the use of other non-Federal moneys to temporarily pay Federal costs and, as such, resulted in lost investment opportunities for these moneys.

Recommendation: The District should enhance its procedures to more accurately anticipate expenditures of Federal moneys so that Federal cash balances are kept at appropriate levels as needed to provide sufficient resources for immediate needs.

Finding No. 8: Tangible Personal Property Deletions

Section 274.07, Florida Statutes, requires that the District record the disposal of property in its minutes. For the 2006-07 fiscal year, the District reported deletions for furniture, fixtures, and equipment and audio visual and software with an original cost of $28.5 million; however, none of these disposals were reported to the Board and recorded in the Board minutes as of January 23, 2008. As of that date, the most recent property disposals approved by the Board were made on September 20, 2006, for deletions for the quarter ended June 30, 2006. District staff indicated that quarterly disposition reports could not be produced using the new PeopleSoft system implemented for the 2006-07 fiscal year. When property disposals are not timely approved by the Board, accountability for District property may be diminished.

Recommendation: The District should improve its procedures to ensure that the Board timely reviews and approves property disposals.

Finding No. 9: Payroll Taxes

District procedures could be enhanced to ensure that required tax payments are made to the appropriate agency on a timely basis. Internal Revenue Service Regulations impose penalties on the late payment of employee payroll taxes and employer FICA contributions to the Internal Revenue Service. We noted the Internal Revenue Service assessed a penalty of $477,790 in November 2006 to the District for the payment of Federal withholding and social security taxes totaling $9.6 million, which was submitted 10 days late. In addition, the IRS had sent notice to the District requesting payments totaling $315,636 (including $41,056 in penalties) from previous fiscal years. The District is currently working with the Internal Revenue Service to clarify the payment amounts requested and determine if the amounts can be abated. The District indicated that late payment of the taxes owed was likely due to an extended absence of the employee responsible for the payment and supervisory review procedures which did not timely detect the oversight.

Recommendation: The District should ensure that employee payroll taxes and employer FICA contributions are remitted on a timely basis in compliance with applicable regulations and laws to avoid the payment of tax penalties. Also, the District should continue to work with the IRS to resolve any outstanding issues.

Finding No. 10: Salary Overpayments

The Districts' salary expenditures for the 2006-07 fiscal year totaled approximately $935 million. District staff determined that the contract pay mechanism within the PeopleSoft system incorrectly calculated salary payments to some employees, and any underpayments were rectified by compensating staff during the 2006-07 fiscal year. However, according to District records, 635 employees were overpaid by approximately $1.8 million, and the overpayments were either subsequently collected or the employees were placed on a repayment plan, whereby moneys are being withheld from subsequent paychecks until the overpayments are collected in full. The District implemented a new process to provide for salary payments, also within PeopleSoft system, for 2007-08 fiscal year.

Recommendation: The District should continue its efforts to ensure that salary payments are properly made to staff, and to monitor the status of the salary overpayments to ensure all amounts are recovered.

Finding No. 11: Overtime Monitoring

Board Policy 6Gx-50-6.12 provides that all cash overtime shall be approved in writing by the appropriate administrator/supervisor prior to the time being worked. The policy further provides that the administrator/supervisor shall maintain and monitor records related to cash overtime, which should include a copy of a signed District-approved form (overtime agreement) acknowledging awareness of the policy, time records documenting that the employee worked a forty hour work week, time records of hours worked in excess of forty hours, and payment reports of hours paid in excess of forty hours.

Our review disclosed that supervisory approval of overtime is generally made at the department level before overtime is performed; however, District records do not evidence that an evaluation of District staffing and personnel utilization was made on a District-wide basis to determine the reasonableness of overtime payments. Overtime payment information provided by District staff disclosed a significant increase in both the number of cost centers reporting overtime and the dollar amount of overtime paid for the 2006-07 fiscal year. From the 2005-06 to 2006-07 fiscal years, the number of cost centers reporting overtime increased from 168 to 252, or 84 cost centers (representing a 50 percent increase). Most of these cost centers were school sites that had no overtime reported during the 2005-06 fiscal year, but received overtime for the 2006-07 fiscal year due to PeopleSoft training conducted after regular hours. From the 2005-06 to 2006-07 fiscal years, the dollar amount of overtime paid increased from $5.47 million to $10.25 million, or $4.78 million (representing an 87 percent increase). The dollar increase was mainly generated from the transportation department with overtime payments totaling $0.665 million and $3.43 million for the 2005-06 and 2006-07 fiscal years, respectively. Additionally, overtime payment information provided by District staff disclosed that some transportation department employees received substantial amounts in overtime payments. For example, the five employees with the highest amount of overtime pay were transportation employees who were paid overtime ranging from approximately $23,200 to $29,100, representing from 53 to 102 percent of overtime pay to regular salary.

Since overtime is paid at a one and one-half time basis, its continued use may have a negative effect on District operations in that overall salary costs increase without a corresponding increase in the number of hours actually spent on operations. District records did not evidence that management performed a study of possible alternatives to overtime payments to justify the negative effect of overtime against the immediate needs of the District operations. For work generally required to be performed after the regular work day, part-time employment, rotating shifts, and outsourcing could result in substantial savings. Without an analysis of District staffing needs and personnel utilization on a District-wide basis to determine the reasonableness of overtime needs and related charges, the risk increases that overtime hours may be overstated and the usefulness of the work performed during these time periods may be limited.

Recommendation: The District should evaluate District staffing levels and personnel utilization on a District-wide basis to determine the reasonableness of overtime payments. For those departments where large amounts of overtime are expected to continue, the District should also perform a cost-benefit analysis that provides alternatives to overtime in the affected areas. This analysis should include current staffing levels, personnel utilization, and the feasibility of using part-time employment, rotating shifts, and outsourcing.

Finding No. 12: Architect Insurance

Architectural insurance was not always maintained according to contract requirements. Our review of five architectural agreements, totaling $5.8 million, disclosed the following:

- For two architects, the District was not named as additional insured for auto insurance for approximately seven months during the 2006-07 fiscal year, contrary to the architect agreements.
- For one architect, the auto liability insurance did not cover all owned, hired, and non-owned vehicles, contrary to the architect agreement.
- For one architect, the insurance certificate provided for only 10 days cancellation notice, although the architect agreement requires that 30 days written notice be provided prior to insurance cancellation.

Maintaining appropriate insurance coverage for architects may protect the District's exposure to risks relating to such services.

Recommendation: To help limit the District's exposure to risks related to the services provided by its architects, the District should enhance its procedures to ensure that such services are adequately insured.

Finding No. 13: Building Certificates of Occupancy

Pursuant to Chapter 1, Section 110.1 of the Florida Building Code, District facilities cannot be used or occupied 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 (TCO) before work covered by the permit is completed, provided that the facilities can be safely occupied. The Code further requires that the building official set the time period for the temporary certificate to be valid. The District's Building Department issues the TCO when no critical deficiencies are noted during its inspections. The TCO and outstanding inspection comment list is provided to the Maintenance Department for relocatable buildings and to Program Management for other buildings to correct the deficiencies noted on the list and resubmit the corrected list to the Building Department for re-inspection. Once the deficiencies are corrected, the Building Department issues a final certificate of occupancy (FCO).

In January 2008, our review disclosed that 20 installation projects had 160 relocatable buildings still operating with TCOs issued from April 23, 2004, through January 8, 2007, and one school modernization project had six buildings still operating with TCOs issued from August 9, 2006, through April 9, 2007. According to District staff, the District did not establish a timeframe, of record, to correct the building deficiencies or for these TCOs to expire. District staff further indicated that the FCOs were not issued for these facilities, as of January 17, 2008, because building deficiencies were not corrected. Without correcting the facility deficiencies in a timely manner, the risk increases that the facilities may become unsafe for occupancy.

Recommendation: The District should enhance procedures to ensure that facility deficiencies are timely resolved. Such procedures should include establishing expiration dates for temporary certificates of occupancy.

Finding No. 14: Annual Facility Inspections

Section 1013.12, Florida Statutes, and the Florida Department of Education publication *State Requirements for Educational Facilities - 1999*, Section 4.4, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. Further, fire safety inspections are required to be made annually by persons certified by the Division of State Fire Marshal to be eligible to conduct fire safety inspections in public educational and ancillary plants.

District records indicated that the District provided for the required inspections of its facilities during the 2006-07 fiscal year. The inspector completed a report for each facility which recorded various pieces of information for the noted deficiencies, such as: building and room number, type and description of deficiency, number of times previously cited, and corrective action date. Our review of the annual safety inspection reports for five District facilities during the 2006-07 fiscal year disclosed that the District had provided for the correction of many deficiencies cited in the 2005-06 fiscal year reports; however, we noted that 65 percent of the deficiencies (150 out of 231) were previously cited, ranging from 1 to 11 years. Examples include providing fire rated door and frame (11 times), and verifying gas shut off will initiate fire alarm (10 times).

Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy, and could result in additional costs in the future due to further deterioration. A similar finding was noted in prior audit report No. 2005-200.

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

Finding No. 15: Information Technology - District Security Program

An entitywide program for security planning and management is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. The program establishes a framework and continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Principles that help ensure that information security policies address current risks include performing a periodic risk assessment to determine needs, establishing a central management focal point, implementing appropriate security policies and controls to mitigate identified risks, and promoting security awareness.

The following improvements were needed in the District's entitywide security program:

- The District had not performed a risk assessment identifying and documenting the IT systems and resources, vulnerabilities and exposures, policies and control measures, and management's signed acceptance of the unmitigated risks.
- The District did not have adequate written security policies and procedures. The District utilized undocumented procedures to control many of its security functions. While the District had established a centralized IT security manager who was responsible for creating and administering the District's security policy, the policy was incomplete and existed only in unapproved draft form.
- The District utilized a centralized security training program using brochures and a Web site to alert users regarding security issues. However, the program did not provide on-going awareness education and training and did not require users to acknowledge their understanding in writing. In addition, the program lacked key elements, including data classification and acceptable or prohibited methods for storage and transmission, password protection and usage, and workstation controls.

Without a well-designed security program, controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. In these circumstances, the risk increases that sensitive or critical IT resources will not be sufficiently protected.

Recommendation: The District should continue its development of an entitywide security program. A risk assessment should be the starting point for identifying risks and determining the District's needs. Appropriate policies, procedures, and controls should be implemented to mitigate the identified risks and support the confidentiality, availability, and integrity of information resources. Management should also promote security awareness through adequate training programs.

Finding No. 16: Information Technology - Disaster Recovery Plan

Disaster recovery planning is an element of information technology controls established to manage the availability of valuable data and computer resources in the event of a processing disruption. Its main objective is to provide the entity a plan for continuing critical operations. The success and effectiveness of a disaster recovery plan requires detailed development of recovery procedures, including identification of facilities, personnel, hardware, software, communications, and support services, as well as a commitment from management. Testing the disaster recovery plan is a key element in demonstrating the plan's validity, value, and usefulness.

The District attempted a recovery test of the PeopleSoft application; however, the entire test could not be completed because it exceeded the maximum timeframe allowed for the test. In response to audit inquiry, District personnel acknowledged that the recovery process was not as easy as it appeared. Until the disaster recovery test has been successfully performed, the District lacks assurance that it could efficiently and effectively recover from an actual disaster.

Recommendation: The District should perform a test of its disaster recovery plan each year and timely address any issues preventing the successful completion of the test.

PRIOR AUDIT FINDINGS

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

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Palm Beach County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in the Management Response Section of this report beginning on page 88.

FINANCIAL SECTION

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Palm Beach 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 15 percent of the assets and 29 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 aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Palm Beach 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 Palm Beach 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 M) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

Respectfully submitted,

David W. Martin, CPA
March 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Palm Beach County, Florida's (the "District") discussion and analysis is designed to provide an objective and easy to read analysis of the District's financial activities for the fiscal year ended June 30, 2007, based on currently known facts, decisions, or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the seven elected members of the school board (the "Board"). Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 - *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

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

- The District's financial status as reflected in total net assets improved substantially this year by $151.6 million or 9.2 percent, from $1.64 billion as of June 30, 2006, to $1.79 billion as of June 30, 2007. The increase in total net assets reflects increases in capital assets of $282.6 million and cash and investments of $299.6 million, offset by increases in current and long-term liabilities of $491.5 million.
- General revenue accounted for approximately $1.7 billion, or 85.5 percent, of all revenues, an increase of $60.6 million or 3.7 percent when compared to prior year. This increase is primarily attributed to an increase in property taxes of $200.9 million or 19.7 percent, offset by decreased revenue related to grants and entitlements not restricted to specific programs of $131.9 million or 32.1 percent. Program specific revenue in the form of charges for services, grants and contributions accounted for $288.6 million, or 14.5 percent of all revenues totaling $2.0 billion.
- The District had approximately $1.8 billion in expenses related to programs, an increase of $153.7 million or 9.1 percent, which was offset by $288.6 million in program specific charges for services and grants and contributions. General revenues, primarily property taxes and Florida Education Finance Program (FEFP) revenues were adequate to provide for these programs.
- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of $895.9 million. The General Fund (the primary operating fund), reflected on a current financial resources basis, ended the year with a fund balance of $111.6 million. Of this amount, $33.3 million is unreserved, undesignated fund balance that is available for reallocation in the subsequent fiscal year at the Board's discretion. During the current year, General Fund revenues (including other financing sources) exceeded expenditures by $14.8 million.
- The District's total long-term debt increased by $307.9 million or 18.2 percent. The key factor contributing to the increase was the issuance of Certificate of Participation Series (COPS) 2007A, 2007B,

2007C, and 2007D for a total of $610.7 million which was offset by defeasance of COPS Series1996A, 1997A, 2001A, and 2002C, for a total of $237.5 million.

- In governmental funds, for the fiscal year ended June 30, 2007, revenues increased by $112.7 million or 6.0 percent, to $2.0 billion from $1.9 billion, while current expenditures, excluding capital outlay and debt service expenditures, increased $64.1 million or 4.5 percent, to $1.5 billion from $1.4 billion. The increase in revenue is primarily due to an increase in property tax revenue and local state tax revenue. The largest dollar increase of $51.1 million or 6.0 percent in expenditures is attributable to instruction which accounted for 60.2 percent of total current expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like instruction and instructional support services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as maintenance services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

Figure 1

Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: maintenance services and other internal service funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenue, expenditures, and changes in fund balances	• Statement of net assets • Statement of revenue, expenses, and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

Figure 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, all the District's activities are reported as governmental activities.

- *Governmental activities* – All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of the activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, the District provides additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. There are two types of proprietary funds:
    - *Enterprise funds* account for goods and services provided to those outside the District, generally on a user-charge basis. Currently, the District has no enterprise funds.
    - *Internal service funds* report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the Maintenance Services Fund.

- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets were $1.8 billion at June 30, 2007. The largest portion of the District's net assets, $1.6 billion or 89.4 percent, reflect its investment in capital assets (i.e. land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets, $283 million, represents resources that are subject to external restrictions on how they may be used.

Capital assets (net) increase of $282.6 million or 9.9 percent over prior year primarily reflects the completion of one (1) new school and modernization/replacement of eleven (11) existing schools.

The analysis in Table 1 below, and Table 2, focuses on the summary of net assets and summary of changes in net assets for the District's governmental activities.

Table 1 **Summary of Net Assets**
Governmental Activities
(in thousands)

	June 30, 2007	June 30, 2006	Increase (Decrease)	Percentage Change
Current and Other Assets	$ 1,494,085	$ 1,133,593	$ 360,492	31.80%
Capital Assets, Net	3,137,902	2,855,309	282,593	9.90%
Total Assets	4,631,987	3,988,902	643,085	16.12%
Current and Other Liabilities	614,279	459,591	154,688	33.66%
Long-Term Liabilities	2,224,356	1,887,566	336,790	17.84%
Total Liabilities	2,838,635	2,347,157	491,478	20.94%
Net Assets:				
Invested in Capital Assets - Net of Related Debt	1,602,902	1,412,258	190,644	13.50%
Restricted	282,993	309,507	(26,514)	-8.57%
Unrestricted (Deficit)	(92,543)	(80,020)	(12,523)	15.65%
Total Net Assets	$ 1,793,352	$ 1,641,745	$ 151,607	9.23%

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2, takes the information from that statement and rearranges it slightly so the reader can see the total revenues for the 2006-07 fiscal year compared to the 2005-06 fiscal year.

As reported in the Statement of Activities, the cost of all of the governmental activities this year was $1.8 billion. The amount that the taxpayers ultimately financed for these activities through District taxes was $1.3 billion because some costs were paid by those who benefited from the programs ($48.6 million), or by other governments and organizations who subsidized certain programs with grants and contributions ($240.0 million).

The District paid for the remaining "public benefit" portion of the governmental activities with $1.3 billion in property taxes, $278.8 million in grants and contributions not restricted to specific programs, $116.7 million in local sales taxes, $60.7 million in investment earnings and $22.9 million in other general revenue.

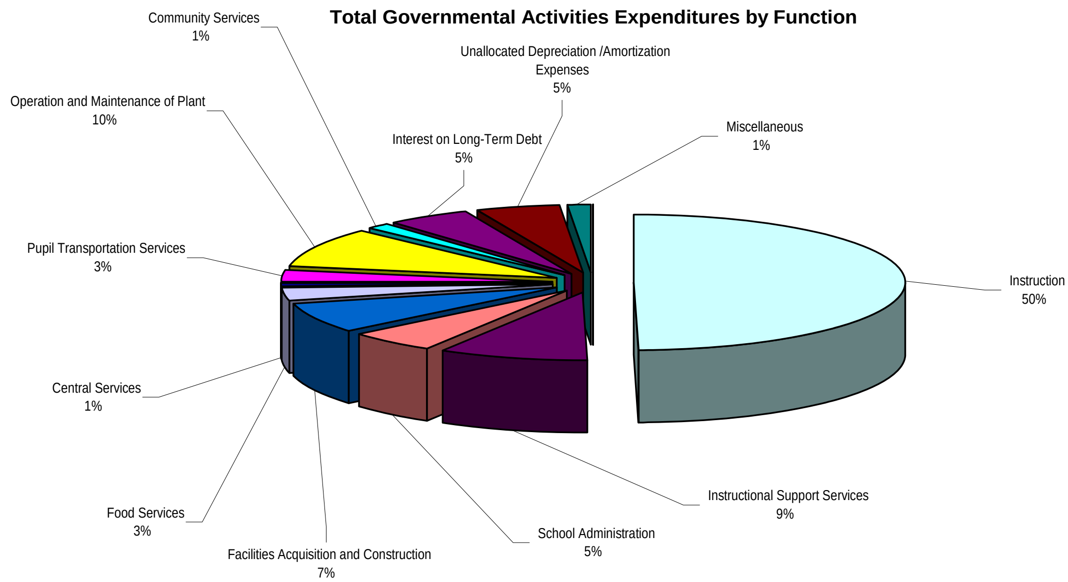
The increase in operating grants and contributions of $35.5 million or 20.6 percent is primarily attributable to an increase on class size reduction revenue. An increase in property tax revenue of $200.9 million or 19.7 percent is due to an increase in property values.

Facilities acquisition and construction increased by $46.2 million, or 54.1 percent, which reflects the District's strategy to continue with its planned construction projects since the necessary funding from local sales tax revenue became available.

Table 2 **Operating Results for the Year**
Governmental Activities
(in thousands)

	June 30, 2007	June 30, 2006	Increase (Decrease)	Percentage Change
Program Revenues:				
Charges for Services	$ 48,584	$ 45,930	$ 2,654	5.78%
Operating Grants and Contributions	207,287	171,829	35,458	20.64%
Capital Grants and Contributions	32,743	49,026	(16,283)	-33.21%
General Revenues:				
Property Taxes	1,219,529	1,018,636	200,893	19.72%
Local Sales Taxes	116,693	120,466	(3,773)	-3.13%
Grants and Contributions Not Restricted	278,783	410,636	(131,853)	-32.11%
Investment Earnings	60,661	39,849	20,812	52.23%
Other General Revenue	22,909	48,396	(25,487)	-52.66%
Total Revenues	1,987,189	1,904,768	82,421	4.33%
Functions/Program Expenses:				
Instruction	914,635	854,689	59,946	7.01%
Instructional Support Services	160,750	158,704	2,046	1.29%
Board of Education	4,765	5,309	(544)	-10.25%
General Administration	9,052	9,400	(348)	-3.70%
School Administration	98,201	90,685	7,516	8.29%
Facilities Acquisition and Construction	131,776	85,528	46,248	54.07%
Fiscal Services	5,417	4,264	1,153	27.04%
Food Services	57,530	57,339	191	0.33%
Central Services	14,679	12,675	2,004	15.81%
Pupil Transportation Services	47,924	45,420	2,504	5.51%
Operation and Maintenance of Plant	176,641	167,554	9,087	5.42%
Administrative Technology Services	6,069	5,228	841	16.09%
Community Services	26,940	25,328	1,612	6.36%
Interest on Long-Term Debt	88,017	76,875	11,142	14.49%
Unallocated Depreciation /Amortization Expense	93,186	82,926	10,260	12.37%
Total Functions/Program Expenses	1,835,582	1,681,924	153,658	9.14%
Increase (Decrease) in Net Assets	$ 151,607	$ 222,844	(71,237)	-31.97%

The pie chart below represents total expenditures from governmental activities classified by function.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As of June 30, 2007 the District's governmental funds reported a combined fund balance of $895.9 million, which is an increase of $211.2 million or 30.8 percent from the prior year.

The General Fund, which is the chief operating fund of the District and is always considered a major fund, has an ending fund balance of $111.6 million at June 30, 2007. The fund balance of the District's General Fund increased by $14.8 million during the current fiscal year. At the end of the current fiscal year, unreserved, undesignated fund balance was $33.3 million.

The Debt Service - COPS Fund, also listed as a major fund, is used to account for the accumulation of resources for, and the payment of long-term debt principal and interest, ended the fiscal year with a fund balance of $88.5 million. During the year, payments to refunded debt escrow agent associated with the defeasance of debt amounted to $246 million.

In the Capital Projects - Capital Improvement Fund, another major fund, property tax revenues increased by $58.7 million or 23.4 percent from $251.1 million in the 2005-06 fiscal year to $309.8 million in the 2006-07 fiscal year. This increase was attributable to higher property values.

The Capital Projects - COPS Fund, one of the District's major funds, reported an ending fund balance of $498.3 million which is an increase of $231 million or 86.4 percent over the prior year. This is largely due to proceeds from the issuance of $387.9 million in Certificate of Participation Series (COPS) 2007A and 2007B which was offset by capital outlay expenditures of $181.6 million.

In the Capital Projects - Sales Tax Fund, commercial paper notes of $250 million issued to finance the cost of acquisition, construction, and modernization/replacement of public school facilities, were outstanding at the end of the year. A negative fund balance of $78.2 million largely reflects capital outlay expenditures of $147.5 million offset against revenues of $126.9 million.

The Capital Projects - Other Fund and Other Nonmajor Governmental Funds ended the fiscal year with fund balances of $58.5 million and $54.2 million, respectively.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget and brings amendments to the Board on a monthly basis. These amendments are needed to adjust to actual revenues received and direct resources where needed. The Board approves the final amendment to the budget after year-end. Schedules showing the District's original budget and final amended budget, compared with actual amounts paid and received, are provided as required supplementary information.

There were revisions made to the 2006-07 fiscal year General Fund original budget. FEFP revenue originally budgeted was decreased $19.8 million, primarily as a result of actual student enrollment less than projected by 3,963 students. Revenue from interest income exceeded the original budget by $3.0 million due to rising interest rates. Local revenue from real estate taxes was $9.9 million greater than original budget. Also, local revenue from the fee-based school age childcare program was $2.9 million higher than the original projection. The District also realized $3.8 million in loss recoveries that were not budgeted. Other financing sources increased $1.3 million from original to final budget in 2006-07 as a result of an increase to other capital maintenance transfer to $43.6 million. Overall, budgeted revenue ended the year $4.8 million lower than original budget.

Budgeted expenditures decreased $4.6 million from the original budget to the final amended budget. Amendments were needed to account for the reduction in student enrollment and related staffing, increases in employee salaries and benefits, as well as pupil transportation and energy expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 3 below, at June 30, 2007, the District had $3.1 billon invested in a broad range of capital assets, including 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. This amount represents a net increase (including additions, deletions and depreciation) of $282.6 million from last year.

Table 3

Capital Assets at June 30, 2007 and 2006 (in thousands)	June 30, 2007	June 30, 2006	Increase (Decrease)
Land	$ 301,845	$ 276,525	$ 25,320
Construction in Progress	252,113	443,461	(191,348)
Improvements Other Than Buildings	17,406	11,922	5,484
Buildings and Fixed Equipment	3,020,579	2,547,162	473,417
Furniture, Fixtures, and Equipment	155,722	171,229	(15,507)
Motor Vehicles	83,345	81,127	2,218
Audio Visual & Computer Software	49,282	41,260	8,022
Less; Accumulated Depreciation	(742,390)	(717,377)	(25,013)
Total Capital Assets, Net	$ 3,137,902	$ 2,855,309	$ 282,593

The net increase of $282.6 million reflects the construction of one (1) new school, which opened in the 2006-07 fiscal year, and 11 completed modernization projects.

Major capital asset additions included the completion of Elbridge Gale Elementary School. Completed modernized schools included the following:

- Palm Beach Public Elementary School
- Berkshire Elementary School
- Meadow Park Elementary School
- J.C. Mitchell Elementary School
- Bak Middle School of the Arts
- Palm Springs Middle School
- JF Kennedy Middle School
- Indian Ridge School
- Boca Raton Middle School
- Congress Middle School
- John I. Leonard High School

The District anticipates capital additions will continue to increase due to an effort being made to reduce student overcrowding. The Notes to Financial Statements provide more information on capital assets.

Long-term Debt

As shown in Table 4, below**,** at the end of this year, the District had $2.0 billion in debt outstanding compared to $1.7 billion last year, an increase of $307.9 million or 18.2 percent. The key factor contributing to the increase was the issuance of COPS 2007A, 2007B, 2007C, and 2007D for a total of $610.7 million, which was offset by defeasance of COPS Series1996A, 1997A, 2001A, and 2002C, for a total of $237.5 million. See Note 10 of the Notes to the Financial Statements for more information on long-term liabilities.

Table 4

Long-term Debt Outstanding at June 30, 2007 and 2006
(in thousands)

	June 30, 2007	June 30, 2006	Increase (Decrease)
State School Bond Issues	$ 38,580	$ 42,380	$ (3,800)
General Obligation Debt	27,765	54,275	(26,510)
Certificates of Participation	1,901,053	1,565,373	335,680
Plus: Issuance Premiums	59,728	50,854	8,874
Less: Deferred Amounts	(29,424)	(23,069)	(6,355)
Total Long Term Debt, Net	$ 1,997,702	$ 1,689,813	$ 307,889

The District's general obligation debt and certificates of participation are rated Aa3 and A1 by Moody's Investors Service, and AA and AA- by Standard and Poor's Corporation, and AA- and A+ by Fitch Ratings Services.

Other long-term obligations include liability for compensated absences and estimated claims liability.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State of Florida, by constitution, does not have a state personal income tax and therefore the state operates primarily using sales, gasoline and corporate income taxes. State funds to school districts are provided primarily by legislative appropriations from the State's general revenue funds under the FEFP. The level of tourism in the State influences the amount collected. Changes in the anticipated amount of revenues collected by the State directly impact the revenue allocation to the District.

The focus of the State finance program bases financial support for education upon the individual student participating in a particular educational program rather than upon the number of teachers or classrooms. FEFP funds are primarily generated by multiplying the number of full-time equivalent students (FTEs) in each of the educational programs by cost factors to obtain weighted FTEs. Weighted FTEs are then multiplied by a base student allocation and by a district cost differential in the major calculation to determine the State and local FEFP funds. Program cost factors are determined by the Legislature and represent relative cost differences among the FEFP programs.

State Support

Funds for State support to school districts are provided primarily by legislative appropriations. The major portion of State support is distributed under the provisions of the FEFP. State funds appropriated to finance the FEFP in 2007-08 fiscal year is $6.3 billion for student enrollment associated with the 180 day regular school year and students in juvenile justice programs during the summer. A separate appropriation of $410.8 million for Workforce Development was made to finance adult vocational and adult general education. While a number of tax sources are deposited in the State's General Revenue Fund, the predominant tax source is the sales tax.

Statewide, proceeds from the 2006-07 Florida Lottery will be used to finance the following General Fund K-12 appropriations: District Discretionary Lottery Funds - $104.0 million and School Recognition Funds - $157.6 million.

In addition, funds are appropriated to meet other needs by means of categorical programs and special allocations. These include Class Size Reduction - $2.7 billion, Instructional Materials Program - $270.1 million, Student Transportation - $490.2 million, Teacher Lead Program - $48.0 million, and Reading - $116.1 million.

Local Support

Local revenue for school support is derived almost entirely from property taxes. Each of the 67 school districts in the State is a countywide district.

Each school board participating in the State allocation of funds for current operation of schools must levy the millage set for its required local effort taxes. The Legislature set the amount of $7.9 billion as required local effort for the 2007-08 fiscal year. Each district's share of the State total of required local effort is determined by a statutory procedure that is initiated by certification of the property tax valuations of each district by the Department of Revenue.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Michael J. Burke, Chief Financial Officer
The School District of Palm Beach County, Florida
3328 Forest Hill Boulevard, Suite A-306
West Palm Beach, FL 33406.

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 741,006,352.66	$ 10,090,881.00
Investments	558,630,187.52	1,594,286.00
Cash with Fiscal Agent	2,519,090.77	
Accounts Receivable	1,103,667.45	1,528,501.00
Deposits Receivable	1,522,300.16	177,374.00
Deferred Charges	17,595,393.95	
Prepaid Items	5,390.00	702,901.00
Due from Other Agencies	159,985,869.87	262,984.00
Inventories	11,163,448.26	15,806.00
Other Assets	553,087.27	243,066.00
Capital Assets:		
Land	301,844,893.69	1,429,073.00
Construction in Progress	252,113,358.55	
Improvements Other Than Buildings, Net	14,260,387.96	917,975.00
Buildings and Fixed Equipment, Net	2,454,882,371.60	4,182,357.00
Furniture, Fixtures, and Equipment, Net	48,438,722.19	2,632,250.00
Motor Vehicles, Net	37,243,289.13	96,718.00
Audio Visual Materials and Computer Software, Net	29,118,698.11	374,047.00
TOTAL ASSETS	$ 4,631,986,509.14	$ 24,248,219.00
LIABILITIES		
Salaries and Benefits Payable	$ 67,408,162.75	$ 369,473.00
Payroll Deductions and Withholdings	17,242,743.48	
Accounts Payable	79,586,977.53	2,474,522.00
Sales Tax Payable	14,776.19	
Construction Contracts Payable	1,849,673.50	
Construction Contracts Payable - Retainage	16,465,070.17	
Due to Other Agencies	6,462,485.62	
Due to Fiscal Agent	158,947.30	
Matured Interest Payable	3,820,166.58	
Accrued Interest Payable	37,012,059.84	
Notes Payable	335,000,000.00	
Deposits Payable	374,321.37	
Deferred Revenue	48,883,022.94	2,710.00
Other Liabilities		850,439.00
Long-Term Liabilities:		
Portion Due Within One Year:		
Notes Payable		337,623.00
Bonds Payable	30,540,000.00	50,000.00
Certificates of Participation Payable	45,245,000.00	
Obligations Under Capital Leases		24,390.00
Estimated Insurance Claims Payable	31,617,474.50	
Estimated Post Retirement Benefits Payable	329,055.18	
Compensated Absences Payable	12,875,096.02	127,610.00
Portion Due After One Year:		
Notes Payable		2,539,052.00
Bonds Payable	36,486,638.53	4,914,778.00
Certificates of Participation Payable	1,885,430,555.03	
Obligations Under Capital Leases		67,891.00
Estimated Insurance Claims Payable	31,981,000.00	
Estimated Post Retirement Benefits Payable	636,415.12	
Compensated Absences Payable	149,214,952.44	
Total Liabilities	2,838,634,594.09	11,758,488.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,602,901,776.64	3,450,115.00
Restricted for:		
State Categorical Programs	3,333,429.83	978.00
Debt Service	89,329,540.07	
Capital Projects	190,330,024.32	1,288,138.00
Other Purposes		325,333.00
Unrestricted	(92,542,855.81)	7,425,167.00
Total Net Assets	1,793,351,915.05	12,489,731.00
TOTAL LIABILITIES AND NET ASSETS	$ 4,631,986,509.14	$ 24,248,219.00

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

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

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 914,635,227.17	$ 1,403,760.68	$ 140,417,239.00	$
Pupil Personnel Services	55,554,959.65			
Instructional Media Services	18,228,775.70			
Instruction and Curriculum Development Services	52,189,569.78			
Instructional Staff Training Services	28,956,678.58			
Instruction Related Technology	5,819,845.90			
Board of Education	4,764,683.46			
General Administration	9,052,058.77			
School Administration	98,201,082.63			
Facilities Acquisition and Construction	131,775,462.30			26,859,014.95
Fiscal Services	5,417,228.45			
Food Services	57,530,215.57	25,515,313.31	32,304,599.29	
Central Services	14,679,269.85			
Pupil Transportation Services	47,923,705.80	1,668,927.11	29,894,604.00	
Operation of Plant	133,541,644.90			
Maintenance of Plant	43,099,653.86			
Administrative Technology Services	6,069,214.16			
Community Services	26,939,959.99	19,996,178.82	4,670,228.79	
Interest on Long-Term Debt	88,016,383.94			5,883,683.40
Unallocated Depreciation/Amortization Expense	93,186,019.94			
Total Governmental Activities	$ 1,835,581,640.40	$ 48,584,179.92	$ 207,286,671.08	$ 32,742,698.35
Component Units				
Charter Schools	$ 53,814,951.00	$ 764,621.00	$ 5,040,736.00	$ 2,297,471.00

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

Total General Revenues

Change in Net Assets

Net Assets - July 1, 2006
Prior Period Adjustment
Net Assets - July 1, 2006, as Adjusted

Net Assets - June 30, 2007

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

EXHIBIT - B

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Units
$ (772,814,227.49)	$
(55,554,959.65)	
(18,228,775.70)	
(52,189,569.78)	
(28,956,678.58)	
(5,819,845.90)	
(4,764,683.46)	
(9,052,058.77)	
(98,201,082.63)	
(104,916,447.35)	
(5,417,228.45)	
289,697.03	
(14,679,269.85)	
(16,360,174.69)	
(133,541,644.90)	
(43,099,653.86)	
(6,069,214.16)	
(2,273,552.38)	
(82,132,700.54)	
(93,186,019.94)	
(1,546,968,091.05)	
	(45,712,123.00)
884,940,374.12	
24,795,738.49	
309,793,157.48	
116,692,796.50	
278,782,870.70	47,326,047.00
60,660,848.67	463,240.00
22,908,881.70	1,686,388.00
1,698,574,667.66	49,475,675.00
151,606,576.61	3,763,552.00
1,641,745,338.44	8,822,827.00
	(96,648.00)
1,641,745,338.44	8,726,179.00
$ 1,793,351,915.05	$ 12,489,731.00

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

	General Fund	Debt Service - COPS Fund	Capital Projects - Capital Improvement Fund	Capital Projects - COPS Fund
ASSETS				
Cash	$ 202,441,231.22	$ 88,112,085.03	$ 142,917,195.93	$ 47,111,518.97
Cash with Fiscal Agent	1,459,090.77			
Investments	37,193,057.90	550,019.28	26,069,245.45	478,754,960.16
Accounts Receivable	1,016,167.45			
Deposits Receivable				905,150.00
Prepaid Items	1,090.00			
Due from Other Funds	18,000,000.00			
Due from Other Agencies	34,477,642.09		10,954,476.92	
Other Assets	553,087.27			
Inventories	10,370,235.21			
TOTAL ASSETS	$ 305,511,601.91	$ 88,662,104.31	$ 179,940,918.30	$ 526,771,629.13
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 84,650,906.23	$	$	$
Accounts Payable	15,382,596.63		15,134,739.04	19,405,618.40
Sales Tax payable	14,776.19			
Construction Contracts Payable			561,900.96	997,922.54
Construction Contracts Payable - Retainage			1,238,871.53	8,052,576.40
Due to Other Funds				
Due to Other Agencies	5,431,711.00	3,243.62		
Due to Fiscal Agent		158,947.30		
Tax Anticipation Notes Payable	85,000,000.00			
Deposits Payable	374,199.44			
Matured Interest Payable	2,512,222.20			
Deferred Revenue	570,118.77			
Total Liabilities	193,936,530.46	162,190.92	16,935,511.53	28,456,117.34
Fund Balances:				
Reserved for State Categorical Programs	2,203,080.88			
Reserved for Encumbrances	6,185,263.50	900.00	42,761,136.03	130,816,527.17
Reserved for Inventories	10,370,235.21			
Reserved for Debt Service		88,499,013.39		
Unreserved:				
Designated, Reported in General Fund				
Designated for Board Contingency	39,400,000.00			
Designated for Self-Insurance	20,148,000.00			
Undesignated, Reported in:				
General Fund	33,268,491.86			
Special Revenue Funds				
Capital Projects Funds			120,244,270.74	367,498,984.62
Total Fund Balances	111,575,071.45	88,499,913.39	163,005,406.77	498,315,511.79
TOTAL LIABILITIES AND FUND BALANCES	$ 305,511,601.91	$ 88,662,104.31	$ 179,940,918.30	$ 526,771,629.13

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

EXHIBIT - C

Capital Projects - Sales Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 176,753,646.35	$ 44,303,760.57	$ 40,401,921.83	$ 742,041,359.90
			1,459,090.77
793,933.21	8,081,362.09	7,187,609.43	558,630,187.52
		87,500.00	1,103,667.45
	617,150.16		1,522,300.16
		4,300.00	5,390.00
			18,000,000.00
18,473,547.26	47,796,876.86	48,283,326.74	159,985,869.87
			553,087.27
	564.17	792,648.88	11,163,448.26
$ 196,021,126.82	$ 100,799,713.85	$ 96,757,306.88	$ 1,494,464,401.20
$	$	$	$ 84,650,906.23
17,022,707.62	7,199,729.63	5,441,586.21	79,586,977.53
			14,776.19
	289,850.00		1,849,673.50
5,858,021.07	1,315,601.17		16,465,070.17
		18,000,000.00	18,000,000.00
		1,027,531.00	6,462,485.62
			158,947.30
250,000,000.00			335,000,000.00
		121.93	374,321.37
1,307,944.38			3,820,166.58
	33,511,822.00	18,082,993.17	52,164,933.94
274,188,673.07	42,317,002.80	42,552,232.31	598,548,258.43
	1,130,348.95		3,333,429.83
50,681,598.11	24,324,115.39	7,662,379.01	262,431,919.21
	564.17	792,648.88	11,163,448.26
		32,032,885.72	120,531,899.11
			39,400,000.00
			20,148,000.00
			33,268,491.86
		15,208,283.75	15,208,283.75
(128,849,144.36)	33,027,682.54	(1,491,122.79)	390,430,670.75
(78,167,546.25)	58,482,711.05	54,205,074.57	895,916,142.77
$ 196,021,126.82	$ 100,799,713.85	$ 96,757,306.88	$ 1,494,464,401.20

EXHIBIT - D
PALM BEACH 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		$ 895,916,142.77
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.		3,137,901,721.23
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.		17,595,393.95
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.		24,992.76
Certain revenues are accrued in the government-wide statements, but are not recognized in the governmental funds until received.		3,281,911.00
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.		(37,012,059.84)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	$ 67,026,638.53	
Compensated Absences Payable	162,090,048.46	
Certificates of Participation Payable	1,930,675,555.03	
Estimated Insurance Claims Payable	63,598,474.50	
Estimated Post Retirement Benefits Payable	965,470.30	(2,224,356,186.82)
Total Net Assets - Governmental Activities		$ 1,793,351,915.05

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

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EXHIBIT - E
PALM BEACH 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 - COPS Fund	Capital Projects - Capital Improvement Fund	Capital Projects - COPS Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 622,255.34	$	$	$
Federal Through State	138,024.93			
Federal Through Local				
State	353,121,150.53			
Local	945,367,667.39	537,194.87	322,455,540.16	15,131,444.11
Total Revenues	1,299,249,098.19	537,194.87	322,455,540.16	15,131,444.11
Expenditures				
Current - Education:				
Instruction	848,844,095.28			
Pupil Personnel Services	41,217,576.62			
Instructional Media Services	17,344,511.36			
Instruction and Curriculum Development Services	32,187,342.06			
Instructional Staff Training Services	11,941,283.86			
Instruction Related Technology	4,897,629.46			
Board of Education	4,946,107.96			
General Administration	6,882,908.67			
School Administration	93,678,148.13			
Facilities Acquisition and Construction	469,152.50			
Fiscal Services	4,781,818.43			
Food Services				
Central Services	14,030,186.99			
Pupil Transportation Services	44,411,888.80			
Operation of Plant	130,001,500.00			
Maintenance of Plant	42,412,568.94			
Administrative Technology Services	5,110,535.44			
Community Services	25,058,258.21			
Fixed Capital Outlay:				
Facilities Acquisition and Construction			125,474,857.72	181,588,082.33
Other Capital Outlay	1,040,689.05			
Debt Service:				
Principal		37,605,000.00		
Interest and Fiscal Charges	2,615,931.55	71,688,571.24	3,500.00	3,250,637.80
Total Expenditures	1,331,872,133.31	109,293,571.24	125,478,357.72	184,838,720.13
Excess (Deficiency) of Revenues Over Expenditures	(32,623,035.12)	(108,756,376.37)	196,977,182.44	(169,707,276.02)
Other Financing Sources (Uses)				
Transfers In	43,620,950.00	120,539,925.90		
Certificates of Participation Issued		222,795,000.00		387,945,000.00
Premium on Certificates of Participation		5,068,896.20		12,787,872.80
Proceeds from Sale of Capital Assets				
Payments to Escrow Agent		(246,011,725.86)		
Insurance Loss Recoveries	3,771,724.32			
Transfers Out			(164,160,875.90)	
Total Other Financing Sources (Uses)	47,392,674.32	102,392,096.24	(164,160,875.90)	400,732,872.80
Net Change in Fund Balances	14,769,639.20	(6,364,280.13)	32,816,306.54	231,025,596.78
Fund Balances, July 1, 2006	96,805,432.25	94,864,193.52	130,189,100.23	267,289,915.01
Fund Balances, June 30, 2007	$ 111,575,071.45	$ 88,499,913.39	$ 163,005,406.77	$ 498,315,511.79

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

EXHIBIT - E

Capital Projects - Sales Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 3,973,559.10	$ 4,595,814.44
		126,419,973.15	126,557,998.08
		776,801.89	776,801.89
		9,046,103.21	362,167,253.74
126,893,543.37	22,011,417.03	64,781,253.47	1,497,178,060.40
126,893,543.37	22,011,417.03	204,997,690.82	1,991,275,928.55
		51,262,678.69	900,106,773.97
		13,279,214.96	54,496,791.58
		185,458.30	17,529,969.66
		19,312,832.22	51,500,174.28
		17,425,226.22	29,366,510.08
		312,421.33	5,210,050.79
		1,627.26	4,947,735.22
		1,903,089.18	8,785,997.85
		279,847.58	93,957,995.71
		25,493.33	494,645.83
		56,731.00	4,838,549.43
		57,268,614.50	57,268,614.50
		365,999.41	14,396,186.40
		1,392,483.23	45,804,372.03
		1,293,108.34	131,294,608.34
		24,067.26	42,436,636.20
			5,110,535.44
		2,531,522.32	27,589,780.53
147,538,240.87	45,463,881.73	8,893,291.06	508,958,353.71
		2,778,286.52	3,818,975.57
		30,310,000.00	67,915,000.00
9,836,046.46		4,973,200.98	92,367,888.03
157,374,287.33	45,463,881.73	213,875,193.69	2,168,196,145.15
(30,480,743.96)	(23,452,464.70)	(8,877,502.87)	(176,920,216.60)
			164,160,875.90
			610,740,000.00
			17,856,769.00
	1,596,599.12		1,596,599.12
			(246,011,725.86)
	170,517.59		3,942,241.91
			(164,160,875.90)
	1,767,116.71		388,123,884.17
(30,480,743.96)	(21,685,347.99)	(8,877,502.87)	211,203,667.57
(47,686,802.29)	80,168,059.04	63,082,577.44	684,712,475.20
$ (78,167,546.25)	$ 58,482,711.05	$ 54,205,074.57	$ 895,916,142.77

EXHIBIT - F
PALM BEACH 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	$ 211,203,667.57
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period.	303,817,157.55
Certain capital outlay expenditures in prior years were recorded as construction in progress on the statement of net assets, but did not represent capital assets. These costs are expensed in the current year on the statement of activities.	(11,539,331.02)
The undepreciated cost of capital assets disposed of during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.	(9,685,421.32)
Certificates of Participation refunding proceeds provide current financial resources to governmental funds. Certificates of Participation refunding payments are expenditures in the governmental funds. This is the amount by which refunding payments exceed refunding proceeds in the current period.	23,216,725.86
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayment in the current period.	(320,030,000.00)
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the government-wide statements. This is the net increase in accrued interest in the current period.	(7,848,059.84)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(2,518,295.49)
Deferred charges associated with long-term debt issued in the current period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net change in deferred charges during the current period.	(5,764,341.44)
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.	(9,002,050.76)
The increase in estimated insurance claims payable is an expense in the statement of activities, but is not recognized in the governmental funds statement of revenue, expenditures, and changes in fund balance.	(20,243,474.50)
The net change in the post-retirement benefits program liability is reported in the government-wide financial statements, but not in the governmental fund statements.	344,495.70
Change in Net Assets - Governmental Activities	$ 151,606,576.61

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

EXHIBIT - G
PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2007

	Governmental Activities - Internal Service Fund
ASSETS	
Cash and Cash Equivalents	$ 24,992.76
NET ASSETS	
Unrestricted	$ 24,992.76

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

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

		Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	$	27,468,099.51
OPERATING EXPENSES		
Salaries		21,107,401.13
Employee Benefits		6,380,580.40
Purchased Services		115,297.29
Total Operating Expenses		27,603,278.82
Operating Loss		(135,179.31)
NONOPERATING REVENUES		
Interest		135,179.31
Change in Net Assets		0.00
Total Net Assets, July 1, 2006		24,992.76
Total Net Assets, June 30, 2007	$	24,992.76

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

EXHIBIT - I
PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2007

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services Provided to Other Funds	$	27,468,099.51
Cash Payments to Suppliers for Goods and Services		(126,348.58)
Cash Payments to Employees for Services		(27,487,981.53)
Net Cash Used by Operating Activities		(146,230.60)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		135,179.31
Net Decrease in Cash and Cash Equivalents		(11,051.29)
Cash and Cash Equivalents, Beginning		36,044.05
Cash and Cash Equivalents, Ending	$	24,992.76

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$	(135,179.31)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Changes in Assets and Liabilities:		
Decrease in Accounts Payable		(11,051.29)
Net Cash Used by Operating Activities	$	(146,230.60)

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

EXHIBIT - J
PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2007

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 532,758.50	$ 16,702,731.32
Accounts Receivable, Net		646,638.20
TOTAL ASSETS	$ 532,758.50	$ 17,349,369.52
LIABILITIES		
Accounts Payable	$	$ 28,734.87
Other Liabilities		553,074.70
Due to Student Organizations		16,767,559.95
Total Liabilities		$ 17,349,369.52
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	532,758.50	
TOTAL LIABILITIES AND NET ASSETS	$ 532,758.50	

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

EXHIBIT - K
PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2007

		Private-Purpose Trust Fund
ADDITIONS		
Contributions:		
Gifts, Grants, Endowments, and Bequests	$	75,090.31
Investment Earnings:		
Interest, Dividends, and Other		2,061.86
Total Additions		77,152.17
DEDUCTIONS		
Scholarship Payments		68,792.12
Change in Net Assets		8,360.05
Net Assets, July 1, 2006		524,398.45
Net Assets, June 30, 2007	$	532,758.50

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of Palm Beach County, Florida (the "District") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to Section 1010.01, Florida Statutes, the Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies:

➢ Reporting Entity

The District and its governing board are organized and operated under Section 4, Article IX, of the Constitution of Florida and Chapter 1001, Florida Statutes. The District's boundaries are coterminous with those of Palm Beach County. Management of the School District is independent of county and city governments. The membership of the governing board of the District (the "Board") consists of seven members elected by countywide vote for overlapping four-year terms. The Superintendent is appointed by the Board to act as executive officer of the District.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component units and/or joint ventures reportable within the accompanying financial statements are the Palm Beach School Board Leasing Corporation, (the "Corporation") and thirty-four of the thirty-eight charter schools operating within the District. These charter schools are included due to the fact that the exclusion of them would cause the District's financial statements to be incomplete. Based on the Auditor General's Rules, Chapter 10.850, *"Audits of Charter Schools and Similar Entities"* District management has determined that the following four charter schools are not component units: Palm Beach Maritime Academy, Potentials Charter School, Potentials South Charter School, and Seagull Academy Charter School. Each of these charter schools are operated by entities other than the District and are not legally separate from those entities. As such, each of these charter schools is included as a component unit of their respective operating entity.

Blended Component Unit - The Corporation is legally separate from the District and it's sole purpose is to provide for financing and construction of certain District school facilities. The Board of the Corporation consists of the seven Board members of the District. Due to the substantive economic relationship between the Corporation and the District, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

Discretely Presented Component Units - Section 1002.33, Florida Statutes, authorizes the establishment of charter schools as part of the State's education program. All charter schools are fully recognized as public schools. As such, charter schools are funded on the same basis and are subject to the same financial reporting requirements as the District. Additionally, all students enrolled in charter schools are included in the District's total enrollment. At fiscal year end there were thirty-four charter schools operating within the School District of Palm Beach County meeting the criteria for presentation as a discretely presented component unit.

During the 2006-07 fiscal year the Palm Beach Military Academy commenced and ceased operations, on July 1, 2006 and November 10, 2006, respectively. The District recovered all the assets of the charter school at the time of the closure. The charter school did not submit an audit of its operation, thus no financial information has been reported for this entity. The Palm Beach Military Academy is not considered a component unit of the District. In addition, three charter schools ceased operations at year-end, Good Schools for All Leadership, Gulfstream Goodwill Career Academy and The IMAGINE School. Good Schools for All Leadership and Gulfstream Goodwill Career Academy have submitted audits of their operations and that information has been reported. The IMAGINE School did not submit an audit of its operation, thus no financial information has been reported for this entity.

Complete financial statements of the individual component units can be obtained from their administrative offices, except for those previously identified that closed operations during the year or those whose charters were terminated. The thirty-four component unit charter schools in operation at fiscal year end are listed below:

Academy for International Studies
717 Prosperity Farms Road
North Palm Beach, Florida 33408

Academy for Positive Learning
128 North C. Street
Lake Worth, Florida 33460

Believers Academy
5840 Corporate Way, Suite 100
West Palm Beach, Florida 33407

Boca Raton Charter
414 NW 35th Street
Boca Raton, Florida 33431

Bright Futures International
757 Lighthouse Drive
North Palm Beach, Florida 33408

Chancellor Charter School of Lantana
600 South East Coast Avenue
Lantana, Florida 33462

Charter School of Boynton Beach
7887 North Federal Highway
Boca Raton, Florida 33487

DayStar Academy of Excellence
970 North Seacrest Boulevard
Boynton Beach, Florida 33435

Delray Youth Vocational Charter School
601 North Congress Avenue, Unit 110
Delray Beach, Florida 33445

Ed Venture Charter School
117 East Coast Avenue
Hypoluxo, Florida 33462

Everglades Preparatory Academy
183 South Lake Avenue
Pahokee, Florida 33476

G-STAR School of the Arts
2065 Prairie Road, Building J
West Palm Beach, Florida 33406

Glades Academy
1200 East Main Street
Pahokee, Florida 33476

Good Schools for All Leadership
40 Northwest 4th Avenue
Delray Beach, Florida 33444
(Closed 6-30-07)

Guided Path Academy
1199 West Lantana Road, Building 3
Lantana, Florida 33462

Gulfstream Goodwill Career Academy
269 Northeast 14th Street
Boca Raton, Florida 33432
(Closed 6-30-07)

Gulfstream Goodwill L.I.F.E Academy
3800 South Congress Avenue, Suite 12
Boynton Beach, Florida 33426

Gulfstream Goodwill Transition Academy
950 North Congress Avenue
Riviera Beach, Florida 33404

Hope Learning Community of Riviera Beach
(Noah's Ark International)
21 West 22nd Street
Riviera Beach, Florida 33404

Inlet Grove Community High School, Inc.
7071 Garden Road
West Palm Beach, Florida 33404

JFK Medical Center Charter School
4696 Davis Road
Lake Worth, Florida 33461

Joseph Littles-Nguzo Saba Charter School
5829 Corporate Way, 2nd Floor
West Palm Beach, Florida 33407

Lakeside Academy Charter School
716 South Main Street
Belle Glade, Florida 33430

Leadership Academy West
2030 South Congress Avenue
West Palm Beach, Florida 33406

Life Skills Center, Palm Beach
600 North Congress Avenue, Suite 560
Delray Beach, Florida 33445

Montessori Academy of Early Enrichment
2925 10th Avenue North, Suite 108
Palm Springs, Florida 33461

Montessori Academy of Northern Palm Beach
9482 Mac Arthur Boulevard
Palm Beach Gardens, Florida 33403

Palm Beach Academy for Learning
1199 West Lantana Road, Cottage 19
Lantana, Florida 33462

Palm Beach School for Autism, Inc.
1199 West Lantana Road, Cottage #16
Lantana, Florida 33462

Renaissance Learning Center
5800 Corporate Way
West Palm Beach, Florida 33407

Riviera Beach Maritime Academy
251 West 11th Street
Riviera Beach, Florida 33404

South Tech Charter School
1300 Southwest 30th Avenue
Rivera Beach, Florida 33426

Toussaint L'Ouverture
14610-A South Military Trail
Delray Beach, Florida 33484

Western Academy Charter School
500F-K Royal Plaza Road
Royal Palm Beach, Florida 33411

Since the District is independent of and is not financially accountable for other governmental units or civic entities, these financial statements represent the operations of the District and the Corporation, as well as all of the funds of the District as a governmental unit.

Change in Reporting Entity

As a result of the cease of operations of the IMAGINE School, the District's management has excluded this Charter School, which was reported as a component unit during the prior years. As a result of this change in reporting, the net assets of the component units as a whole has been adjusted by $96,648 as follows:

Net Assets - Beginning of year, as previously reported	$	8,822,827
Adjustments for Effect of Change in Reporting Entity The IMAGINE SCHOOL		(96,648)
Net Assets - Beginning of year, adjusted	$	8,726,179

➢ Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. 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.

All of the component units are nonmajor and are aggregated and presented in a single column.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The governmental funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity and whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Net Assets for the Proprietary

Fund reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

GOVERNMENTAL FUNDS

Governmental funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial resources rather than upon determination of net income. The following are the District's major governmental funds:

- General Fund - The General Fund is the primary operating fund of the District. Ad valorem tax revenues, revenues from the Florida Education Finance Program ("FEFP") and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Similarly, general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from this fund.

- Certificates of Participation ("COPS") Debt Service Fund - The COPS Debt Service Fund accounts for the repayment of the certificates of participation.

- Capital Improvement Capital Projects Fund - The Capital Improvement Capital Projects Fund accounts for locally received funds, primarily ad valorem tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

- Certificates of Participation ("COPS") Capital Projects Fund - The COPS Capital Projects Fund accounts for construction projects and equipment purchases financed by the sale of certificates of participation.

- Sales Tax Capital Projects Fund - The Sales Tax Capital Projects Fund accounts for locally received funds, primarily sales tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

- Other Capital Projects Fund - The Other Capital Projects Fund account for impact fees and miscellaneous State revenues received for the acquisition, construction and renovation of capital facilities.

Other Governmental Funds - The Other Governmental Funds are a summarization of all the nonmajor governmental funds.

PROPRIETARY FUNDS

Proprietary funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. The only proprietary fund that the District has is an internal service fund.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 fund are charges for maintenance services. Operating expenses include the cost of the services along with payroll and related expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- Internal Service Fund – The Internal Service Fund is used to account for the financing of goods and services provided by one department to another on a cost reimbursement basis. The District's only Internal Service Fund accounts for the District's maintenance services.

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

- Agency Funds - Agency Funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

- Private Purpose Trust Fund - A trust fund was established in January 1993 and is used to account for the District supported Florida Future Educators of America. Revenues consist of employee donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "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 all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within 60 days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences and claims and judgments which are recognized when 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. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies 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 expenditures. In the other type, monies 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, monies received before the revenue recognition criteria have been met are reported as deferred revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources – Revenues from State sources for current operations are primarily from the Florida Education Finance Program ("FEFP"), administered by the Florida Department of Education ("FDOE"), under the provisions of Chapter 1011, Florida Statutes. The District files reports on full-time equivalent ("FTE") student membership with the FDOE. The FDOE accumulates information from these reports and calculates the allocation of FEFP funds to the District. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these 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. Any unused money is returned to the FDOE and so recorded in the year returned.

The District, at various times, receives authorization for the expenditure of funds for Public Education Capital Outlay ("PECO"), Classrooms First, Effort Index Grant, and Class Size Reduction Construction projects from the State of Florida. For financial reporting purposes, revenue is recognized at the time encumbrances are approved by the State.

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

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

Property Taxes – On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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.

- **Budgetary Policies**

Revenues and expenditures are controlled by budgetary systems in accordance with various legal and administrative requirements that govern the District's operations. The budget represents a process through which policy decisions are made, implemented, and controlled. The budget is adopted on a basis consistent with GAAP, except for encumbrances, and the PECO, Classrooms First, Effort Index Grant, and Class Size Reduction Construction revenues. The budgetary process includes encumbrances and the aforementioned revenues in the current year budget. The encumbrances and revenues are reported as expenditures or revenues respectively, on the budgetary basis of accounting.

Annual budgets are legally adopted for all funds except the fiduciary funds. The budget amounts for revenues and expenditures reflect all amendments to the original budget through September 6, 2006, the date of the final amendment approved by the Board. Significant dates in the budgeting timetable follow:

- The Palm Beach County Property Appraiser certifies to the District the taxable value of all nonexempt District property by July 1 of each year, or the Clerk of the Circuit Court is required to certify an interim tax roll.

- Within 24 days of tax roll certification, the Board considers and approves for advertising a tentative budget.

- Within 29 days after tax roll certification, the District advertises the tentative budget and the millage rates therein.

- A public hearing to adopt the tentative budget and proposed millage rate is held not less than two nor more than five days after the budget is advertised.

- Within 35 days of tax roll certification, the District notifies the Palm Beach County Property Appraiser of proposed millage rates.

- At a final public hearing within 80 days, but not less than 65 days, after tax roll certification, the Board adopts the District budget.

The object level is the legal level of budgetary control. Per Board policy, management is authorized to make budget amendments at function level with Board approval. All interim budget amendments between major functional areas within each fund are submitted to the Board for approval. All budget amendments that are categorized as Federal or State grants must have State approval as well as Board approval. The Board is not legally authorized to approve expenditures that exceed appropriations; therefore, during the 2006-07 fiscal year, budget amendments were approved as necessary to comply with legal requirements.

Unreserved appropriations are canceled at the end of the fiscal year. However, encumbered appropriations for funds do not lapse at the end of the fiscal year. Undesignated fund balances at June 30, 2007, for funds under budgetary control have been reappropriated for the 2007-08 fiscal year operating budget within the appropriate fund. Programs reserved for carryover include all State categorical grants required to be expended on specific programs and District approved carryover programs.

- **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts reserved for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

- **Cash, Cash Equivalents, and Investments**

The District maintains a Treasurer's pool for the District's cash and investments. Each fund's portion of the pool is presented on the financial statements. Investments are stated at fair value. Investments consist of direct obligations of the United States Treasury, U.S. Government Agency Securities, and money market funds investing in U.S. Treasury Securities. For purposes of the statement of cash flows, cash equivalents are considered to be the money market funds and all highly liquid investments with a maturity of three months or less when purchased.

- **Inventories**

Inventories are valued at cost, which approximates market, using the average cost method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method. Inventoriable items are recorded as expenditures when shipped to schools and department offices (the consumption method). The reserve for inventories at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are not available for appropriation and expenditure.

- **Capital Assets**

Capital assets represent the cumulative amount of capital assets owned by the District. Purchased assets are recorded as expenditures in the fund financial statements and are capitalized at cost on the government-wide statement of net assets. In the case of gifts or contributions, such assets are recorded at fair market value at the time received.

The District's capitalization levels are $1,000 on tangible personal property, $100,000 on building improvements and $50,000 on improvements other than buildings. Other costs incurred for repairs and maintenance are expensed as incurred. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	15 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

- **Long-Term Debt**

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net assets. Debt premiums, discounts, issuance costs, as well as deferred amounts on refundings, are deferred and amortized over the life of the debt.

- **Self-Insurance**

The District is self-insured for portions of its general and automobile liability insurance and workers' compensation. Effective January 1, 2007, the District changed from a fully insured plan to a self-insured plan, with excess stop loss coverage to protect the District against catastrophic health claims. With the adoption of the self-insurance plan, activities are accounted for in the General Fund. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (See Note 7). Consistent with GAAP guidelines, for the governmental funds, in the fund financial statements, the liability for self-insured risks is considered long-term and therefore, is not a fund liability and represents a reconciling item between the fund level and government-wide presentations. An expenditure is recognized in the governmental fund as payments come due each period.

- **Compensated Absences**

Compensated absences are payments to employees for accumulated vacation and sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused vacation and sick leave up to a specified amount depending on their date of hire. Vacation and sick leave is payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement. The costs of vacation and sick leave benefits are budgeted and expended in the respective operating funds when payments are made to employees.

The District uses the vesting method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. Consistent with GAAP guidelines, for the governmental funds, in the fund financial statements, all of the compensated absences are considered long-term and therefore, are not a fund liability, and represents a reconciling item between the fund level and government-wide presentations. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements.

- **Reserves and Designations of Fund Equity**

Portions of fund equity that have been reserved indicate the amount of fund balance that cannot be appropriated for expenditures since it is legally segregated for a specific future use. In addition, the District established a designation of fund equity for Board contingency and group health self-insurance. The Board contingency designation will ultimately accumulate up to 3 percent of the total annual General Fund appropriations and transfers.

- **Impact of New Accounting Principle**

In June 2004, the GASB issued Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Other postemployment benefits (OPEB), as well as pensions, are part of an exchange of salaries and benefits for employee services rendered. From an accrual accounting perspective, the costs of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods when the benefits are paid or provided, which can be many years later. The Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

This statement is effective for the periods beginning after December 15, 2006. The District is currently assessing the impact of GASB 45 on its financial position.

- **Accounting Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

- **Deficit Fund Balance**

The Sales Tax Capital Projects Fund has a deficit fund balance of $78,167,546 as of June 30, 2007. This deficit will be funded with future sales tax revenues.

2. AD VALOREM TAXES

The Board is authorized by Florida Statutes to levy property taxes for District operations, capital improvements and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Palm Beach County Property Appraiser assesses property values and the Palm Beach County Tax Collector collects the property taxes.

Property values are assessed as of January 1 each year. The Board levies the property tax at the final budget hearing each year based on the assessed valuation of all nonexempt property. This levy finances the expenditures of the current fiscal year. Tax bills are mailed by the Palm Beach County Tax Collector on November 1 and are due no later than March 31. After this date, taxes become an enforceable lien on property. Discounts of up to four percent are available for early payment. The majority of ad valorem taxes are collected in November and December and remitted to the School Board. Section 197.383, Florida Statutes, requires the Palm Beach County Tax Collector to distribute the taxes collected to each taxing authority at least four times during the first two months after the tax roll comes into the Tax Collector's possession, and at least once per month thereafter. Taxes are considered delinquent if not paid prior to April 1. State law provides for enforcement of collection of taxes by the sale of tax certificates on real property and for levy upon, seizure and sale of personal property after the Palm Beach County Tax Collector initiates a sequence of required procedures resulting in a court order to carry out the action.

The State Legislature prescribes the maximum nonvoted millage that may be levied by the Board for each fiscal year. The total millage rate levy was 7.872 mills and the total assessed value on which the fiscal year 2006-07 levy was based was $161,252,193,452. Gross taxes levied were $1,269,377,267. Total revenue, net of discounts, was $1,219,589,063. A portion of the taxes levied for the Local Capital Improvement Capital Project Fund, designated for repairs and maintenance programs, are transferred to the General Fund as provided by Chapter 1013, Florida Statutes. For the 2006-07 fiscal year, the maintenance transfer amounted to $43,620,950.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Florida Statutes authorize the deposit of District funds in demand deposits or time deposits of financial institutions approved by the State Treasurer and which are defined as public deposits. All District public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, the "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50 percent to 125 percent depending upon the depository's financial condition and the length of time that the depository has been established. All collateral must be deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral, and if necessary, assessment against other qualified public depositories of the same type as the depository in default. All bank balances of the District are fully insured or collateralized. At June 30, 2007, the carrying amount of the District's cash deposits in the governmental funds, exclusive of the fiduciary funds totaled $743,525,443. The carrying amount of the Agency Fund - School Internal Funds cash deposits was $16,702,731, while the amount for the Private-Purpose Trust Fund totaled $532,759.

The District receives interest on all collected balances in its cash accounts from the qualified public depository acting as its banking agent. Interest earnings are allocated to all funds based on the average daily balance of each fund’s equity in the Treasurer’s Pool.

Cash Equivalents consist of amounts invested in the State Board of Administraton (SBA) Local Government Surplus Funds Trust Fund investment pool. This investment pool operates as a Securities and Exchange Commission Rule 2a7-like external investment pool under investment guidelines established by Section 215.47, Florida Statutes. The District’s direct investment in the pool of $726,019,014 is reported at fair value. As of June 30, 2007, the Local Government Investment Pool was not rated by a nationally recognized statistical rating agency. In November 2007, the SBA put a hold on withdrawals invested with the SBA to prevent a further deterioration in the overall investment portfolio. This was based on the disclosure that the

SBA had securities collateralized by mortgage-backed securities that had the potential for significant declines in market value. See note 15 for additional details.

Investments

The District's investment policy permits investments in the SBA Local Government Surplus Funds Trust Fund, securities of the United States Government, U.S. Government Agencies, Federal instrumentalities, interest bearing time deposit or savings accounts, repurchase agreements, commercial paper, corporate notes, bankers' acceptances, State and/or local government debt, and money market mutual funds. The District's investment advisor used the effective duration method to calculate effective duration measures for the securities held by the District. Besides measuring the sensitivity of the securities market value to changes in interest rates, the effective duration method accounts for any call (early redemption) features which a security may have. As of June 30, 2007, the District had the following cash and investments and maturities:

Portfolio/Investment	Carrying Amount	Effective Duration (Years)
Repurchase Agreement	$ 474,486,056	N/A
Florida State Board of Administration		
Local Government Surplus Funds Trust Fund	725,016,449	N/A
Debt Service Accounts	1,002,565	N/A
Commercial Paper	560,995	0.320
Core Fund Investments:		
US Treasury - Notes	19,447,963	1.621
Federal Agency - Bonds/Notes	48,485,750	1.621
Federal Agency - Mortgage Pass-Throughs	5,733,054	0.593
Corporate Notes	9,916,370	1.988
Total Investments, Primary Government	$ 1,284,649,202	

Total Investments, Primary Government	Statement of Net Assets
Carrying Value of Investments	$ 1,284,649,202
Deposits	17,506,429
Total	$ 1,302,155,631
Cash and Cash Equivalents - Statement of Net Assets	$ 743,525,443
Investments - Statement of Net Assets	558,630,188
Total	$ 1,302,155,631

- **Interest Rate Risk**

  To limit exposure to fair value losses resulting from increases in interest rates, the District's Investment Policy limits operating funds to maturities of two years or less. Investments of reserves, project funds, debt proceeds, and other nonoperating funds ("Core Funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five years and the average duration of the funds as a whole may not exceed three years. The District's investments in the Federal Home Loan Bank mature between June 2008 and March 2010. The District's investments in the Federal Home Loan Mortgage Corporation mature between December 2007 and September 2009. The District's investments in the Federal National Mortgage Association mature between August 2008 and May 2011. As of June 30, 2007, the District held approximately $7.4 million in market value of callable securities issued by Federal Instrumentalities which permit the issuer to redeem the securities prior to their original maturity date. A decrease in interest rate levels could trigger calls on these securities, forcing the District to reinvest the proceeds in lower-yielding securities.

- **Credit Risk**

  Section 218.415(17), Florida Statutes, provides the authority to invest in the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool and limits investments in money market funds with the highest credit quality rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's Investment Policy lists the authorized investment types as well as the minimum allowable credit rating for each investment type. Corporate notes purchased for investment must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time or purchase, at a minimum "Aa" by Moody's Investors Service and a minimum long term debt rating of "AA" by Standard & Poor's Rating Service ("S&P"). The maximum length to maturity for corporate notes shall be three years from the date of purchase. As of June 30, 2007, the District held $9.9 million of corporate notes of which $4.2 million had an S&P rating of AAA and $5.7 million had an S&P rating of AA. All investments in the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association were rated AAA by S&P. All other rated investments were rated AAA by S&P. As of June 30, 2007, the SBA Local Government Investment Pool was not rated by a nationally recognized statistical rating agency.

- **Concentration of Credit Risk**

  The District's Investment Policy specifies the maximum percentage allocation to any single investment type as well as the maximum percentage holding per issuer. Up to 100 percent of the portfolio may be invested in the SBA Local Government Surplus Funds Trust Fund Investment Pool or securities of the United States Government. Investments in Federal Instrumentalities may be no greater than 80 percent of the portfolio with a maximum of 50 percent invested with any single issuer. Corporate notes are limited to 15 percent of the portfolio and no greater than 5 percent may be in a single issuer.

Portfolio/Investment		Carrying Amount	Percent
Flexible Repurchase Agreement:			
Societe General Repurchase Agreement	$	112,199,584	8.73%
DEPFA Repurchase Agreement		128,446,656	10.00%
Morgan Stanley Repurchase Agreement		128,446,706	10.00%
Royal Bank of Canada Repurchase Agreement		105,393,110	8.20%
Florida State Board of Administration (SBA)		726,019,014	56.52%
Commercial Paper:			
Hannover Corporation Commercial Paper		102,422	0.01%
Axon Financial LLC Commercial Paper		985	0.00%
UBS Commercial Paper		3,939	0.00%
GE Capital Corporation Commecial Paper		453,649	0.04%
Investments in Securities:			
US Treasury - Notes		19,447,963	1.51%
Bank of America		1,472,122	0.11%
Wal-mart Stores		4,232,776	0.33%
General Electric Capital Corporation		4,211,472	0.33%
Federal Farm Credit Bank		12,754,933	0.99%
Federal Home Loan Bank		12,406,253	0.97%
Federal Home Loan Mortgage Corp		11,275,319	0.88%
Federal National Mortgagae Association		17,782,299	1.38%
Total Investments, Primary Government	$	1,284,649,202	100.00%

As of June 30, 2007, all District investments were in compliance with the District's Investment Policy and did not exceed portfolio allocation or issuer maximums.

- **Custodial Risk**

The District's investment policy requires that all securities, with the exception of certificates of deposit, be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, 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 the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities are made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. As of June 30, 2007, the District's investment portfolio was held with a third-party custodian, in the District's name.

4. DUE FROM OTHER AGENCIES

At June 30, 2007, the District had a total of approximately $160 million in Due from Other Agencies. Approximately $43.1 million is due from the local tax collector; $30.8 million from Federal, State, and local governments for various grant programs; $42.3 and $16.6 million from the State for the Class Size Reduction Program and Public Education Capital Outlay, respectively; $6.6 million is due from the Federal Emergency Management Agency (FEMA) and from the State, respectively, for damages sustained by recent hurricanes; $18.4 million from the State for sales taxes; and $2.2 million from other State and local agencies for miscellaneous items. At June 30, 2007, the District does not expect to collect approximately $3.3 million within one year.

5. INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances at June 30, 2007:

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 18,000,000	$
Nonmajor Governmental		18,000,000
Total	$ 18,000,000	$ 18,000,000

The amount payable by the other governmental funds to the General Fund is to cover temporary cash shortages. A summary of interfund transfers for the year ended June 30, 2007 is as follows:

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 43,620,950	$
Capital Projects:		
Local Capital Improvement		164,160,876
Debt Service:		
COPS	120,539,926	
Total	$ 164,160,876	$ 164,160,876

Interfund transfers represent permanent transfers of money between funds. The transfers from the Capital Improvement Fund to the General Fund were for recurring annual operating expenditures and transfers to the Debt Service Fund were to provide additional resources for debt service expenditures.

6. CAPITAL ASSETS

Capital asset activity for the fiscal 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	$ 276,524,715.95	$ 28,639,818.35	$ 3,319,640.61	$ 301,844,893.69
Construction in Progress	443,461,558.20	331,707,410.14	523,055,609.79	252,113,358.55
Total Capital Assets Not Being Depreciated	719,986,274.15	360,347,228.49	526,375,250.40	553,958,252.24
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	11,921,723.02	5,484,308.92		17,406,031.94
Buildings and Fixed Equipment	2,547,162,055.26	510,726,362.86	37,309,887.73	3,020,578,530.39
Furniture, Fixtures, and Equipment	171,228,974.58	9,149,511.28	24,656,579.69	155,721,906.17
Motor Vehicles	81,127,113.01	8,033,233.90	5,815,775.99	83,344,570.92
Audio Visual Materials and Computer Software	41,260,226.86	11,808,886.77	3,787,117.03	49,281,996.60
Total Capital Assets Being Depreciated	2,852,700,092.73	545,202,303.73	71,569,360.44	3,326,333,036.02
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,168,052.14	977,591.84		3,145,643.98
Buildings and Fixed Equipment	541,435,301.58	57,516,455.03	33,255,597.82	565,696,158.79
Furniture, Fixtures, and Equipment	113,788,964.20	16,927,543.91	23,433,324.13	107,283,183.98
Motor Vehicles	44,724,499.15	7,036,221.70	5,659,439.06	46,101,281.79
Audio Visual Materials and Computer Software	15,260,233.79	7,758,283.42	2,855,218.72	20,163,298.49
Total Accumulated Depreciation	717,377,050.86	90,216,095.90	65,203,579.73	742,389,567.03
Total Capital Assets Being Depreciated, Net	2,135,323,041.87	454,986,207.83	6,365,780.71	2,583,943,468.99
Governmental Activities Capital Assets, Net	$ 2,855,309,316.02	$ 815,333,436.32	$ 532,741,031.11	$ 3,137,901,721.23

Depreciation expense for the year ended June 30, 2007 of $90,216,096 was not allocated to specific functions. The District's capital assets serve all functions and as such the depreciation expense is reported separately in the statement of activities.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; administrative errors and omissions; injuries to employees, students and guests; as well as natural disasters. The District is self-insured for errors and omissions and workers' compensation losses. As of January 1, 2007, the District is also self-insured for employee health insurance. Losses involving auto and general liability claims are limited (generally) by provisions of Section 768.28, Florida Statutes. These self-insured funds are administered by a third party. The District purchases commercial insurance for certain risks in excess of coverage and certain other risks of loss.

The employee health insurance claims liability is based on an analysis performed by management, which is based on historical trends. The remaining claims liability is based on an actuarial evaluation performed by an independent actuary as of June 30, 2007, using a discounted rate factor of 5 percent. The liability consists of claims reported and payable, as well as an estimate for claims incurred but not reported. At June 30, 2007, the liability for insurance claims consisted of $20,148,000, $6,871,000 and $35,310,000 for employee health, auto and general liability and workers' compensation, respectively. An additional amount of $1,269,474 was accrued for a legal settlement.

A summary of changes in the estimated liability for self-insured risks is as follows

	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Beginning Balance	$ 43,355,000	$ 40,403,000
Additions:		
Current claims and changes in estimates	98,162,373	20,374,006
Reductions:		
Claim Payments	(77,918,899)	(17,422,006)
Ending Balance	$ 63,598,474	$ 43,355,000

The District maintains insurance coverage for other areas of risk. Other than the changes relating to group health insurance discussed above, there have been no other significant reductions in insurance coverage. There have been no settlements that exceeded the District's coverage for fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007.

8. NOTES PAYABLE

Tax Anticipation Notes:

On October 4, 2006, the District issued Tax Anticipation Notes ("TANS"), Series 2006. This $85,000,000 issue was sold at a coupon interest rate of 4.0 percent with an effective yield of 3.51 percent. Interest costs incurred on this issue for the year ended June 30, 2007, were $2,219,773.79 net of a premium of $292,448.43. Note proceeds were used to pay District operating expenditures prior to the receipt of ad valorem taxes in the 2006-07 fiscal year. TANS are subject to arbitrage rebate. There was no arbitrage rebate due on the TANS, Series 2006. The notes are due September 25, 2007.

Short-term debt activity for the year ended June 30, 2007 was as follows:

	Beginning Balance July 1, 2006	Issued	Redeemed	Ending Balance June 30, 2007
Tax Anticipation Notes	$ 55,000,000	$ 85,000,000	$ 55,000,000	$ 85,000,000

Sales Tax Revenue Commercial Paper Notes:

The District has established a commercial paper debt program whereby Sales Tax Revenue Commercial Paper Notes issued are payable from and secured by a pledge of the proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. On November 2, 2004, the voters of Palm Beach County approved the levy of a one-half cent sales surtax for the construction and modernization of public schools. Collection of the tax began on January 1, 2005, and the collection will cease on December 31, 2010.

The School Board has authorized the issuance of commercial paper notes in an aggregate amount not to exceed $300,000,000. As of June 30, 2007, a total of $250,000,000 had been issued.

January 12, 2005	School Board Authorized	$ 300,000,000
January 21, 2005	Offering Statement	$ 275,540,000
June 30, 2007	Outstanding Notes	$ 250,000,000

The purpose of the Notes is to finance, together with other available funds of the District, the cost of acquisition; construction and installation of, and renovations to, certain capital improvements and educational facilities within the District; and to pay costs associated with the issuance of the notes.

The District's commercial paper debt program is administered as follows: The Notes mature within 270 days of issuance, with interest payable at maturity based on market rates not to exceed 12 percent. The Notes are not subject to redemption prior to maturity. As each group of notes comes due, new notes are issued to refinance the principal amount and current revenues of the District are used to pay the interest amount due. In addition, through January 15, 2011, the District will maintain an irrevocable, direct-pay letter of credit with a bank to facilitate the refinancing of outstanding notes. The District's intent is continue to refinance maturing notes until such time as the notes are retired through the use of future years' revenues or through issuance of long-term debt. Outstanding obligations under this program are reported as short-term liabilities in the government-wide statement of net assets.

9. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007, is as follows:

Description	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Leases Payable:					
Capital Outlay Bond Issue	$ 42,380,000.00	$	$ 3,800,000.00	$ 38,580,000.00	$ 2,775,000.00
General Obligation Bonds	54,275,000.00		26,510,000.00	27,765,000.00	27,765,000.00
Certificates of Participation	1,565,373,634.00	610,740,000.00	275,060,000.00	1,901,053,634.00	45,245,000.00
	1,662,028,634.00	610,740,000.00	305,370,000.00	1,967,398,634.00	75,785,000.00
Plus Issuance Premium	50,854,207.92	17,856,769.00	8,982,797.09	59,728,179.83	
Less Deferred Amount on Refundings	(23,068,943.85)	(8,556,725.86)	(2,201,049.44)	(29,424,620.27)	
Total Bonds and Leases Payable	1,689,813,898.07	620,040,043.14	312,151,747.65	1,997,702,193.56	75,785,000.00
Other Liabilities:					
Compensated Absences Payable	153,087,997.70	20,805,662.43	11,803,611.67	162,090,048.46	12,875,096.02
Estimated Insurance Claims Payable	43,355,000.00	98,162,373.50	77,918,899.00	63,598,474.50	31,617,474.50
Post Retirement Benefits Payable	1,309,966.00		344,495.70	965,470.30	329,055.18
Total Other Liabilities	197,752,963.70	118,968,035.93	90,067,006.37	226,653,993.26	44,821,625.70
Total Governmental Activities	$1,887,566,861.77	$ 739,008,079.07	$ 402,218,754.02	$2,224,356,186.82	$ 120,606,625.70

The compensated absences, insurance claims and postretirement benefits are generally liquidated with resources of the General Fund.

State Board of Education Capital Outlay Bond Issues

State Board of Education Capital Outlay Bond Issues ("COBI") are serviced entirely by the State using a portion of the District's share of revenue derived from motor vehicle license taxes pursuant to Chapter 320, Florida Statutes, and Article XII, Section 9(d), of the Florida Constitution. The State Board of Administration determines the annual sinking fund requirements. The amounts necessary to retire bonds and interest payable are withheld from the entitlement to the District. Interest rates on the COBI bonds range from 3.0 percent to 6.0 percent. Interest is payable semiannually on January 1 and July 1. The bonds are redeemable at par.

General Obligation Bond Issues

General Obligation Bonds constitute general obligations of the District and are payable from ad valorem taxes levied on all taxable property within the District without limitation as to rate or amount. These bonds carry interest rates ranging from 3.5 - 5.0 percent. Interest is payable semiannually on February 1 and

August 1. All bonds issued are subject to arbitrage rebate, however, at June 30, 2007, the District has no arbitrage liability.

Annual Debt Service Requirements

Annual requirements to amortize all bond issues outstanding as of June 30, 2007 are as follows:

Fiscal Year Ending June 30	Principal Capital Outlay Bonds	Principal General Obligation Bonds	Total Interest	Total Prinicpal and Interest
2008	$ 2,775,000.00	$27,765,000.00	$ 2,522,140.00	$ 33,062,140.00
2009	2,970,000.00		1,704,558.75	4,674,558.75
2010	3,175,000.00		1,570,777.50	4,745,777.50
2011	3,405,000.00		1,415,183.70	4,820,183.70
2012	3,655,000.00		1,248,340.00	4,903,340.00
2013-2017	17,425,000.00		3,444,225.00	20,869,225.00
2018-2022	4,570,000.00		702,125.00	5,272,125.00
2023	605,000.00		25,712.50	630,712.50
Total	$ 38,580,000.00	$27,765,000.00	$12,633,062.45	$ 78,978,062.45

Certificates of Participation

On November 16, 1994, the District entered into a Master Lease Purchase Agreement (the "Master Lease") dated November 1, 1994, with the Palm Beach School Board Leasing Corporation, a Florida not-for-profit corporation, to finance the acquisition and construction of certain facilities, and equipment for District operations. The Corporation was formed by the Board solely for the purpose of acting as the lessor for certificates of participation financed facilities, with the District as lessee. On November 1, 1994; June 1, 1995; May 1, 1996, February 1, 2000, April 1, 2001, February 1, 2002, March 21, 2002, May 15, 2002, December 10, 2002, June 10, 2003, June 24, 2003, April 8, 2004, May 26, 2005, May 25, 2006, February 8, 2007, and March 12, 2007, the Corporation issued Certificates of Participation ("Certificates") Series 1994A, Series 1995A, Series 1996A, Series 2000A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, Series 2007A and Series 2007B in the amounts of $62,095,000, $133,600,000, $32,155,000, $155,000,000, $135,500,000, $115,250,000, $115,350,000, $161,090,000, $191,215,000, $60,865,000, $124,295,000, $103,575,000, $38,505,000, $222,015,000, $268,545,000, and $119,400,000, respectively, to third parties, evidencing undivided proportionate interest in basic lease payments to be made by the District, as lessee, pursuant to the Master Lease. Simultaneously therewith, the Board as lessor entered into Ground Leases with the Corporation for the Series 1994A, Series 1995A, Series 1996A, Series 2000A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, Series 2007A, and Series 2007B Facilities sites. On September 1, 1997, the District issued $47,145,000 of Certificates of Participation Series 1997A to advance refund and defease a portion of the Series 1994A Certificates of Participation which mature on or after August 1, 2005. On July 24, 2001, the District issued $169,445,000 of Certificates of Participation, Series 2001B, to advance refund and defease the Series 2000A Certificates of Participation. In addition, on September 5, 2002, the District issued $93,350,000 of Certificates of Participation, Series 2002E, to advance refund and defease a portion of the Series 1995A and Series 1996A Certificates of Participation which mature on or after August 1, 2007. On February 25, 2005, the District issued $124,630,000 of Certificates of Participation, Series 2005A, to advance refund and defease a portion of the Series 2001A, Series 2002A, Series 2002C and Series 2002D Certificates of Participation. On February 28, 2007, the District issued $192,310,000 of Certificates of Participation, Series 2007C, to advance refund and defease a portion of the Series 2001A and Series 2002C, Certificates of Participation. On April 11, 2007, the District issued $30,485,000 of Certificates of Participation, Series 2007D, to advance refund and defease a portion of the Series 1997A Certificates of Participation which mature on or after August 1, 2009. These refunding issues were done in order to achieve debt service savings. (See Defeased Debt.)

On June 11, 2002, April 30, 2004, and December 15, 2005, the District sold Certificates of Participation, Series 2002, Series 2004, and Series 2005 Qualified Zone Academy Bonds ("QZAB") in an aggregate principal amount of $950,000, $2,923,326 and $2,150,308, respectively. The QZAB program is a financial instrument that provides a different form of subsidy from traditional tax-exempt bonds. Interest on QZAB's is paid by the Federal government in the form of an annual tax credit to an eligible financial institution that holds the QZAB. The QZAB issuer is responsible for repayment upon maturity. The tax credits and bonding authority are made available by the Federal government to support innovative school partnerships; enhance reform initiatives, including augmenting Federal education programs, technology and vocational equipment; and development of curriculum or better teacher training to promote market driven technology. To be eligible, a school must:

- Be located in an Empowerment Zone or an Enterprise Community or have 35 percent or more of its students eligible for free or reduced lunch under the National School Lunch Act.
- Obtain cash and/or in-kind contribution agreements from partnerships equal to at least 10 percent of the gross proceeds of the QZAB.

The principal of the Series 2002, Series 2004, and Series 2005 QZAB certificates are payable on July 16, 2016, April 30, 2020, and December 15, 2020, respectively. The District deposits funds annually in an escrow account, which when coupled with interest earnings will be sufficient to pay off the principal at maturity.

The Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable annually unless terminated, in accordance with the provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases. The remedies on default or upon an event of nonappropriation include the surrender of the Series 1994A, Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, Series 2007A and 2007B Facilities by the District and the Trustee's re-letting for the remaining Ground Lease term, or the voluntary sale of the Series 1994A, Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, 2007A and 2007B Facilities by the School Board. In either case, the proceeds will be applied against the School Board's obligations under the Master Lease. A summary of lease terms are presented as follows:

Certificates	Ground Lease Term
Series 1994A	June 30, 2020
Series 1995A	June 30, 2020
Series 1996A	August 1, 2021
Series 2001A	August 1, 2031
Series 2002A	August 1, 2023
Series 2002B	August 1, 2032
Series 2002C	August 1, 2032
Series 2002D	August 1, 2033
Series 2003A	August 1, 2026
Series 2003B	August 1, 2034
Series 2004A	August 1, 2034
Series 2005B	August 1, 2015
Series 2006A	August 1, 2036
Series 2007A	August 1, 2036
Series 2007B	August 1, 2030

The District properties included in the ground lease under this arrangement include the land on which projects are to be constructed. These projects are as follows:

Certificates	Description of Properties
Series 1994A	Two new elementary schools, two new middle schools, and one learning center.
Series 1995A	Five new elementary schools, one replacement elementary school, one new middle school, and one new high school.
Series 1996A	Two new middle schools.
Series 2001A	Eight new elementary schools, two school replacements, one classroom addition.
Series 2002A	One high school, one bus compound, and one school remodel.
Series 2002B	Five school modernizations and two new middle schools.
Series 2002C	Two new elementary schools, one new high school, two school modernizations, and one school addition.
Series 2002D	Three new middle schools and five school modernizations.
Series 2003A	One new high school.
Series 2003B	One replacement school, one school modernization, and one new middle school.
Series 2004A	Two school additions and three school modernizations.
Series 2005B	One school modernization and alternate education facility.
Series 2006A	Three school modernizations and two new elementary schools.
Series 2007A	Four school modernizations.
Series 2007B	One new elementary school, three school additions, and two school modernizations.

The Certificates are not separate legal obligations of the Board but represent undivided proportionate interests in lease payments to be made from appropriated funds budgeted annually by the School Board for such purpose from current or other funds authorized by law and regulations of the Department of Education, including the local optional millage levy. However, neither the Board, the District, the State of Florida, nor any political subdivision thereof are obligated to pay, except from Board appropriated funds, any sums due under the Master Lease from any source of taxation. The full faith and credit of the Board and the District are not pledged for payment of such sums due under the Master Lease, and such sums do not constitute an indebtedness of the Board or the District within the meaning of any constitutional or statutory provision or limitation. A trust fund was established with a Trustee to facilitate payments in accordance with the Master Lease and the Trust Agreement. Various accounts are maintained by the Trustee in accordance with the trust indenture. Interest earned on invested funds is applied toward the basic lease payments. Basic lease payments are deposited with the Trustee semiannually on June 30 and December 30, and are payable to Certificate holders on August 1 and February 1.

Due to the economic substance of the issuances of Certificates of Participation as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to Certificate holders. Payment of the outstanding Certificates of Participation is insured through AMBAC Indemnity Corporation. During the year ended June 30, 2007, approximately $181,586,000 was expended for capital outlay in the Certificates of Participation Capital Projects Funds.

Floating-to-Fixed Cancelable Interest Rate Swap: In connection with the issuance on March 21, 2002, of the $115,350,000 variable-rate Certificates of Participation, Series 2002B, the District entered into a floating-to-fixed cancelable interest rate swap, effective through August 1, 2027, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into 25-year synthetic fixed rate debt obligations with a coupon of 4.22 percent. In exchange for an upfront premium payment of $6,142,000 received by the District, the swap counterparty has the right to cancel the swap on any date on or after February 1, 2007. In the event the swap is terminated, the District will be exposed to potentially higher interest rate payments on the Certificates. In exchange for an additional reduction in the fixed rate paid by the District on the swap, the counterparty has the right to pay a lower Alternate Floating Rate equal to 67 percent of one month London Interbank Offering Rate ("LIBOR"). The counterparty can pay this lower alternate rate if the 180-day average of the Bond Market Association ("BMA")/LIBOR ratio exceeds 67 percent. The most likely cause of an increase in the tax-exempt/taxable yield relationship would be legislation reducing the tax advantage of municipal debt, i.e., a tax cut. The Certificates and swap together create low cost, long-term synthetic fixed-rate debt for the District. At June 30, 2007, the swap had a negative fair value of $8,296,961 based on mid-market values as of the close of business.

$100 Million Fixed Margin Basis: On June 10, 2003, the District entered into a 25.5 year floating-to-floating interest rate swap in connection with the issuance of $191,215,000 of fixed-rate Certificates of Participation, Series 2002D. The swap notional principal amortizes to match the final $100 million of maturing principal of the underlying Certificates. The swap creates economics similar to a 67 percent of LIBOR synthetic fixed-rate financing, i.e. variable-rate bonds plus floating-to-fixed rate swap, without the District having to actually issue the underlying variable-rate bonds. Under the basis swap, in exchange for receiving a below-market percentage of LIBOR, the District pays a variable rate equal to the BMA index less a fixed margin of 66.5 basis points. Since the District both receives and pays a variable rate under the basis swap, the transaction is interest rate neutral, all else equal. However, the District does bear risk of a future reduction or elimination in the benefit of the tax exemption for municipal debt. For example, a tax cut would likely increase the variable rate paid by the District under the swap and reduce or eliminate (in a worst case scenario) the swap's expected positive cashflow and present value savings.

However, the risk of radical tax reform that would severely reduce or eliminate the swap's savings is deemed to be relatively low. At June 30, 2007, the swap had a fair value of $3,883,559 based on mid-market values as of the close of business.

Floating-to-Fixed Knockout Interest Rate Swap: In connection with the issuance on June 24, 2003, of $124,295,000 of variable rate Certificates of Participation, Series 2003B, the District entered into a floating-to-fixed knockout interest rate swap, effective through August 1, 2029, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into a synthetic fixed rate debt obligation with a coupon of 3.91 percent. In exchange for an upfront premium payment of $3,010,000 received by the District, the swap counterparty has the right to terminate "knockout" the swap if the 180 day average of the BMA index exceeds 7.0 percent in the future. In the event the swap is terminated, the District will be exposed to higher interest rate payments on the Certificates. The knockout feature is exercisable anytime until August 1, 2018. Once the knockout option expires the District will be left with a fixed-payer swap that matures on August 1, 2029. The Certificates and knockout swap together create low cost, long-term synthetic fixed-rate debt for the District. At June 30, 2007, the swap had a negative fair value of $49,994 based on mid-market values as of the close of business.

Floating-to-Fixed Interest Rate Swap: In connection with the issuance of $116,550,000, of variable-rate bonds to refund outstanding Certificates of Participation, Series 2002D, and $162,980,000 of variable-rate bonds to refund outstanding Certificates of Participation, Series 2001B, on August 10 and August 16, 2005, respectively, the District sold two options (the "Swaptions") on floating-to-fixed BMA interest rate swaps to Citibank, NA. The upfront gross premium amounts for the sale of the 2002D and 2001B swaptions were $4,240,000 and $6,250,000, respectively. The Swaption sales allowed the District to achieve a *synthetic forward refunding* of the Certificates to lock in savings based on current market conditions. Under United States tax law, the 2002D and 2001B Certificates were not eligible for a traditional current refunding until May 1, 2012, and May 1, 2011, respectively. The terms of the Swaptions were structured to mirror the terms on the optional redemption features on the 2002D and 2001B Certificates. At June 30, 2007, the swap had a negative fair value of $11,708,701 based on mid-market values as of the close of business.

$100 Million Constant Maturity Swap: In connection with the outstanding Certificates of Participation, Series 2002D, the District entered into a forward-starting floating-to-floating or basis swap on September 13, 2006. The transaction consists of a $100 million constant maturity swap effective June 30, 2007, whereby the District pays 67 percent of 1-month LIBOR in exchange for receiving 59.93 percent of the 10-year Constant Maturity Swap rate. Since the District funds capital projects with long-term traditional or synthetic fixed-rate debt, but is constrained to investing short-term for liquidation reason, it is common to incur "negative carry" (cost of borrowing exceeds the investment rate). It was determined this imbalance could be mitigated and by the application of the transaction to the Certificates, reduce debt service on the Certificates through the execution of the Basis Swap. Under the Basis Swap, the District receives a long-term rate (10-year LIBOR swap rate) that is "artificially" reset at an unnatural frequency, i.e., monthly. In exchange for this benefit, the District is subject to yield curve risk. If the yield curve remains flat or inverts (short-term rates exceed long-term rates), the District could incur negative cash flow on the Basis Swap. In addition, the District bears termination payment and counterparty credit risk. At June 30, 2007, the swap had a negative fair value of $1,632,788 based on mid-market values as of the close of business.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2008	$ 128,798,524.81	$ 45,245,000.00	$ 83,553,524.81
2009	140,006,973.77	55,735,000.00	84,271,973.77
2010	139,976,059.58	57,995,000.00	81,981,059.58
2011	139,889,788.94	60,205,000.00	79,684,788.94
2012	131,288,300.81	53,955,000.00	77,333,300.81
2013-2017	654,100,992.39	308,265,000.00	345,835,992.39
2018-2022	656,301,192.59	394,953,634.00	261,347,558.59
2023-2027	650,038,050.60	491,230,000.00	158,808,050.60
2028-2031	473,845,707.25	433,470,000.00	40,375,707.25
Total Minimum Lease Payments	3,114,245,590.74	1,901,053,634.00	1,213,191,956.74
Plus: Unamortized Net Premiums		57,933,432.37	
Less: Deferred Amount on Refundings		(28,311,511.34)	
Total	$ 3,114,245,590.74	$ 1,930,675,555.03	$ 1,213,191,956.74

Defeased Debt

On February 28, 2007, the District issued Certificates of Participation, Series 2007C, in the amount of $192,310,000 with interest rates ranging from 4.0 percent to 5.0 percent to advance refund certificate payments with interest rates ranging from 4.375 percent to 5.5 percent and a total par value of $186,400,000. The Series 2007C Certificates final maturity is August 1, 2027. The Certificates were issued at a premium of $3,571,038 and, after paying issuance costs of $1,828,839, the net proceeds were $194,052,199. The net proceeds were used to purchase State and Local Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the certificates are called. The advanced refunding meets the requirements of an in-substance defeasance and the liability for the refunded certificates was removed from the District's financial statements in the 2006-07 fiscal year. As a result of this advance refunding, the District reduced it total debt service requirements by $11,666,300, which resulted in an economic gain (the difference between the present value of the debt service payments of the old and new debt) of $7,919,232.

On April 11, 2007, the District issued Certificates of Participation, Series 2007D, in the amount of $30,485,000 with interest rates ranging from 4.0 to 5.0 percent to advance refund certificate payments with interest rates ranging from 4.80 percent to 5.25 percent and a total par value of $30,940,000. The Series 2007D Certificates final maturity is August 1, 2015. The Certificates were issued at a premium of $1,497,858 and, after paying issuance costs of $339,481, the net proceeds were $31,643,377. The net proceeds were used to purchase State and Local Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the certificates are called. The advanced refunding meets the requirements of an in-substance defeasance and the liability for the refunded certificates was removed from the District's financial statements in the 2006-07 fiscal year. As a result of this advance refunding, the District reduced it total debt service requirements by $1,418,515, which resulted in an economic gain (the difference between the present value of the debt service payments of the old and new debt) of $1,257,007.

In a prior year, the District advance refunded certain certificates of participation, part of which met the requirements of an in-substance debt defeasance on August 1, 2006. At that time, the District made a principal reduction payment of $20,115,000 and a call premium payment of $201,150, both which are recorded in the fund level financial statements as a payment to escrow agent. As a result of the advanced refunding, the District reduced its total debt service requirement by $5,114,684, which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $3,753,554. This was the last remaining amount of refunded debt to be defeased and the liability for the refunded certificates has been completely removed from the District's financial statements.

In prior years, the District defeased certain certificates of participation by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements. As of June 30, 2007, the total amount of defeased debt outstanding, but removed from the District's financial statements, amounted to $495,365,000.

10. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	$117,001,784.00
Categorical Educational Programs:	
Class Size Reduction/Operating Funds	140,417,239.00
Pupil Transportation	29,894,604.00
Instructional Materials	16,499,623.00
School Recognition Funds	10,742,052.00
Other	9,321,044.45
Workforce Development Program	16,554,192.00
Discretionary Lottery Funds	7,072,291.00
Capital Outlay and Debt Service Withheld for SBE Bonds	5,686,872.18
Charter School Capital Outlay	2,908,650.00
Adults with Disabilities	1,508,606.00
Food Service Supplement	853,275.98
Motor Vehicle License Tax (Capital Outlay and Debt Service)	314,606.39
Miscellaneous	3,392,413.74
Total	$362,167,253.74

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

11. 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
Florida Retirement System, Special Risk	0.00	20.92
Teachers' Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon the retirement class 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 \$61,439,951, \$69,793,917, and \$83,001,912, 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, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 2,138 District participants in PEORP during the 2006-07 fiscal year. Required employer contributions made to the program in the 2006-07 fiscal year totaled $8,123,279.

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

12. OTHER POSTEMPLOYMENT BENEFITS

In addition to the retirement benefits described in Note 11, pursuant to Section 112.0801, Florida Statutes, the District has authorized early retirement incentives to provide financial assistance for the purchase of health and life insurance to our retirees. In all cases, employees who retire from the District may purchase health and life insurance through the District. The newly retired employee must send a payment each month to cover the cost of the insurance premiums.

For those eligible employees who qualify for the Retirement Incentive Program ("RIP"), below is brief description and eligibility criteria of the Plan:

RIP 1999 – Eligibility criteria include the following:

- 30 years of service with the Palm Beach County School District or
- Age 62 or higher (60 or higher if in the Teachers Retirement System) with at least 10 years of service with the Palm Beach County School District or
- Employees whose age plus years of service equal or exceed 80 and
- Employees must retire between April 21, 1999, and June 30, 2000.

The District pays an annual insurance subsidy for up to ten years beginning at $2,400 and increasing 3 percent each year thereafter. Payments for this subsidy began August 1999 and are paid each August thereafter.

The government-wide financial statements recognize a liability for these post-retirement benefits. Consistent with GAAP guidelines, in the governmental funds statements no expenditure or liability is recognized until the benefits are due. A summary of the total liability and related expenditure as recorded in the governmental-wide statements for the fiscal year ended June 30, 2007 is as follows:

	Number of Participants	Beginning Balance June 30, 2007	Total Paid FY 2007	Ending Balance June 30, 2007
RIP 99	111	$ 1,309,966	$ 344,496	$ 965,470

13. CONSTRUCTION CONTRACT COMMITMENTS

As part of its capital outlay program, the District has entered into various construction contracts. At June 30, 2007, the District had construction commitments of approximately $206 million. The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Allamanda Elementary:			
Architect	$ 1,122,000.00	$ 728,587.01	$ 393,412.99
Berkshire Elementary:			
Architect	1,218,900.00	1,123,406.22	95,493.78
Contractor	22,661,032.00	17,436,883.34	5,224,148.66
Boynton Beach Academy High:			
Architect	437,447.00	324,458.43	112,988.57
Contractor	8,891,164.00	1,437,370.27	7,453,793.73
C. O. Taylor/Kirklane Elementary:			
Architect	1,692,250.00	882,086.59	810,163.41
Forest Park Elementary:			
Architect	1,119,000.00	746,253.50	372,746.50
Contractor	2,727,664.00	200,406.00	2,527,258.00
Hagen Road Elementary:			
Architect	1,135,500.00	728,600.00	406,900.00
Contractor	1,415,922.00	1,084,897.50	331,024.50
Palm Beach Gardens High:			
Architect	3,400,445.00	2,559,897.93	840,547.07
Contractor	86,134,522.00	8,941,373.71	77,193,148.29
Rolling Green Elementary:			
Architect	1,114,000.00	877,800.03	236,199.97
Contractor	21,328,065.00	15,521,668.65	5,806,396.35
Summit/Jog Area Elementary 03-Y:			
Architect	1,797,700.00	1,244,967.85	552,732.15
Contractor	6,224,361.00	352,345.77	5,872,015.23
Westward Elementary:			
Architect	1,210,144.00	817,504.30	392,639.70
Contractor	987,014.00	595,552.69	391,461.31
Total	$ 164,617,130.00	$ 55,604,059.79	$ 109,013,070.21

14. COMMITMENTS AND CONTINGENCIES

The District receives funding from the State that is based, in part, on a computation of the number of full time equivalent ("FTE") students enrolled in different types of instructional programs. The accuracy of data compiled by individual schools supporting the FTE count is subject to State audit and, if found to be in error, could result in refunds or in decreases in future funding allocations. It is the opinion of management that the amount of revenue which may be remitted back to the State due to errors in the FTE count, if any, will not be material to the financial position of the District.

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District.

The District is involved in various lawsuits arising in the ordinary course of operations. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after given consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with legal counsel, the final settlements of these matters will not result in a material adverse effect on the financial position of the District.

The District has entered into an agreement with Florida Atlantic University (FAU) to construct a building for FAU on land belonging to FAU at an estimated cost of $2.4 million. In exchange, the District will receive a 75-year ground lease on an adjacent piece of property on which the District will construct and occupy a new school. Construction is scheduled for the 2007-08 fiscal year.

The District has entered into a voice system purchase agreement that expires in 2008. The agreement requires that the District purchase $6,474,602 of equipment. As of June 30, 2007, the District has a remaining commitment $2,775,350 under the terms of this agreement.

15. SUBSEQUENT EVENTS

On September 25, 2007, $85,000,000 of Tax Anticipation Notes Series 2006 were paid. (See Note 8)

On September 26, 2007 the District issued Tax Anticipation Notes ("TANS") Series 2007. This $115,000,000 issue was sold at a coupon rate of 4.0 percent with an effective yield of 3.43 percent. The notes are dated September 26, 2007, and are due September 24, 2008.

On October 18, 2007, the Palm Beach School Board Leasing Corporation issued Certificates of Participation, Series 2007E, in the amount of $147,390,000. Simultaneously therewith, the Board as lessor entered into Ground Leases with the Corporation for Series 2007E.

At June 30, 2007, the District had $725,016,449, invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the District and the State Board of Administration. The District had $10,096 invested in the Pool as of March 24, 2008.

EXHIBIT - M
PALM BEACH 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	$ 667,000.00	$ 622,255.34	$ 622,255.34	$
Federal Through State	2,400,000.00	138,024.94	138,024.93	(0.01)
State	373,462,122.66	353,121,150.69	353,121,150.53	(0.16)
Local	927,533,824.02	945,367,667.40	945,367,667.39	(0.01)
Total Revenues	1,304,062,946.68	1,299,249,098.37	1,299,249,098.19	(0.18)
Expenditures				
Current - Education:				
Instruction	910,130,186.55	881,314,050.19	848,844,095.28	32,469,954.91
Pupil Personnel Services	43,441,607.59	43,769,976.62	41,217,576.62	2,552,400.00
Instructional Media Services	18,131,481.64	18,956,123.81	17,344,511.36	1,611,612.45
Instruction and Curriculum Development Services	31,616,680.52	32,834,983.25	32,187,342.06	647,641.19
Instructional Staff Training Services	15,253,287.95	15,499,548.71	11,941,283.86	3,558,264.85
Instructional Related Technology	5,324,571.00	5,424,797.14	4,897,629.46	527,167.68
Board of Education	5,441,308.89	5,670,617.07	4,946,107.96	724,509.11
General Administration	7,350,831.83	7,498,797.55	6,882,908.67	615,888.88
School Administration	97,545,399.86	99,936,556.88	93,678,148.13	6,258,408.75
Facilities Acquisition and Construction	545,495.00	649,940.80	469,152.50	180,788.30
Fiscal Services	4,712,163.74	5,128,966.83	4,781,818.43	347,148.40
Central Services	14,542,115.07	15,103,766.40	14,030,186.99	1,073,579.41
Pupil Transportation Services	44,144,810.80	48,080,843.53	44,411,888.80	3,668,954.73
Operation of Plant	133,547,906.47	137,077,663.65	130,001,500.00	7,076,163.65
Maintenance of Plant	43,830,603.47	44,209,010.17	42,412,568.94	1,796,441.23
Administrative Technology Services	5,755,116.78	5,714,457.83	5,110,535.44	603,922.39
Community Services	23,172,941.64	31,060,656.78	25,058,258.21	6,002,398.57
Fixed Capital Outlay:				
Other Capital Outlay		1,040,689.05	1,040,689.05	
Debt Service:				
Interest and Fiscal Charges	1,662,287.00	2,615,931.55	2,615,931.55	
Total Expenditures	1,406,148,795.80	1,401,587,377.81	1,331,872,133.31	69,715,244.50
Excess (Deficiency) of Revenues Over Expenditures	(102,085,849.12)	(102,338,279.44)	(32,623,035.12)	69,715,244.32
Other Financing Sources (Uses)				
Transfers In	42,300,000.00	43,620,950.00	43,620,950.00	
Insurance Loss Recoveries		3,771,724.32	3,771,724.32	
Transfers Out		(79,410.00)		79,410.00
Total Other Financing Sources (Uses)	42,300,000.00	47,313,264.32	47,392,674.32	79,410.00
Net Change in Fund Balances	(59,785,849.12)	(55,025,015.12)	14,769,639.20	69,794,654.32
Fund Balances, July 1, 2006	99,185,849.12	96,805,432.12	96,805,432.25	0.13
Fund Balances, June 30, 2007	$ 39,400,000.00	$ 41,780,417.00	$ 111,575,071.45	$ 69,794,654.45

FEDERAL REPORTS AND SCHEDULES

AUDITOR GENERAL
STATE OF FLORIDA

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

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

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

Internal Control Over Financial Reporting

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

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1, 2, and 3, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Also, 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 25, 2008

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 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.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed 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 and 2.

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.

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 2 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. We did not consider any of the deficiencies described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD*** to be material weaknesses.

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 25, 2008

PALM BEACH 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)
United States Department of Agriculture:			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Food Donation	10.550(2)	None	$ 2,126,097.70
Florida Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	6,181,459.12
National School Lunch Program	10.555	300	23,143,766.49
Total Child Nutrition Cluster			29,325,225.61
Total United States Department of Agriculture			31,451,323.31
United States Department of Justice:			
Direct:			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	N/A	293,090.41
Public Safety Partnership and Community Policing Grants	16.710	N/A	1,091,337.57
Total United States Department of Justice			1,384,427.98
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	10,921.56
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	1,321,009.81
Fund for the Improvement of Education	84.215	N/A	1,058,686.84
Twenty-First Century Community Learning Centers	84.287	N/A	715,094.21
Total Direct			3,105,712.42
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027	262, 263	33,463,000.38
Special Education - Preschool Grants	84.173	267	1,099,310.83
Total Special Education Cluster			34,562,311.21
Adult Education - State Grant Program	84.002	191	1,107,933.85
Title I Grants to Local Educational Agencies	84.010	212,222,223,226,228	35,450,409.91
Migrant Education - State Grant Program	84.011	217	2,231,738.80
Vocational Education - Basic Grants to States	84.048	151	1,494,479.72
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	801,022.56
Education for Homeless Children and Youth	84.196	127	144,389.15
Tech-Prep Education	84.243	157	198,765.90
Charter Schools	84.282	298	1,865,366.91
State Grants for Innovative Programs	84.298	113	450,041.56
Education Technology State Grants	84.318	121	473,301.30
Comprehensive School Reform Demonstration	84.332	128	267,462.13
Reading First State Grants	84.357	211	3,861,137.36
Voluntary Public School Choice	84.361	299	123,243.51
English Language Acquisition Grants	84.365	102	3,948,856.61
Improving Teacher Quality State Grants	84.367	224	5,748,113.49
Total Indirect			92,728,573.97
Total United States Department of Education			95,834,286.39
United States Department of Health and Human Services:			
Direct:			
Cooperative Agreements to Support Comprehensive School Health Problems to Prevent the Spread of HIV and Other Important Health Problems	93.938	None	210,866.56
Indirect:			
Florida Department of Children and Families:			
Refugee and Entrant Assistance - Discretionary Grants	93.576	LK701	1,302,619.67
Florida Department of Education:			
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	137	277,229.70
Palm Beach County:			
Head Start	93.600	04CH3046/003/2007	776,801.89
Total Indirect			2,356,651.26
Total United States Department of Health and Human Services			2,567,517.82

PALM BEACH 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)
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	19,059.43
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	9,665,893.23
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	611,333.78
Total Expenditures of Federal Awards			$ 141,533,841.94

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.

PALM BEACH 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 Palm Beach County District School Board for the fiscal year ended June 30, 2007:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be significant deficiencies, though none of the significant deficiencies were considered material weaknesses.
- No noncompliance was reported which is material to the financial statements.
- Certain matters were considered to be significant deficiencies in internal control over major Federal programs, though none of the significant deficiencies were considered material weaknesses.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***."
- Major Federal programs included: Title I Grants to Local Educational Agencies (CFDA No. 84.010); Migrant Education – State Grant Program (CFDA No. 84.011); Special Education Cluster [Special Education – Grants to States (CFDA No. 84.027) and Special Education – Preschool Grants (CFDA No. 84.173)]; Reading First State Grants (CFDA No. 84.357); English Language Acquisition Grants (CFDA No. 84.365); and Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was $3,000,000.
- The low risk entity threshold was not applied.

PALM BEACH 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 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education: Grants to States (CFDA No. 84.027), Reading First State Grants (CFDA No. 84.357), and English Language Acquisition Grants (CFDA No. 84.365)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Allowable Costs/Cost Principles. The United States Office of Management and Budget (OMB) *Circular A-87*, requires that in instances where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semiannually and will be signed by the employee or supervisor having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports. These reports must be prepared at least monthly, reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, and must be signed by the employee.

For the 2006-07 fiscal year, we noted control deficiencies relating to these records as follows:

- The District had expenditures, totaling $3.2 and $1.8 million, from the Reading First State grant and the English Language Acquisition program, respectively, for salaries and benefits. However, our review disclosed that the required semiannual certifications for staff working 100 percent in the programs or personnel activity reports for staff working, in part, on these programs were not prepared. We were able to determine from records maintained by the District that the employees selected for testing in these two programs had expended their time consistent with the applicable allocation of costs among the programs. Effective in the 2007-08 fiscal year, both programs have implemented procedures requiring employees to complete certifications or personnel activity reports as required.
- District salaries and benefits expenditures totaled $27.8 million for the Special Education program during the 2006-07 fiscal year; however, we noted that semiannual certifications for the program were not always signed or approved timely. Our test of semiannual certifications for 50 employees disclosed semiannual certifications for 3 employees for the period ended June 2007 were not signed and approved until after our inquiry in January 2008. Also, the semiannual certifications for one employee for the periods ended December 2006 and June 2007 were not approved until after our inquiry in January 2008.
- Semiannual certifications for two employees charged 100 percent to the Special Education program indicated 82.5 and 112.5 hours in nongrant activities representing payroll costs totaling $9,858. District staff indicated that, in prior years, for certifications noting hours assigned to nongrant activities, prorated payroll expenditure amounts were transferred from grant funds to operating funds; however, no transfers were made during the 2006-07 fiscal year due to PeopleSoft implementation issues. Subsequently, we

obtained clarification from the two employees that these hours were actually for grant-related activities, such as instructor training, which was not performed on a daily basis, and that the employees erroneously listed these hours as nongrant activities on the semiannual certifications. When semiannual certifications are not properly maintained, there is an increased risk that overcharges to Federal grants could occur and not be detected on a timely basis.

Recommendation: The District should continue its efforts to implement procedures to ensure that semiannual certifications and monthly personnel activity reports are properly completed as required.

Federal Awards Finding 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Title 1 Grants to Local Educational Entities (CFDA No. 84.010), Migrant Education – State Grant Program (CFDA No. 84.011), Special Education: Grants to States (CFDA No. 84.027), Reading First State Grants (CFDA No. 84.357), and English Language Acquisition Grants (CFDA No. 84.365)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Reporting. The District receives funding for various Federally-funded programs through the Florida Department of Education (DOE). Reporting and administrative requirements are governed by the DOE publication titled, *Project Application and Amendment Procedures for Federal and State Programs*. Section C of this publication provides instructions to district school boards relative to requesting advances of Federal cash and preparation and submission of Form DOE 026, a report used to reconcile the Federal cash balance shown on the DOE Distributive Aid and Cash Advance Status Report to the District's accounting records. We noted that the District did not timely reconcile its Federal cash advance balance with the balance reported by the Florida Department of Education (FDOE). The District received monthly status reports from FDOE showing Federal cash advanced to the District, expenditures by Federal program, and the cash advance balance. The District was required to submit a year-end cash advance reconciliation by November 1, 2007; however, the District did not complete and submit the reconciliation until February 4, 2008, or over three months late. The failure to promptly reconcile the cash advance balance limits the District's ability to timely detect and correct errors in the accounting records and Federal financial reports, which could result in lost Federal reimbursements.

Recommendation: To ensure the accuracy of its accounting records and its Federal financial reports, the District should enhance its procedures to ensure that the required cash advance reconciliation is completed and filed within the established time period.

PALM BEACH 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
KPMG LLP				
2006-02	Reading First State Grants (CFDA 84.357) and English Language Acquisition Grants (CFDA 84.365) - Allowable Costs/Cost Principals - Compensation of Personnel Services	The District did not prepare the required semiannual certifications which certify that the employees worked solely on the respective programs.	Not Corrected.	Corrective action was implemented for the 2007-08 fiscal year.
2006-03	Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) - Allowable Costs/Cost Principals - Procurement	One purchase order could not be located and two purchase orders were not signed/approved by the two authorized employees, resulting in questioned costs of $164,566.	Corrected.	
2006-04	Special Education Cluster: Special Education - Grants to States (CFDA 84.027) and Special Education - Preschool Grants (CFDA 84.173) - Allowable Costs/Cost Principals - Procurement	One purchase order could not be located, resulting in questioned costs of $6,536.25.	Corrected.	
2006-05	Migrant Education - State Grant Program (CFDA 84.011) - Special Tests and Provisions - Priority of Service	The District provided services to a student with a lower priority level than other students with higher priority levels.	Corrected.	

MANAGEMENT RESPONSE SECTION

THE SCHOOL DISTRICT
OF PALM BEACH COUNTY, FLORIDA

DIVISION OF FINANCIAL MANAGEMENT
3300 FOREST HILL BOULEVARD, SUITE A-306
WEST PALM BEACH, FL 33406-5870

(561) 434-8584 FAX: (561) 434-8568

MICHAEL J. BURKE
CHIEF FINANCIAL OFFICER

ARTHUR C. JOHNSON, Ph.D.
SUPERINTENDENT

March 19, 2008

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

Dear Mr. Martin:

Listed below are responses to the preliminary and tentative audit findings and recommendations provided to the School Board of Palm Beach County for the fiscal year ended June 30, 2007.

Finding No. 1: Financial Monitoring and Reporting

The District did not present monthly financial statements to the Board, contrary to State Board of Education Rules. Additionally, the District submitted its annual financial report to the Florida Department of Education on November 20, 2007, which was 56 days after the approved due date extension.

Management's Response

The financial reports were not submitted to the board timely as a result of implementation issues. Certain transactions, including payroll, were not posted to the general ledger in a timely manner. Management made a decision to not present statements to the Board that they knew were incomplete. Even though the reports were not submitted to the board, management continued to perform internal analysis and reviews of the financial data. Going forward management will present the financial statements to the board monthly noting any transactions not included in the report.

Finding No. 2: Information Technology – PeopleSoft Implementation Project Management

Our audit disclosed control deficiencies, management decisions, and contractual compliance issues that may have contributed to the PeopleSoft functionality problems and the additional implementation costs.

Auditor General
March 19, 2008
Page 2 of 11

Management's Response

We concur with the audit findings. The District has taken steps to improve controls in the areas of IT Management and Project Management by instituting the Information Technology Infrastructure Library (ITIL) methodology and establishing a Project Management Office. In FY 2007 and 2008 the following achievements have been made in this effort:

- 50 Staff are Trained in ITIL Foundations
- 40 Staff are Certified in ITIL Foundations
- 8 Staff are Certified as ITIL practitioners
- Change Gear Change Management Software installed and in use
- 75 Staff Trained in IT Change Management (Change Gear)
- 15 ERP Staff Trained in IT Change Management (Change Gear)
- Project Management Office (PMO) established
- 52 employees received 42 credit hours of Project Management Institute certified training.

Further, we have successfully built an ERP employee team including individuals with PeopleSoft experience. This team is lead by a long term school district employee and is providing assistance, when needed, to the employees to properly understand and perform their jobs in the new environment.

We have implemented a multi-level training program. Included in this training are activities involving the payroll teams, bookkeepers, and support staff. We also have held internal lunch and learn programs to assist our employees to understand each others integrated areas and technologies as well as sent several employees to formal PeopleSoft training classes.

**ITIL Definition Statement*
ITIL stands for the Information Technology Infrastructure Library. This industry standard is a library that outlines a comprehensive and consistent set of process-based best practices for IT Service Management and Delivery. ITIL provides customizable framework of best practices to achieve quality service and overcome difficulties associated with the growth and complexity of IT systems. As a result of widespread adoption world-wide, ITIL has become the de facto standard in IT Service Management.

Auditor General
March 19, 2008
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Finding No. 3: Information Technology – PeopleSoft Access Controls

Enhancements were needed in the District's PeopleSoft access controls protecting the PeopleSoft application, the supporting network, and the computer room.

Management's Response

We concur with the audit recommendations. A detailed response was provided to the Auditor General.

Finding No. 4: Board Minutes

Board minutes for the regular Board meetings during the 2006-07 fiscal year were not approved, of record, by the Board Chair and Superintendent or approved by the Board at a subsequent meeting.

Management's Response

In November 2007, the District implemented a new version of the system that designates a space for official signatures. As of February 2008, minutes are now being printed, signed, and presented for approval at subsequent meetings.

Finding No. 5: Bank Reconciliations

The District staff did not prepare monthly bank reconciliations for all accounts and did not always document the date, preparer, and reviewer's approval of the reconciliations.

Management's Response

Bank reconciliations were not performed timely as a result of implementation issues. Even though the bank reconciliations were not completed in a timely fashion, management continued to perform internal analysis and reviews of the financial data. The District is working on a method to automate the reconciliation process by extracting the data from the general ledger and comparing to a download of activity from the bank. Management will ensure both the preparer and reviewer sign and date the reconciliation.

Auditor General
March 19, 2008
Page 4 of 11

Finding No. 6: Check Collection Procedures

Improvements were needed in the District's internal controls over checks received by the District's Accounting Department.

Management's Response

The majority of the District revenue is received through wire transfers. A small portion of revenue is received from checks. A receipt log and transfer document has been implemented to strengthen the procedures related to checks received.

Finding No. 7: Cash Management

Advances of cash were not sufficient to meet the immediate needs of the various Federal programs necessitating the use of other non-Federal moneys to temporarily pay Federal costs and resulting in lost investment opportunities for these moneys.

Management's Response

The District has elected to request federal funds on a reimbursement basis. If funds are requested prior to incurring the expenditures the funds must be expended within a three day period. Any interest earned on funds received in advance must be remitted to the State. The District will work to reduce the deficit; although, there will always be a month end cash deficit. Draws are requested monthly, based on expenditures at a certain point in time and based on the timing of the request and subsequent receipt of funds.

Finding No. 8: Tangible Personnel Property Deletions

The District reported deletions for furniture, fixtures, and equipment and audio visual and software with an original cost of $28.5 million; however, none of these disposals were reported to the Board and recorded in the Board minutes, contrary to Florida Statutes.

Management's Response

The District is working on a report from PeopleSoft to produce the necessary information in order to ensure the Board timely reviews and approves property disposals.

Auditor General
March 19, 2008
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Finding No. 9: Payroll Taxes

The Internal Revenue Service assessed penalties, totaling $518,846, to the District for late filings of Federal withholding and social security taxes.

Management's Response

The District is in communication with the IRS to abate the late penalty assessed in the current fiscal year and payments related to prior fiscal years.

Finding No. 10: Salary Overpayments

Due to implementation issues with the new PeopleSoft system, 635 employees were overpaid by approximately $1.8 million during the 2006-07 fiscal year. Collection procedures have been initiated and should be monitored by the District to ensure subsequent collection of the overpayments.

Management's Response

These overpayments stemmed from problems with the contract pay mechanism within PeopleSoft. Contract pay was utilized throughout FY2007 to pay teachers and assistant principals. At the conclusion of FY2007, the District discontinued use of contract pay and implemented a new process within PeopleSoft. The new process is working well and employees are being paid accurately. Employees that were overpaid in FY2007 either repaid the balance in a lump sum or were placed on a repayment plan. Employees on a repayment plan have agreed to have the payment automatically deducted from their pay check until the overpayment is repaid.

Finding No. 11: Overtime Monitoring

Due to increasing overtime costs, the District should monitor overtime charges to ensure staffing and personnel utilization is adequate.

Auditor General
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Page 6 of 11

Management's Response

The District is in the process of performing a cost benefit analysis related to the overtime incurred in the transportation department. The District did note that the overtime had been approved but does agree an analysis needs to be performed to ensure that all potential alternatives have been examined.

Finding No. 12: Architect Insurance

The District did not always ensure that architectural insurance was maintained in accordance with architect agreements.

Management's Response

All design and construction agreements have specific requirements for insurance coverage related to general liability, workman's compensation and automobile. The design professional is responsible for compliance through the term of their agreement. The following are being implemented to assist the Construction Purchasing Department to monitor and insure those requirements are met and maintained:

- Development of a separate application within Oracle to create a documents file specifically for storage and tracking of insurance certificates. Certificates will be index by Architect (or CM), project name, and date. This will provide for a search by expiration date to monitor expiring certificates.

- Risk Management will review all certificates to insure required coverage and terms are in effect.

The District is also in the process of implementing a new Computer Assisted Facilities Management (CAFM) system. This system, which is a form of a database, will have fields to track insurance expiration dates and provide email notifications when insurances are about to expire. It will also have fields to check off to make sure the insurances and terms that are required by District's contracts are reflected on the certificates of insurance.

Auditor General
March 19, 2008
Page 7 of 11

Finding No. 13: Building Certificates of Occupancy

District procedures did not ensure that certain facility deficiencies were timely resolved or that expiration dates were established for temporary certificates of occupancy.

Management's Response

The audit report is correct that expiration dates were not established for Temporary Certificates of Occupancy (TCO), however there are several reasons for this. The issuance of a TCO by the licensed Building Official confirms that the facility is safe to occupy although some non-critical items may not be completed at that time. Examples of uncompleted items that remain to be completed are things such as a light fixture not installed in a trophy case, the wrong type of diffuser installed on an air conditioning vent, and a missing handrail in a restroom stall. Some uncompleted items can be corrected quickly while other issues might be more complicated and warrant more time that cannot be accurately estimated at the time the TCO issued.

The Building Department originally considered assigning an expiration date to the TCO and decided it to be impractical. An expired TCO would mandate either 1) an extension of the TCO, or 2) evacuation of a school facility. There is no Federal, State or local restriction on the number of times a TCO could be extended or the length of time a TCO could be issued for, therefore the only thing writing a TCO with an expiration date does is result in more paperwork for contractors and the District. We have found it to be more effective to withhold money from the contractor and assess liquidated damages to contractors who fail to complete items that have not been completed at the time the TCO is issued. The other option, evacuation of the school upon the expiration of a TCO, would be extremely impractical.

The District is safeguarded by the Building Department remaining aware of open issues and following up with inspections as requested and warranted. The Building Department remains authorized to revoke a TCO or Certificate of Occupancy (CO) if circumstances warrant such an action. Despite the forgoing arguments, in order to be in fully technical compliance with the Florida Building Code, all future TCOs to be issued by the Building Department will expire 180 days after the date of issuance.

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Finding No. 14: Annual Facility Inspections

Deficiencies noted on the annual safety inspection reports were not always timely corrected.

Management's Response

The District is cognizant of the need for the timely correction of facility deficiencies. Since 2000 the District has reduced the number of deficiencies by 84% despite an increase in a number of schools and having to respond to the direct impacts of three hurricanes in 2004 and 2005.

The correction of some deficiencies identified in the Annual Facility Inspections requires design, engineering, permits and other regulatory approvals. This process frequently spans several fiscal years depending on how complicated the issue is to resolve. Schools that are in the 5-Year Capital Plan for replacement or modernization schedule are closely reviewed to make sure we do not spend our limited dollars making major repairs to facilities which will be replaced or renovated shortly thereafter. Other repair projects are accumulated and grouped together to maximize efficiencies and reduce overhead.

It is important to note that all potentially life-threatening conditions are always responded to expeditiously. Non-life-threatening deficiencies are ranked and scheduled in accordance with available resources. Work that can not be funded in the current fiscal year is carried forward and unfortunately is listed as multi-year deficiency along with those other issues that require time for design, bidding and construction.

District policy and practice is to respond immediately to situations that represent an obvious and clear safety issue to staff and students, and our track record of working closely with the local fire marshals bares out the fact that we do an excellent job of providing safe learning and working environments. The District will continue to review the ranking of deficiencies, allocate funds as necessary and schedule work to reduce the number of multi-year deficiencies.

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Finding No. 15: Information Technology – District Security Program

Enhancements were needed in the District's entitywide security program, including performance of a risk assessment, on-going education and training, and expanding the written security policies and procedures.

Management's Response

The District has taken steps to improve controls in the areas of IT Management by instituting the Information Technology Infrastructure Library (ITIL) framework. The District is evaluating different methods to assist in performing a proper risk assessment in accordance with ITIL. Once the risks have been assessed and the assets have been classified a comprehensive policy will be developed and implemented.

The District security awareness website will be enhanced to include the recommended key elements identified above. Updates to the website and security tips will be published in the monthly newsletter emailed to principals, department heads, bookkeepers and payroll contacts.

Finding No. 16: Information Technology – Disaster Recovery Plan

The District has not completed a test of its disaster recovery plan needed to ensure efficient and effective recovery in case of an actual disaster.

Management's Response

We concur with the audit recommendation and have established a policy for Testing of Recovery Procedures which includes an outline for random testing.

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Federal Awards Finding No. 1: Allowable Costs/Cost Principles

Enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries and benefits to the Special Education – Grants to States, Reading First, and English Language Acquisition Grants. Additionally, the District should ensure payroll amounts are prorated for non-grant activities noted on the certifications and related expenditures are not paid by grant funds.

Management's Response

Circular A-87 does not require the use of a specific payroll certification form. Circular A-87 requires that the payroll being charged to the program be reviewed by a supervisor on at least a semi annual basis for employees who work 100% on a program and monthly for those who work on multiple programs. Reading First State grant and English Language Acquisition employees work 100% on the grant. The payroll system requires supervisor approval prior to submission of the payroll. As a result, the payroll is being certified by the supervisor every pay period. In addition, for English Language Acquisition the Senior Budget Technician requests the gross fringe detail report after each accounting period and verifies that each Title III employee is being paid from the correct account. For Reading First the statistical analyst constantly monitors the payroll for accuracy and the Reading First Coaches maintain a coach's log on the Progress Monitoring and Reporting Network (PMRN) as part of their responsibilities and compliance of the Reading First grant.

The District created a uniform payroll certification form including proper procedures to create consistency between the departments and has centralized the collection of the form through Financial Services - Grants Reporting and Compliance department on a semi annual basis.

Federal Awards Finding No. 2: Financial Reporting

Enhancements were needed in District procedures regarding the timely preparation and submittal of the annual Distributive Aid and Cash Advance Reconciliation report to the Florida Department of Education.

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Management's Response

The purpose of the year end cash advance reconciliation is to provide to the state the total amount owed to or by the District at June 30th not yet reported on the online system. The District reconciled amounts owed to the District by the state during the regular year end close procedures, prior to the November 1st deadline. The delay in finalizing the year end cash reconciliation was a result of converting from the District fund and award year account structure to the state program numbers. Based on the reconciliations performed by the District during the year end close procedures both the accounting records and federal financial reports were accurate. The District contacted the Florida Department of Education prior to the due date of the report to inform them of the delays encountered in the current year as a result of the implementation.

I would like to thank you and your staff from the Boynton Beach office for your support and cooperation during the FY2007 audit. If you should have any questions or concerns, please contact Michael Burke, Chief Financial Officer, at (561) 434-8584.

Sincerely,

Arthur C. Johnson, Ph.D.
Superintendent

ACJ:JMM:MJB:HK:ac