

**MARION COUNTY
DISTRICT SCHOOL BOARD**

Financial and Federal Single Audit

For the Fiscal Year Ended
June 30, 2008



BOARD MEMBERS AND SUPERINTENDENT

Marion County District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

	<i><u>District No.</u></i>
<i>Judith Zanetti, Vice-Chair to 11-19-07, Chair from 11-20-07</i>	<i>1</i>
<i>Steven B. Hering</i>	<i>2</i>
<i>Bobby L. James, Vice-Chair from 11-20-07</i>	<i>3</i>
<i>Sue M. Mosley</i>	<i>4</i>
<i>Ronald B. Crawford, Chair to 11-19-07</i>	<i>5</i>

James M. Yancey, Jr., Superintendent

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at 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.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operations that we consider to be a significant deficiency as summarized below. However, this significant deficiency is not considered to be a material weakness.

The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements are needed in District procedures to ensure that certain account balances are properly reported at fiscal year-end.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and Improving Teacher Quality 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 an internal control and compliance finding as summarized below.

Federal Awards Finding No. 1: District records did not evidence that three teachers met the required qualifications to work in the Improving Teacher Quality program.

Audit Objectives and Scope

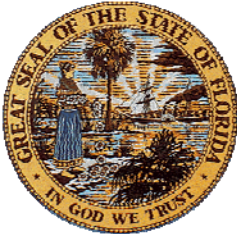
Our audit objectives were to determine whether the Marion County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs.

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, 2008. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement 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, rules, regulations, contracts, and grant agreements. The results of our operational audit of the District are included in our report No. 2009-028.

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*.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Marion County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. 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, reported as agency funds, which represent 15 percent of the assets and 26 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are 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 of the Marion County District School Board as of June 30, 2008, 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 Marion County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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 3 through 10) and the other required supplementary information (pages 48 through 51) 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 on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County District School Board'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

December 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Marion County District School Board (the District) has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2008. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-08 fiscal year are as follows:

- Total net assets are \$424,033,336, which represents a 13.3 percent increase from the 2006-07 fiscal year.
- General revenues total \$397,200,634, or 87.4 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$57,360,588 or 12.6 percent.
- Expenses total \$404,870,338; only \$57,360,588 of these expenses were offset by program specific charges, with the remainder paid from general revenues. Total revenues exceed total expenses by \$49,690,884.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, total \$23,855,385 at June 30, 2008, or 7.4 percent of total General Fund expenditures.
- The District's capital assets (net of depreciation) increased by \$54,020,431. As several construction projects were completed during the year, Construction in Progress decreased by \$36,091,905.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

- Governmental activities - This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units - The District presents three separate legal entities in this report including the Marion Charter School, Inc., the McIntosh Area School, Incorporated, and the Public Education Foundation of Marion County, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.
- The Marion County School Board Leasing Corporation, although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

FUND FINANCIAL STATEMENTS

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Section 1011.71

Capital Improvement Fund, and Capital Projects – Other Capital Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds - Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains an internal service fund to report activities that provide services to support the District’s other programs and functions through user charges. The District uses the internal service fund to account for the cost of the District’s self-insurance program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

Proprietary funds statements provide the same types of information as the government-wide financial statements, only in more detail. The internal service fund is presented in a single column in the proprietary fund financial statements.

Fiduciary Funds - Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District’s own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The District uses agency funds to account for resources held for student activities and groups.

NOTES TO FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2008, compared to net assets as of June 30, 2007:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-08	6-30-07
Current and Other Assets	\$223,472,345	\$230,156,572
Capital Assets	454,446,732	40,426,301
Total Assets	677,919,077	270,582,873
Long-Term Liabilities	232,888,740	232,432,733
Other Liabilities	20,997,001	23,807,688
Total Liabilities	253,885,741	256,240,421
Net Assets:		
Invested in Capital Assets-		
Net of Debt	341,762,148	304,419,959
Restricted	89,525,923	74,133,587
Unrestricted (Deficit)	(7,254,735)	(4,211,094)
Total Net Assets	\$424,033,336	\$374,342,452

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding net of unspent debt proceeds. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$33,750,952 (after exclusion of \$33,081,206 in compensated absences and \$7,924,481 in postemployment healthcare benefits payable) may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2008, and June 30, 2007, are as follows:

- The increase in Capital Assets is due, in part, to new buildings capitalized from Construction in Progress (CIP), and new construction projects reported in CIP. The completed buildings include the new Horizon Academy at Marion Oaks, the new Liberty Middle School, a wing addition at Vanguard High School, and renovations at Dr. N. H. Jones Elementary School. The projects still under construction include cafeteria additions at Lake Weir High School and Liberty Middle School Transportation Project. Other projects still under construction include wing additions at ten schools and major renovations at three more schools.
- The increase in long-term liabilities is due to the implementation of Other Postemployment Benefits (OPEB) GASB Statement No. 45 in the fiscal year ending June 30, 2008. This created a long-term liability in the amount of \$7,924,481 which is reported in the statement of net assets.

Governmental activities increased the District's net assets by \$49,690,884 as detailed below:

Operating Results for the Year

	Governmental	
	Activities	
	6-30-08	6-30-07
Program Revenues:		
Charges for Services	\$ 10,880,894	\$ 10,223,674
Operating Grants and Contributions	25,106,851	23,367,876
Capital Grants and Contributions	21,372,843	33,700,591
General Revenues:		
Property Taxes Levied for Operational Purposes	119,479,605	99,928,192
Property Taxes Levied for Capital Projects	42,611,688	34,037,909
Local Sales Taxes	20,770,565	23,144,189
Grants and Contributions Not Restricted to Specific Programs	193,336,608	205,507,164
Unrestricted Investment Earnings	7,199,706	7,562,309
Miscellaneous	13,802,462	6,140,377
Total Revenues	454,561,222	443,612,281
Functions/Program Expenses:		
Instruction	209,504,540	192,867,939
Pupil Personnel Services	24,166,357	21,672,610
Instructional Media Services	5,543,724	5,291,431
Instruction and Curriculum Development Services	7,977,806	7,048,331
Instructional Staff Training Services	5,512,266	6,150,736
Instruction Related Technology	2,542,527	2,283,275
Board of Education	633,551	839,764
General Administration	2,143,608	2,285,407
School Administration	18,696,988	17,841,734
Facilities Services - Non-Capitalized	12,931,761	10,543,899
Fiscal Services	2,736,896	2,698,021
Food Services	19,280,277	17,397,012
Central Services	4,893,471	4,809,401
Pupil Transportation Services	25,390,210	22,588,074
Operation of Plant	27,357,197	23,957,644
Maintenance of Plant	11,298,938	10,477,455
Administrative Technology Services	4,336,244	3,866,119
Community Services	3,475,705	2,923,540
Interest on Long-Term Debt	8,424,083	5,812,574
Unallocated Depreciation Expense	8,024,189	6,932,916
Total Functions/Program Expenses	404,870,338	368,287,882
Increase in Net Assets	\$ 49,690,884	\$ 75,324,399

Key elements of this increase are as follows:

- The revenue associated with property taxes increased by more than \$28 million. This increase is due to a general increase in property value for the County. The District did not increase the millage levied for the fiscal year.
- Miscellaneous revenue increased by approximately \$7.7 million. The District received \$3.3 million more revenue from impact fees over the prior year. Also, beginning in the 2007-08 fiscal year, Sprint contracted with the District for the use of communication towers located throughout the District. This generated approximately \$4.9 million dollars in revenue during the fiscal year.
- Effective July 1, 2007, instructional staff received a five percent salary increase. This is reflected by the \$16.6 million increase in expenses related to instruction from fiscal year 2006-07 to fiscal year 2007-08.
- The cost of food increased because of the rising cost of gasoline and diesel fuel, and related charges for shipping, resulting in a total increase of approximately \$1.9 million for food services over the prior fiscal year.
- The expenses associated with pupil transportation services increased by \$2.8 million. This increase is two-fold. As mentioned above, the cost of diesel fuel has increased dramatically over the past fiscal year, making the cost of running buses rise proportionally. Also, transportation personnel received an increase of three percent which became effective July 1, 2007, and increased payroll and benefit costs over the year.
- The expense associated with operation of plant increased by \$3.4 million. Part of this increase (\$770,000) is due to an increase in property insurance premiums. The larger portion is due to an upgrade to the District's technology infrastructure equipment. The District has an established managed Wide Area Network (WAN) between schools and access to the World Wide Web. Upgrades to the fiber optics and training for support needs to the school sites and District personnel were completed during the fiscal year.

MAJOR GOVERNMENTAL FUNDS

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$23,855,385 while the total fund balance is \$28,812,129. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.44 percent of the total general fund expenditures, while total fund balance represents 8.98 percent of that same amount. The unreserved fund balance decreased by \$3,181,139, while the total fund balance decreased by \$4,157,504 during the fiscal year. While the total general fund balance decreased by 12.61 percent, the fund balance remains above the level set by Board policy which is three percent of general fund revenues.

The reduction in fund balance is primarily due to budget cuts at the State level. These budget cuts resulted in lower revenue for the school District and required the use of fund balance reserves to meet the needs of students and staff. The use of fund balance reserves met the District's goals of: 1) maintaining current employment levels without releasing personnel from employment; and 2) maintaining the high quality of safety and educational standards set for our students.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$5,807,416. This fund is used to record capital projects financed through the Public Education Capital Outlay program. Liabilities reported in this fund at year end (approximately \$6.8 million) include appropriated revenue which will be used for future capital projects.

The Capital Projects – Section 1011.71 Capital Improvement Fund has a total fund balance of \$32,365,121, all of which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased in the current year by \$12,917,952 which primarily is attributable to increased property values throughout the County.

The Capital Project – Other Capital Projects Fund has a total fund balance of \$111,402,157. The fund balance decreased by \$15.8 million over the prior year. The decrease is because the District is continuing to use the proceeds of the Certificates of Participation previously issued for the purposes of constructing new schools and renovating existing schools.

Proprietary Funds

Unrestricted net assets of the Internal Service Fund total \$4,219,129 at June 30, 2008, a decrease of \$86,387. Total operating expenses were \$1,872,480 greater during the 2007-08 fiscal year from the previous fiscal year, primarily because of the continued escalation in costs associated with risk management programs.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2007-08 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$2,601,001, or .81 percent. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Overall, actual revenues were lower than budget by \$6,054,179. State revenues were below budget by \$10,537,569 due to reduced State funding in the form of: 1) a reduction of \$83.73 per student to the base student allocation; 2) projected weighted FTE was 1,181 lower than expected; and 3) State categorical budget reductions of \$2.1 million.

Based on budget cuts to revenue by the State, the District made several management decisions to curtail spending, which resulted in actual expenditures being \$16,709,991 or 4.95 percent less than final budget amounts. The management decisions included: 1) a hiring freeze; 2) suspension of all travel and travel related activities; and 3) the deferral of capital expenditures, all beginning January, 2008.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$454,446,732 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

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

- Disposal of buildings, equipment, vehicles, and software totaling \$4,122,645.
- Construction in progress decreased by \$36,091,905, due to the completion of various construction projects including the new Horizon Academy at Marion Oaks and the new Liberty Middle School. A new wing addition to Vanguard High School was also completed during the fiscal year.
- Purchases totaling \$1,206,016 for motor vehicles were made during the fiscal year. This total included \$900,961 for buses.

Additional information on the District's capital assets can be found in Notes 1 and 4 to the financial statements.

LONG-TERM LIABILITIES

At June 30, 2008, the District has total long-term, capital asset-related debt outstanding of \$181,767,630. This amount is comprised of \$167,879,899 of certificates of participation payable, \$12,485,000 of bonds payable, and \$1,402,731 of capital lease payable. During the fiscal year, retirement of debt amounted to \$9,229,321.

Other items classified as long-term liabilities, in the government-wide financial statements, include the Postemployment Healthcare Benefits Payable in the amount of \$7,924,481, estimated unpaid insurance claims totaling \$10,115,423, and compensated absences liability totaling \$33,081,206.

Additional information on the District's long-term liabilities can be found in Notes 1, 5, and 11 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

As a part of the State-wide educational funding formula, the District is given operational revenues through State appropriations. The District then aligns expenses to fall within those parameters.

Capital revenues are levied up to capacity based on the needs identified in the District Facilities Work Program to adequately house growth in the student population.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Marion County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School District of Marion County, Florida, Attn: Exec Dir. of Business Services 512 SE 3rd Street, Ocala, FL 34470.

BASIC FINANCIAL STATEMENTS

MARION COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS JUNE 30, 2008

	Primary Government Governmental Activities	Component Units
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 67,425,214	\$ 372,225
Investments	53,602,935	664,378
Accounts Receivable	738,675	995,715
Deposits Receivable	65,000	3,090
Due from Other Agencies	56,594,571	-
Inventories	3,017,745	6,279
Prepaid Items	3,444,281	38,404
Total Current Assets	184,888,421	2,080,091
Noncurrent Assets:		
Restricted Investments	36,294,820	-
Debt Issue Costs, Net	2,289,104	-
Capital Assets:		
Capital Assets Not Being Depreciated	27,267,563	248,319
Capital Assets Being Depreciated, Net of Accumulated Depreciation	427,179,169	650,454
Total Noncurrent Assets	493,030,656	898,773
Total Assets	\$ 677,919,077	\$ 2,978,864
Liabilities		
Current Liabilities:		
Salaries and Benefits Payable	\$ 1,647,685	\$ 66,295
Payroll Deductions and Withholdings	1,750,120	-
Accounts Payable	1,823,281	62,673
Construction Contracts Payable	5,579,825	-
Construction Contracts - Retainage Payable	1,955,580	-
Accrued Interest Payable	914,500	-
Due to Other Agencies	1,806	-
Unearned Revenue	7,324,204	-
Total Current Liabilities	20,997,001	128,968
Noncurrent Liabilities:		
Long-term Liabilities - Portion Due Within One Year:		
Notes Payable	-	34,625
Certificates of Participation Payable	8,100,000	-
Bonds Payable	900,000	-
Capital Lease Payable	452,526	-
Compensated Absences Payable	2,729,003	525
Estimated Insurance Claims Payable	3,307,747	-
Long-term Liabilities - Portion Due After One Year:		
Notes Payable	-	480,257
Certificates of Participation Payable	159,779,899	-
Bonds Payable	11,585,000	-
Capital Lease Payable	950,205	-
Compensated Absences Payable	30,352,203	-
Postemployment Healthcare Benefits Payable	7,924,481	-
Estimated Insurance Claims Payable	6,807,676	-
Total Noncurrent Liabilities	232,888,740	515,407
Total Liabilities	253,885,741	644,375
Net Assets		
Invested in Capital Assets, Net of Related Debt	341,762,148	370,947
Restricted for:		
State Categorical Programs	37,817,014	-
Debt Service	596,319	-
Capital Projects	45,120,917	116,738
Food Service Program	5,631,514	-
Other Purposes	360,159	1,263,595
Unrestricted	(7,254,735)	583,209
Total Net Assets	424,033,336	2,334,489
Total Liabilities and Net Assets	\$ 677,919,077	\$ 2,978,864

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

**MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Instruction	\$ 209,504,540	\$ 4,894,294	\$ -	\$ -
Pupil Personnel Services	24,166,357	-	-	-
Instructional Media Services	5,543,724	-	-	-
Instruction and Curriculum Development Services	7,977,806	-	-	-
Instructional Staff Training Services	5,512,266	-	-	-
Instruction Related Technology	2,542,527	-	-	-
Board of Education	633,551	-	-	-
General Administration	2,143,608	-	-	-
School Administration	18,696,988	-	-	-
Facility Services - Non-Capitalized	12,931,761	-	-	20,125,293
Fiscal Services	2,736,896	-	-	-
Food Services	19,280,277	5,662,999	13,639,524	-
Central Services	4,893,471	-	-	-
Pupil Transportation Services	25,390,210	323,601	11,467,327	-
Operation of Plant	27,357,197	-	-	-
Maintenance of Plant	11,298,938	-	-	-
Administrative Technology Services	4,336,244	-	-	-
Community Services	3,475,705	-	-	-
Interest on Long-Term Debt	8,424,083	-	-	1,247,550
Unallocated Depreciation Expense	8,024,189	-	-	-
Total Primary Government	<u>\$ 404,870,338</u>	<u>\$ 10,880,894</u>	<u>\$ 25,106,851</u>	<u>\$ 21,372,843</u>
Component Units				
Charter Schools/Foundation	<u>\$ 2,928,752</u>	<u>\$ 196,214</u>	<u>\$ 582,756</u>	<u>\$ 170,339</u>

General Revenues

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings (Loss)

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental	Component	
Activities	Units	Total
\$ (204,610,246)	\$ -	\$ (204,610,246)
(24,166,357)	-	(24,166,357)
(5,543,724)	-	(5,543,724)
(7,977,806)	-	(7,977,806)
(5,512,266)	-	(5,512,266)
(2,542,527)	-	(2,542,527)
(633,551)	-	(633,551)
(2,143,608)	-	(2,143,608)
(18,696,988)	-	(18,696,988)
7,193,532	-	7,193,532
(2,736,896)	-	(2,736,896)
22,246	-	22,246
(4,893,471)	-	(4,893,471)
(13,599,282)	-	(13,599,282)
(27,357,197)	-	(27,357,197)
(11,298,938)	-	(11,298,938)
(4,336,244)	-	(4,336,244)
(3,475,705)	-	(3,475,705)
(7,176,533)	-	(7,176,533)
(8,024,189)	-	(8,024,189)
<u>(347,509,750)</u>	<u>-</u>	<u>(347,509,750)</u>
-	(1,979,443)	(1,979,443)
119,479,605	-	119,479,605
42,611,688	-	42,611,688
20,770,565	-	20,770,565
193,336,608	2,084,489	195,421,097
7,199,706	(9,594)	7,190,112
13,802,462	4,547	13,807,009
<u>397,200,634</u>	<u>2,079,442</u>	<u>399,280,076</u>
49,690,884	99,999	49,790,883
374,342,452	2,234,490	376,576,942
<u>\$ 424,033,336</u>	<u>\$ 2,334,489</u>	<u>\$ 426,367,825</u>

**MARION COUNTY DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	Capital Projects - Public Education Capital Outlay
Assets		
Cash and Cash Equivalents	\$ 15,034,429	\$ 1,287,632
Investments	11,295,471	-
Accounts Receivable	708,207	-
Due from Other Funds	3,176,160	-
Due from Other Agencies	2,199,751	11,367,993
Inventories	2,294,526	-
Prepaid Items	56,414	-
Total Assets	\$ 34,764,958	\$ 12,655,625
 Liabilities and Fund Balances		
Liabilities		
Salaries and Benefits Payable	\$ 2,757,697	\$ -
Payroll Deductions and Withholdings	1,750,120	-
Accounts Payable	1,396,502	-
Construction Contracts Payable	-	11,370
Construction Contracts Payable - Retainage	-	-
Due to Other Funds	-	-
Due to Other Agencies	1,800	-
Unearned Revenue	46,710	6,836,839
Total Liabilities	5,952,829	6,848,209
 Fund Balances		
Reserved for State Categorical Programs	1,700,505	-
Reserved for Encumbrances	601,554	974,332
Reserved for Inventories	2,294,526	-
Reserved for Debt Service	-	-
Reserved for Food Service Program	-	-
Reserved for Other Purposes	360,159	-
Unreserved:		
Undesignated, Reported in:		
General Fund	23,855,385	-
Capital Projects Funds	-	4,833,084
Total Fund Balances	28,812,129	5,807,416
 Total Liabilities and Fund Balances	\$ 34,764,958	\$ 12,655,625

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

Capital Projects - Section 1011.71 Capital Improvement	Capital Projects - Other Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 27,565,276	\$ 11,398,221	\$ 4,438,681	\$ 59,724,239
5,248,522	69,324,102	778,087	86,646,182
5,675	1,241	13,552	728,675
-	-	-	3,176,160
775,232	40,220,646	2,030,949	56,594,571
-	-	723,219	3,017,745
-	-	24,202	80,616
\$ 33,594,705	\$ 120,944,210	\$ 8,008,690	\$ 209,968,188

\$ -	\$ -	\$ 292,067	\$ 3,049,764
-	-	-	1,750,120
71,442	-	302,351	1,770,295
1,000,245	4,568,210	-	5,579,825
157,897	1,797,683	-	1,955,580
-	3,176,160	-	3,176,160
-	-	6	1,806
-	-	440,655	7,324,204
1,229,584	9,542,053	1,035,079	24,607,754

-	36,116,509	-	37,817,014
5,765,923	29,675,819	368,012	37,385,640
-	-	723,219	3,017,745
-	-	596,319	596,319
-	-	4,540,283	4,540,283
-	-	-	360,159
-	-	-	23,855,385
26,599,198	45,609,829	745,778	77,787,889
32,365,121	111,402,157	6,973,611	185,360,434
\$ 33,594,705	\$ 120,944,210	\$ 8,008,690	\$ 209,968,188

MARION COUNTY DISTRICT SCHOOL BOARD
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008

Total Fund Balances - Governmental Funds \$ 185,360,434

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 governmental funds. 454,446,732

The internal service fund is used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. 4,219,129

Issuance costs on long-term debt are treated as expenditures on the fund statements, but amortized over the life of the long-term debt on the government-wide statements. 2,289,104

In the governmental funds, only the portion of the compensated absences expected to be paid with available resources is recognized, but in the government-wide statements the entire portion is recognized. 1,405,754

Accrued interest on long-term debt is not due and payable in the current period, and therefore, is not reported as a liability in the governmental funds. (914,500)

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:

Certificates of Participation Payable	\$ (167,879,899)	
Bonds Payable	(12,485,000)	
Capital Lease Payable	(1,402,731)	
Compensated Absences Payable	(33,081,206)	
Postemployment Health Care Benefits Payable	(7,924,481)	
	(7,924,481)	(222,773,317)

Total Net Assets - Governmental Activities \$ 424,033,336

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

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MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	Capital Projects - Public Education Capital Outlay	Capital Projects - Section 1011.71 Capital Improvement
Revenues			
Intergovernmental:			
Federal Direct	\$ 346,704	\$ -	\$ -
Federal Through State and Local	1,597,869	-	-
State	174,510,822	4,002,775	-
Local:			
Property Taxes	119,479,605	-	42,611,688
Local Sales Taxes	-	-	-
Other	15,822,031	48,040	1,129,148
Total Revenues	311,757,031	4,050,815	43,740,836
Expenditures			
Current - Education:			
Instruction	187,388,191	-	-
Pupil Personnel Services	20,436,208	-	-
Instructional Media Services	5,402,131	-	-
Instruction and Curriculum Development Services	4,749,567	-	-
Instructional Staff Training Services	2,838,800	-	-
Instruction Related Technology	2,306,671	-	-
Board of Education	620,847	-	-
General Administration	1,358,742	-	-
School Administration	18,165,186	-	-
Facility Services - Non-Capitalized	528,085	-	-
Fiscal Services	2,660,367	-	-
Food Services	-	-	-
Central Services	4,680,826	-	-
Pupil Transportation Services	23,348,787	-	-
Operation of Plant	26,621,750	-	-
Maintenance of Plant	10,924,839	-	-
Administrative Technology Services	4,145,610	-	-
Community Services	3,013,816	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	23,061	2,481,186	10,353,667
Other Capital Outlay	1,469,995	-	-
Debt Service:			
Retirement of Principal	-	-	-
Interest and Fiscal Charges	-	-	-
(Total Expenditures)	(320,683,479)	(2,481,186)	(10,353,667)
Excess (Deficiency) of Revenues Over Expenditures	(8,926,448)	1,569,629	33,387,169
Other Financing Sources (Uses)			
Transfers in	4,670,339	-	-
Proceeds from Sale of Capital Assets	12,000	-	-
Loss Recoveries	120,516	-	-
Transfers (out)	(33,911)	(170,339)	(20,469,217)
Total Other Financing Sources (Uses)	4,768,944	(170,339)	(20,469,217)
Net Change in Fund Balances	(4,157,504)	1,399,290	12,917,952
Fund Balances, July 1, 2007	32,969,633	4,408,126	19,447,169
Fund Balances, June 30, 2008	\$ 28,812,129	\$ 5,807,416	\$ 32,365,121

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

Capital Projects - Other Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 634,993	\$ 981,697
-	40,420,429	42,018,298
15,905,144	2,397,566	196,816,307
-	-	162,091,293
20,770,565	-	20,770,565
8,220,959	6,078,048	31,298,226
<u>44,896,668</u>	<u>49,531,036</u>	<u>453,976,386</u>
-	16,278,063	203,666,254
-	3,138,696	23,574,904
-	-	5,402,131
-	3,020,606	7,770,173
-	2,544,346	5,383,146
-	174,800	2,481,471
-	-	620,847
-	723,538	2,082,280
-	-	18,165,186
301,160	23,811	853,056
-	-	2,660,367
-	18,392,997	18,392,997
-	71,141	4,751,967
-	1,387,265	24,736,052
-	-	26,621,750
-	-	10,924,839
-	-	4,145,610
-	379,919	3,393,735
60,422,669	46,397	73,326,980
-	932,397	2,402,392
-	9,053,112	9,053,112
-	8,492,212	8,492,212
<u>(60,723,829)</u>	<u>(64,659,300)</u>	<u>(458,901,461)</u>
<u>(15,827,161)</u>	<u>(15,128,264)</u>	<u>(4,925,075)</u>
-	16,003,128	20,673,467
-	-	12,000
-	-	120,516
-	-	(20,673,467)
-	16,003,128	132,516
<u>(15,827,161)</u>	<u>874,864</u>	<u>(4,792,559)</u>
127,229,318	6,098,747	190,152,993
<u>\$ 111,402,157</u>	<u>\$ 6,973,611</u>	<u>\$ 185,360,434</u>

**MARION COUNTY DISTRICT SCHOOL BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Governmental Funds \$ (4,792,559)

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Capital outlays are reported in 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.

	Capital Outlays	\$ 67,358,421	
	Depreciation Expense	<u>(13,337,990)</u>	54,020,431

Repayment of long-term debt is an expenditure in the governmental fund statements,
but the repayment reduces long-term liabilities in the statement of net assets.

This is the amount of repayment in the current period. 9,053,112

Premiums and losses on debt issues are amortized over the life of the debt in the
government-wide statements, but are reported as revenue in the governmental
fund statements. This is the amount of current amortization.

176,211

Debt issuance costs, discounts and fees are amortized over the life of the debt
in the statement of activities, but are reported as expenses in the governmental
fund statements. This is the current expense for the issuance costs.

(132,342)

Interest on long-term debt is recognized as an expenditure in the
governmental funds when due, but is recognized as interest accrues
in the statement of activities.

24,262

Net change in compensated absences is reported in the change in net assets,
but not in the change in fund balance.

(647,363)

Unfunded Other Postemployment Benefits (OPEB) are not reported in
the governmental funds but are recorded as an expense in the government-wide
statements. This is the change in the OPEB obligation for the current fiscal year.

(7,924,481)

The internal service fund is used by management to charge the cost of certain
activities, such as insurance, to individual funds. The net expense of the internal
service fund is reported with governmental activities.

(86,387)

Change in Net Assets - Governmental Activities \$ 49,690,884

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

**MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
Assets	
Current Assets:	
Cash	\$ 7,700,975
Investments	3,251,573
Accounts Receivable	10,000
Deposits Receivable	65,000
Prepaid Items	3,363,665
Total Assets	\$ 14,391,213
Liabilities and Net Assets	
Liabilities	
Current Liabilities:	
Salaries and Benefits Payable	\$ 3,675
Accounts Payable	52,986
Estimated Insurance Claims Payable	3,307,747
Total Current Liabilities	3,364,408
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	6,807,676
Total Liabilities	10,172,084
Net Assets	
Unrestricted	4,219,129
Total Liabilities and Net Assets	\$ 14,391,213

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

MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 6,981,786
Operating Expenses	
Salaries	99,604
Employee Benefits	26,337
Purchased Services	4,257,765
Insurance Claims	3,136,786
Total Operating Expenses	7,520,492
Operating (Loss)	(538,706)
Nonoperating Revenue	
Interest	452,319
Change in Net Assets	(86,387)
Total Net Assets, July 1, 2007	4,305,516
Total Net Assets, June 30, 2008	\$ 4,219,129

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

**MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$ 6,967,267
Cash Payments to Suppliers for Goods and Services	(3,543,563)
Cash Payments to Employees for Services	(125,595)
Cash Payments for Claims	(2,239,541)
Net Cash Provided by Operating Activities	1,058,568
 Cash Flows from Investing Activities	
Interest Income	452,319
Net Cash Provided by Investing Activities	452,319
 Net Increase in Cash and Cash Equivalents	1,510,887
 Cash and Cash Equivalents, Beginning of Year	9,441,661
 Cash and Cash Equivalents, End of Year	\$ 10,952,548
 <u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>	
Operating (Loss)	\$ (538,706)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	482
Decrease in Prepaid Items	704,097
(Increase) in Deposits Receivable	(15,000)
Increase in Salaries and Benefits Payable	345
Increase in Accounts Payable	10,105
Increase in Estimated Insurance Claims Payable	897,245
Total Adjustments	1,597,274
 Net Cash Provided by Operating Activities	\$ 1,058,568
 Cash and Cash Equivalents	
Cash	\$ 7,700,975
Investments	3,251,573
Cash and Cash Equivalents, End of Year	\$ 10,952,548

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

**MARION COUNTY DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2008**

	<u>Agency Funds</u>
Assets	
Cash and Cash Equivalents	\$ 1,234,419
Investments	2,645,149
Total Assets	<u>\$ 3,879,568</u>
Liabilities	
Internal Accounts Payable	<u>\$ 3,879,568</u>

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

MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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

■ **Blended Component Unit**

The Marion County School Board Leasing Corporation (the Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. The Governing Board of the Leasing Corporation is the Marion County District School Board. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

■ **Discretely Presented Nonmajor Component Units**

The component unit columns in the basic financial statements, include the financial data of the Public Education Foundation of Marion County, Inc. (the Foundation), and two charter schools: the Marion Charter School, Inc., and the McIntosh Area School, Incorporated (the Charter Schools).

The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public pre-kindergarten through twelfth grade education and adult and vocational and community education programs in Marion County, Florida. The Foundation's governing board is comprised of volunteers whose selection is approved by the District's Board and the Foundation is considered financially accountable to the District; accordingly, it is considered a component unit.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 1 - Summary of Significant Accounting Policies (Continued)

Reporting Entity (Concluded)

■ **Discretely Presented Nonmajor Component Units (Concluded)**

The Charter Schools are not for profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under charters of the sponsoring School District. At the end of the term of a charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the charter school in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)e, Florida Statutes, in the event a school is dissolved or terminated, any unencumbered funds, and all school property purchased with public funds shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The Marion Charter School, Inc.'s current charter is effective until June 30, 2010, and may be renewed up to an additional fifteen years provided that a program review demonstrates that certain criteria addressed in Section 1002.33(7), Florida Statutes, have been successfully accomplished. The McIntosh Area School, Incorporated's current charter was approved July 1, 2003, and was renewed in 2008 to be effective until June 30, 2012. The Charter Schools are considered component units of the District since they are fiscally dependent on the District to levy taxes for their support.

Annual post-audits of the Foundation's and the Charter Schools' financial statements are conducted by independent certified public accountants and are filed in the District's administrative offices.

Basis of Presentation

■ **Government-wide Financial Statements**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Indirect expenses are not allocated to the various functions but are reported as direct expenses in the functions that most closely match the related activities. Depreciation expense is allocated to the functions with custody of the related assets if specifically identifiable. Any remaining depreciation expense not allocable to a particular function is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

■ **Government-wide Financial Statements (Concluded)**

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements. Exceptions to this general rule are when eliminations would distort the direct costs and program revenues reported for the various functions concerned.

■ **Fund Financial Statements**

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

The District reports the following major governmental funds:

- **General Fund**—to account for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- **Capital Projects—Public Education Capital Outlay Fund**—to account for financial resources received from the State gross receipts tax revenues to be used for educational capital outlay needs, including new construction, maintenance, repairs, and renovation and remodeling projects.
- **Capital Projects—Section 1011.71 Capital Improvement Fund**—to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for relocatable school buildings.
- **Capital Projects—Other Capital Projects Fund**—to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

- **Internal Service Fund**—to account for the District's individual self-insurance programs.
- **Agency Funds**—to account for resources of the school internal funds, which are used to administer monies collected at the several schools in connection with school, student athletic, class, and club activities.

Basis of Accounting

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

MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Concluded)

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. The District considers State shared, intergovernmental, and grant revenues susceptible to accrual. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) principal and interest on long-term debt is recognized as expenditures when due; and (2) expenditures related to liabilities reported as long-term are recorded when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

The Foundation, shown as a discretely presented component unit, reports using the not-for-profit financial reporting model and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The Charter Schools, shown as discretely presented component units, are comprised exclusively of governmental fund types, which use the spending measurement focus and modified basis of accounting.

MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The proprietary fund statement of cash flows considers cash as those accounts used as demand deposit accounts and considers as cash equivalents the amounts invested with the State Board of Administration (SBA).

Cash and cash equivalents of the discretely presented component units were comprised of checking accounts and petty cash, most of which are fully insured.

Investments consist of amounts placed with the SBA for participation in the Local Government Surplus Funds Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes; amounts placed in the State Board of Administration Debt Service accounts for investment of debt service moneys; and those made locally. On December 4, 2007, the SBA restructured the Local Government Surplus Trust Fund to also establish the Fund B Surplus Funds Trust Fund.

The District's investments in the Local Government Surplus Funds Trust Fund, which the SBA indicates is a Securities and Exchange Commission Rule 2a7- like external investment pool, as of June 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in the Fund B Surplus Funds Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.923331 at June 30, 2008. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

Investments made locally consist of a money market account held with Regions Morgan-Keegan Trust and funds placed with U.S. Bank as an administrator of issues of Certificates of Participation (see Note 5). The District's instructions to U.S. Bank are to place these funds in First American Treasury Obligations Fund which are similar to the 2a7-like investment pools. Investments made locally are reported at fair value.

Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories, except those for purchased food, commodities, certain nonfood supplies, fuel, and textbooks, are stated at cost on a moving-average basis that approximates cost. Purchased food, nonfood supplies purchased by various food service operations, and fuel inventories are valued at last invoice cost which approximates the first-in, first-out basis. United States Department of Agriculture surplus commodities

**MARION COUNTY DISTRICT SCHOOL BOARD
 NOTES TO FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2008**

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories (Concluded)

are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The textbook inventory is valued at its fair market value as determined by the Florida School Book Depository. The costs of inventories are recorded as expenditures when used rather than purchased, through use of the consumption method.

Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing \$1,000 or more except computer software which are those costing \$5,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Buildings and relocatable buildings are depreciated using the straight-line method over fifty years and twenty years, respectively. Capital assets are depreciated using the composite depreciation method. Composite or group depreciation refers to depreciating a group of similar assets (school buses) or dissimilar assets (school buses, trucks, and vans) of the same class (motor vehicles) using the same depreciation rate. The rate is based on the weighted average estimate of useful lives of assets in the composite. Capital assets are depreciated over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	7 Years
Buildings and Fixed Equipment	20-50 Years
Furniture, Fixtures, and Equipment	5-15 Years
Motor Vehicles	5-10 Years
Audio Visual Materials	3 Years
Computer Software	5 Years

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

Long-term Liabilities

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

MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Liabilities (Concluded)

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

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

State Revenue Sources

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classrooms For Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 1 - Summary of Significant Accounting Policies (Concluded)

District Property Taxes

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

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

The District adopted the 2007 tax levy on September 11, 2007. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4% for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Marion County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

Millages and taxes levied for the current year are presented in a subsequent note.

Capital Outlay Surtax

In November 2004, the voters of Marion County approved a one-half cent school capital outlay surtax on sales in the County for five years, effective January 1, 2005, to pay construction costs of certain school facilities and related costs.

Education Impact Fees

The District receives educational impact fees based on an ordinance adopted by the Marion County Commission in July 2006. The fee is collected by the county for all new residential construction, and can only be used to provide growth-necessitated capital improvements to educational plants and ancillary plants of the District.

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.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 2 - Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Primary Government</u>		
State Board of Administration:		
Local Government Surplus Funds Trust Fund (1)	20.22 Day Average	\$ 44,608,633
Fund B Surplus Funds Trust Fund	9.22 Year Average	6,452,634
Debt Service Accounts	6 months	234,546
U.S. Bank—First American Treasury		
Obligations Fund	19 Day Average	36,294,820
Regions Morgan-Keegan Trust	44 Day Average	3,347,433
Money Market Funds		<u>1,604,838</u>
Total Investments, Primary Government		<u>92,542,904</u>
<u>Component Units</u>		
McIntosh Area School, Incorporated	(2)	328,567
Public Education Foundation of Marion County, Inc.	(3)	<u>335,811</u>
Total Investments, Component Units		<u>664,378</u>
Total Investments		<u>\$ 93,207,282</u>

- Note:** (1) At June 30, 2008, certain significant withdrawals from the Local Government Surplus Funds Trust Fund Investment Pool may be subject to a 2 percent redemption fee by the SBA.
- (2) McIntosh Area School, Incorporated, invests idle funds with the SBA. The maturities, risks, and ratings associated with these investments match those of the District.
- (3) Information regarding the maturities, risks, and ratings associated with investments in money market funds, bonds, and various equities made by a brokerage firm on behalf of the Public Education Foundation of Marion County, Inc., was not disclosed in the annual post audit of the Foundation filed in the District's administrative offices.

■ **Interest Rate Risk**

Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

The maturity of the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool is based on the weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The maturity of the State Board of Administration Local Government Fund B Surplus Funds Trust Fund is based on the weighted average life (WAL). A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates as of June 30, 2008.

MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008

Note 2 - Investments (Concluded)

■ **Credit Risk**

Board policy provides that temporarily idle funds be invested as prescribed by Florida Statutes and State Board of Education rules. Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund, any intergovernmental investment pool, money market funds registered with the Securities and Exchange Commission, with the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories as defined by Section 280.02, Florida Statutes, and direct obligations of the U.S. Treasury.

The District's investments in the SBA Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing credit risk for this account.

As of June 30, 2008, investments in the SBA Local Government Surplus Trust Fund investment pool, Debt Service Funds, Regions Morgan-Keegan Trust, and U.S. Bank First American Treasury Obligations Fund were all rated by Standard & Poor's as AAAM.

The investments in the SBA Fund B Surplus Funds Trust Fund were not rated by any nationally recognized statistical rating agency.

■ **Custodial Credit Risk**

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

Note 3 - Due from Other Agencies

The amount due from other agencies in the Capital Projects - Public Education Capital Outlay Fund consists of Public Education Capital Outlay allocations due from the State to the District for construction of District facilities.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 3 - Due from Other Agencies (Concluded)

The amount due from other agencies in the Capital Projects - Other Capital Projects Fund consist of the following:

Description	Amount
State of Florida:	
Classrooms for Kids	\$ 35,596,070
Sales Tax Referendum	3,584,628
Marion County Tax Collector:	
Educational System Impact Fees	1,039,948
Total	\$ 40,220,646

Note 4 - Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 11,602,298	\$ 21,247	\$ -	\$ 11,623,545
Construction in Progress	51,735,923	61,925,936	98,017,841	15,644,018
Total Capital Assets Not Being Depreciated	63,338,221	61,947,183	98,017,841	27,267,563
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,980,291	27,647	-	4,007,938
Buildings and Fixed Equipment	410,366,622	98,017,841	46,070	508,338,393
Furniture, Fixtures and Equipment	27,412,588	3,994,220	3,078,893	28,327,915
Motor Vehicles	30,534,892	1,206,016	992,157	30,748,751
Audio Visual Materials and Computer Software	3,921,502	183,355	5,525	4,099,332
Total Capital Assets Being Depreciated	476,215,895	103,429,079	4,122,645	575,522,329
Less Accumulated Depreciated for:				
Improvements Other Than Buildings	3,907,653	49,647	-	3,957,300
Buildings and Fixed Equipment	93,627,092	8,286,771	46,070	101,867,793
Furniture, Fixtures and Equipment	18,653,046	2,202,085	3,078,893	17,776,238
Motor Vehicles	20,233,705	2,326,918	992,157	21,568,466
Audio Visual Materials and Computer Software	2,706,319	472,569	5,525	3,173,363
Total Accumulated Depreciation	(139,127,815)	(13,337,990)	(4,122,645)	(148,343,160)
Total Capital Assets Being Depreciated, Net	337,088,080	90,091,089	-	427,179,169
Governmental Activities Capital Assets, Net	\$ 400,426,301	\$ 152,038,272	\$ 98,017,841	\$ 454,446,732

The class of property under capital lease is presented in Note 5.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 4 - Changes in Capital Assets (Concluded)

Depreciation expense was charged to functions as follows:

Function	
Instruction	\$ 805,281
General Administration	2,631
School Administration	22,845
Facilities Services - Non-Capitalized	3,686,894
Fiscal Services	4,351
Food Services	446,482
Central Services	19,343
Pupil Transportation Services	52,619
Operation of Plant	92,315
Maintenance of Plant	93,652
Administrative Technology Services	84,287
Community Services	3,101
Unallocated	8,024,189
Total Depreciation Expense	\$ 13,337,990

Note 5 - Long-term Liabilities

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

Description	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Asset Related Debt:				
Certificates of Participation Payable	\$ 175,811,108	\$ -	\$ 7,931,209	\$ 167,879,899
Bonds Payable	13,345,000	-	860,000	12,485,000
Capital Lease Payable	1,840,843	-	438,112	1,402,731
Total Capital Asset Related Debt	190,996,951	-	9,229,321	181,767,630
Other Long-term Liabilities:				
Compensated Absences Payable	32,217,604	14,017,204	13,153,602	33,081,206
Postemployment Healthcare Benefits Payable	-	9,190,319	1,265,838	7,924,481
Estimated Insurance Claims Payable	9,218,178	3,136,786	2,239,541	10,115,423
Total Governmental Activities	\$ 232,432,733	\$ 26,344,309	\$ 25,888,302	\$ 232,888,740

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

■ **Certificates of Participation Payable**

The District entered into financing arrangements, characterized as lease-purchase agreements, with the Marion County School Board Leasing Corporation (the Corporation), a blended component unit as described in Note 1, whereby the District secured the financing of various educational facilities. The financing was accomplished through the issuance, by the Corporation to third party investors, of certificates of participation. All the certificates issued and outstanding are subject to a master ground

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 5 - Long-term Liabilities (Continued)

■ **Certificates of Participation Payable (Continued)**

and facilities lease-purchase agreement between the District and the Corporation, which ends on the date that all certificates are paid in full. The lease payments, which are used to make debt service payments on the certificates, are payable from funds appropriated annually by the District for such purpose from current funds or other funds legally available. The District is not legally required to annually appropriate funds to make the lease payments.

As a condition of the financing arrangements, the District has given a ground lease on District property acquired with proceeds from the certificates to the Corporation. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangements.

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

<u>Certificates</u>	<u>Description of Properties</u>
Series 1998A	Dunnellon Elementary School, Belleview Middle School
Series 1998B	West Port Middle School, West Port High School
Series 2003	Forest High School Replacement Facility
Series 2005	Saddlewood Elementary School, Refunding 1998A
Series 2005B	Hammett Bowen, Jr. Elementary School, North Marion Middle School Cafeteria, Vanguard High School Classroom Additions and Cafeteria/Multi-Purpose Building
Series 2007B	South Ocala Elementary School, Howard Middle School, Lake Weir High School

Certificates of Participation are comprised of the following at June 30, 2008:

<u>Certificates</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
Series 1998A	\$ 15,460,000	\$ 5,060,000	4.50 - 5.00	2012
Series 1998B	30,200,000	18,400,000	4.15 - 4.75	2018
Series 2003	36,990,000	30,080,000	3.00 - 5.25	2023
Series 2005	9,225,000	9,060,000	3.000 - 4.125	2023
Series 2005B	53,570,000	48,715,000	3.50 - 5.25	2025
Series 2007B	<u>55,000,000</u>	<u>53,310,000</u>	4.00 - 5.00	2027
Subtotal	<u>200,445,000</u>	<u>164,625,000</u>		
Add: Unamortized Premium	-	3,314,630		
Less: Unamortized Refunding Loss	-	<u>(59,731)</u>		
Total	<u>\$ 200,445,000</u>	<u>\$ 167,879,899</u>		

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 5 - Long-term Liabilities (Continued)

■ **Certificates of Participation Payable (Concluded)**

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 15,615,721	\$ 8,100,000	\$ 7,515,721
2010	15,613,266	8,405,000	7,208,266
2011	15,618,029	8,740,000	6,878,029
2012	15,611,040	9,090,000	6,521,040
2013	14,796,705	8,655,000	6,141,705
2014-2018	73,961,494	49,275,000	24,686,494
2019-2023	62,214,013	48,940,000	13,274,013
2024-2027	<u>26,034,875</u>	<u>23,420,000</u>	<u>2,614,875</u>
Subtotal	239,465,143	164,625,000	74,840,143
Add: Unamortized Premium	3,314,630	3,314,630	-
Less: Unamortized Refunding Loss	<u>(59,731)</u>	<u>(59,731)</u>	<u>-</u>
Total	<u>\$ 242,720,042</u>	<u>\$ 167,879,899</u>	<u>\$ 74,840,143</u>

■ **Bonds Payable**

Bonds payable at June 30, 2008, are as follows:

<u>Bond Type</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
<u>State School Bonds:</u>				
Series 1999A	\$ 835,000	\$ 585,000	4.125 - 4.750	2019
Series 2001A	265,000	225,000	4.20 - 5.00	2021
Series 2002B, Refunding	6,160,000	4,390,000	3.500 - 5.375	2015
Series 2003A	1,560,000	1,395,000	3.00 - 4.25	2023
Series 2005A	1,590,000	1,455,000	4.00 - 5.00	2025
Series 2005A	430,000	365,000	5.00	2016
Series 2005B, Refunding	<u>1,020,000</u>	<u>1,015,000</u>	5.00	2018
Total State School Bonds	<u>11,860,000</u>	<u>9,430,000</u>		
<u>Revenue Bonds:</u>				
Series 2001A	<u>3,440,000</u>	<u>3,055,000</u>	3.50 - 5.00	2032
Total Bonds Payable	<u>\$ 15,300,000</u>	<u>\$ 12,485,000</u>		

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

● **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for the State Board of Education bonds. Principal and interest payments, investment of Debt Service Fund resources, and

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 5 - Long-term Liabilities (Continued)

Bonds Payable (Concluded)

compliance with reserve requirements are administered by the State Board of Education and the SBA.

• ***District Revenue Bonds***

Improvement Revenue Bonds are authorized by Chapter 86-375, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Marion County from the State's Pari-Mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. All such moneys not needed for the payment of principal, interest, and handling charges becoming due during the current fiscal year may be used for other lawful purposes. Accordingly, the Board retains no excess sinking fund balances or reserves over the amounts needed to make the required fiscal year payments.

Annual requirements to amortize bonds outstanding as of June 30, 2008, are as follows:

<u>Fiscal Year Ending, June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds			
2009	\$ 1,270,632	\$ 830,000	\$ 440,632
2010	1,273,862	865,000	408,862
2011	1,294,744	930,000	364,744
2012	1,307,269	990,000	317,269
2013	1,336,044	1,060,000	276,044
2014-2018	3,887,056	3,195,000	692,056
2019-2023	1,541,513	1,330,000	211,513
2024-2025	<u>244,519</u>	<u>230,000</u>	<u>14,519</u>
Total State School Bonds	<u>12,155,639</u>	<u>9,430,000</u>	<u>2,725,639</u>
District Revenue Bonds			
2009	216,850	70,000	146,850
2010	218,913	75,000	143,913
2011	220,725	80,000	140,725
2012	217,375	80,000	137,375
2013	218,805	85,000	133,805
2014-2018	1,090,167	485,000	605,167
2019-2023	1,086,375	615,000	471,375
2024-2028	1,082,375	785,000	297,375
2029-2032	<u>860,500</u>	<u>780,000</u>	<u>80,500</u>
Total District Revenue Bonds	<u>5,212,085</u>	<u>3,055,000</u>	<u>2,157,085</u>
Total Bonds Payable	<u>\$ 17,367,724</u>	<u>\$ 12,485,000</u>	<u>\$ 4,882,724</u>

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 5 - Long-term Liabilities (Continued)

■ **Capital Lease Payable**

During fiscal year 2005-06, the District entered into a lease purchase agreement in the amount of \$2,265,000 to purchase portable buildings. The cost of the portable buildings acquired is included in the amount reported for buildings and fixed equipment. The rate of interest on the lease is 5.13 percent and has a maturity date of July 28, 2010.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 498,676	\$ 452,526	\$ 46,150
2010	498,675	467,414	31,261
2011	498,675	482,791	15,884
Total	<u>\$ 1,496,026</u>	<u>\$ 1,402,731</u>	<u>\$ 93,295</u>

Note 6 - Interfund Receivables, Payables, and Transfers

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

<u>Funds</u>	<u>Receivables</u>	<u>Payables</u>
Major Funds:		
General	\$ 3,176,160	\$ -
Capital Projects – Other Capital Projects	-	3,176,160
Total	<u>\$ 3,176,160</u>	<u>\$ 3,176,160</u>

The interfund receivables and payables represent the payment of expenditures by one fund for another and are to be repaid within one month.

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

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
Major Funds:		
General	\$ 4,670,339	\$ 33,911
Capital Projects:		
Public Education Capital Outlay	-	170,339
Section 1011.71 Capital Improvement	-	20,469,217
Nonmajor Governmental	16,003,128	-
Total	<u>\$ 20,673,467</u>	<u>\$ 20,673,467</u>

Transfers from the Capital Projects Funds are for payments of principal and interest on certificates of participation, bonds, and capital leases and to assist in funding maintenance operations of the District. The remaining transfers between funds were operational in nature.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 7 - Reserve for Encumbrances

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered. The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2008-09 fiscal year budget as a result of purchase orders outstanding at June 30, 2008.

Note 8 - Schedule of State Revenue Sources

The following is a schedule of the District's State revenue for the 2007-08 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 107,890,561
Categorical Educational Programs:	
Class Size Reduction	39,088,243
Transportation	11,467,327
Instructional Materials	4,095,530
School Recognition	1,903,323
Voluntary Prekindergarten	1,455,316
Florida Teachers Lead	780,127
Excellent Teaching	714,571
Classrooms for Kids Program	15,905,144
Gross Receipts Tax (Public Education Capital Outlay)	4,002,775
Workforce Development Program	3,300,372
Discretionary Lottery Funds	1,928,761
Motor Vehicle License Tax (Capital Outlay and Debt Service):	
Withheld for State Board of Education Bonds	1,271,530
Distributed to the District	363,733
Mobile Home License Tax	308,606
Food Service Supplement	343,053
Miscellaneous	<u>1,997,335</u>
Total	<u>\$ 196,816,307</u>

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

Note 9 - Property Taxes

The following is a summary of millages and taxes budgeted from the 2007 tax roll for the 2007-08 fiscal year; taxes budgeted are stated at 95 percent of the actual tax roll levy to allow for early payment discounts and uncollectibles:

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 9 - Property Taxes (Concluded)

<u>General Fund</u>	<u>Taxes Millages</u>	<u>Budgeted</u>
Nonvoted School Taxes:		
Required Local Effort	4.896	\$ 104,245,648
Basic Discretionary Local Effort	0.510	10,858,922
Supplementary Discretionary Local Effort	0.201	4,279,693
<u>Capital Projects Fund</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>42,584,007</u>
Total	<u><u>7.607</u></u>	<u><u>\$ 161,968,270</u></u>

Note 10 - Florida Retirement System

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provision relating to FRS are established by Chapter 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. FRS is a single retirement system administered by the Division of Retirement, Department of Management Services and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Benefits in the Plan vest at six years of service. All vested 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; however, there is a benefit reduction 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.

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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, 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, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 705 District participants during the 2007-08 fiscal year. Required contributions made to PEORP totaled \$2,275,289.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 10 - Florida Retirement System (Concluded)

■ FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contributions rates for each membership class of FRS. During the 2007-08 fiscal year, contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
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
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 post-employment health insurance subsidy. Also, employer rates other than for DROP participants include 0.05 percent for administrative costs of the PEORP.
 - (B) Contribution rates are dependent upon the retirement class or plan in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$14,770,829, \$18,496,566, and \$19,367,720, respectively, which were equal to the required contributions for each fiscal year.

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

Note 11 - Postemployment Healthcare Benefits

Effective for the 2007-08 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$97,284,631 at the July 1, 2007, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the Postemployment Healthcare Benefits liability at the date of transition.

■ Plan Description

The Postemployment Healthcare Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District and their eligible dependents, may continue to participate in the District's self-insured health and hospitalization plan for medical and prescription drug coverage.

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 11 - Postemployment Healthcare Benefits (Continued)

■ **Plan Description (Continued)**

The District subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The District does not currently offer any explicit subsidies. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report and is not included in the report of a Public Employee Retirement System or other entity.

● **Funding Policy**

For the Postemployment Healthcare Benefits Plan, contributions requirements of the District are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2007-08 fiscal year, 706 retirees received postemployment healthcare benefits. The District provided \$1,265,838 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. The net amount of retiree contributions totaled \$3,189,193.

● **Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated using the Frozen Entry Age Normal Cost Method based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligations for Postemployment Healthcare Benefits.

Other Postemployment Healthcare Benefit Costs

Normal Cost (Service Cost for One Year)	\$ 5,336,027
Amortization of Unfunded Actuarial Accrued Liability	3,242,821
Interest on Normal Cost and Amortization	<u>611,471</u>
Annual Required Contribution	9,190,319
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	
Annual OPEB Cost (Expense)	9,190,319
Employer Contribution Toward the OPEB Cost	<u>(1,265,838)</u>
Increase in Net OPEB Obligation	7,924,481
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	<u>\$ 7,924,481</u>

The District's annual OPEB cost, the amount contributed, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2008 (first year of implementation), was as follows:

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 11 - Postemployment Healthcare Benefits (Continued)

■ **Plan Description (Concluded)**

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance				
07/01/2007	\$ -	\$ -	0.00%	\$ -
06/30/2008	\$ 9,190,319	\$ 1,265,838	13.77%	\$ 7,924,481

The Unfunded Actuarial Accrued Liability represents an actuarial measurement of the obligation that has accrued so far based on the promise that has been made to current retirees and to current employees. The Annual OPEB Cost is the amount that is expensed for the year. Since the District's OPEB plan is currently unfunded, the offset to that expense comes from actual subsidies paid on behalf of the current retirees and their dependents for the current year. This offset is called the Employer Contribution, and equals the total age-adjusted premiums paid by the District for coverage for the retirees and their dependents for the year (net of the retiree's own payments for the year).

■ **Funded Status and Funding Progress**

As of October 1, 2006, the most recent actuarial valuation to date, the actuarial accrued liability for benefits was \$97,284,631, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$97,284,631. The covered payroll (annual payroll of active participating employees) was \$178,462,439, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 54.51 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Funding Progress was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Frozen Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c.)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a) / c)</u>
10/1/2006	\$ -	\$97,284,631	\$97,284,631	0.00%	\$178,462,439	54.51%

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 11 - Postemployment Healthcare Benefits (Concluded)

■ **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's initial OPEB actuarial valuation as of October 1, 2006, used the Frozen Entry Age Normal cost method with an increasing Normal Cost pattern to estimate the unfunded actuarial liability as of June 30, 2008, and the Frozen Entry Age Normal Cost Actuarial Method to estimate the District's 2007-08 fiscal year annual required contribution. These methods were selected because they produced the lowest OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 19 percent initially, reduced annually to an ultimate rate of 5 percent after six years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 29 years.

Note 12 - Construction Contract Commitments

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

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to-Date</u>	<u>Balance Committed</u>
Dunnellon High School Lighting Replacement: Contractor	\$ 643,505	\$ 205,733	\$ 437,772
Lake Weir High School Additions and Renovation: Contractor	26,672,348	7,772,075	18,900,273
Liberty Middle School Transportation Complex: Contractor	2,554,634	468,413	2,086,221
South Ocala Elementary Pre- Construction: Contractor	184,000	6,084	177,916
Vanguard High Additions and Renovation: Contractor	19,852,489	15,860,761	3,991,728
Ward Highlands Elementary Renovation: Contractor	<u>11,792,753</u>	<u>11,704,911</u>	<u>87,842</u>
Total	<u>\$ 61,699,729</u>	<u>\$ 36,017,977</u>	<u>\$ 25,681,752</u>

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

Note 13 - Risk Management Programs

■ **Self-Insured Programs**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, general liability, property damage, and boiler and machinery coverage are being provided on a self-insured basis up to specific limits.

The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

A liability in the amount of \$10,115,423 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2008.

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

Fiscal Year	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	(Claims Payments)	Balance at Fiscal Year End
2005-06	\$ 9,155,964	\$ 1,911,406	\$ (2,183,846)	\$ 8,883,524
2006-07	8,883,524	1,786,975	(1,452,321)	9,218,178
2007-08	9,218,178	3,136,786	(2,239,541)	10,115,423

■ **Commercially Purchased Insurance**

Health and hospitalization coverage is being provided through purchased commercial insurance with minimum deductibles. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

■ **Employee Benefits Plan**

The Board has an employee benefits plan whereby an employee can choose child-care coverage, medical reimbursement accounts, or various insurance products under a salary reduction plan. The District has elected to account for the activities relating to this plan in the Internal Service Fund.

Note 14 - Litigation

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 giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management, in consultation with legal counsel, that the final settlements of these matters will not result in a material adverse effect of the financial position of the District.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

MARION COUNTY DISTRICT SCHOOL BOARD SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL MAJOR FUND - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Federal Direct:				
Reserve Officers Training Corps	\$ 300,121	\$ 300,121	\$ 335,198	\$ 35,077
Miscellaneous Federal Direct	-	-	11,506	11,506
Total Federal Direct	300,121	300,121	346,704	46,583
Federal Through State:				
Medicaid	1,150,000	1,150,000	1,199,486	49,486
National Forest Funds	341,041	341,041	398,383	57,342
Total Federal Through State	1,491,041	1,491,041	1,597,869	106,828
State:				
Florida Education Finance Program	119,713,176	116,200,001	107,890,561	(8,309,440)
Workforce Development	3,430,757	3,430,757	3,300,372	(130,385)
Workforce Education and Performance Incentive	172,169	172,169	167,743	(4,426)
CO&DS Withheld for Administrative Expenses	30,000	23,980	23,980	-
Categoricals:				
Florida Teacher Lead Program	780,127	780,127	780,127	-
Instructional Materials	4,448,987	4,095,530	4,095,530	-
District Discretionary Lottery Funds	1,621,834	1,593,985	1,928,761	334,776
Pupil Transportation	10,971,272	10,895,656	11,467,327	571,671
Class Size Reduction/Operating Funds	41,359,183	41,076,006	39,088,243	(1,987,763)
School Recognition Funds	3,227,252	1,903,323	1,903,323	-
Excellent Teaching Program	-	714,571	714,571	-
Voluntary Prekindergarten Program	1,677,886	1,677,886	1,455,316	(222,570)
Other State:				
State License Tax	300,000	300,000	308,606	8,606
Miscellaneous State Revenue	2,287,809	2,184,400	1,386,362	(798,038)
Total State	190,020,452	185,048,391	174,510,822	(10,537,569)
Local:				
District School Taxes	119,634,263	119,286,683	119,479,605	192,922
Tuition	-	-	16,752	16,752
Rent	162,000	163,026	231,363	68,337
Investment Income	1,900,000	1,900,000	2,128,066	228,066
Gifts, Grants and Bequests	-	140,958	140,958	-
Adult General Education Course Fees	-	-	188	188
Postsecondary Vocational Course Fees	489,918	489,918	590,050	100,132
Continuing Workforce Education Course Fees	303,450	303,450	298,495	(4,955)
Capital Improvement Fees	55,500	55,500	42,472	(13,028)
Postsecondary Lab Fees	290,816	290,816	321,639	30,823
Lifelong Learning Fees	51,450	51,450	61,907	10,457
Financial Aid Fees	67,200	67,200	84,661	17,461
Other Student Fees	60,000	60,000	63,191	3,191
School Age Child Care Fees	2,850,000	3,350,000	3,431,690	81,690
Miscellaneous Local Revenues	2,736,000	4,812,656	8,410,599	3,597,943
Total Local	128,600,597	130,971,657	135,301,636	4,329,979
Total Revenues	320,412,211	317,811,210	311,757,031	(6,054,179)

MARION COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
MAJOR FUND - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures				
Current Education:				
Instruction:				
Salaries	\$ 132,872,400	\$ 130,259,772	\$ 128,081,994	\$ 2,177,778
Benefits	37,416,136	35,667,536	33,839,855	1,827,681
Purchased Services	12,657,954	13,008,453	12,394,903	613,550
Energy Services	3,500	17,700	14,517	3,183
Materials and Supplies	11,408,694	8,624,583	8,438,303	186,280
Capital Outlay	1,994,173	2,824,229	2,121,684	702,545
Other Expenses	3,026,174	3,334,849	2,496,935	837,914
Total Instruction	<u>199,379,031</u>	<u>193,737,122</u>	<u>187,388,191</u>	<u>6,348,931</u>
Instructional Support:				
Salaries	26,232,308	26,041,260	24,601,231	1,440,029
Benefits	7,547,297	7,271,348	6,612,801	658,547
Purchased Services	2,896,738	3,115,844	2,492,090	623,754
Energy Services	10,550	15,256	13,420	1,836
Materials and Supplies	1,151,216	873,026	507,008	366,018
Capital Outlay	1,069,680	1,056,030	827,450	228,580
Other Expenses	971,583	1,241,957	679,377	562,580
Total Instructional Support	<u>39,879,372</u>	<u>39,614,721</u>	<u>35,733,377</u>	<u>3,881,344</u>
General Support:				
Salaries	20,006,812	20,182,403	19,575,119	607,284
Benefits	5,601,979	5,543,358	5,025,169	518,189
Purchased Services	2,448,659	2,615,304	2,146,593	468,711
Energy Services	26,500	42,900	35,161	7,739
Materials and Supplies	615,518	421,326	320,393	100,933
Capital Outlay	866,998	1,226,235	782,603	443,632
Other Expenses	278,677	386,503	129,015	257,488
Total General Support	<u>29,845,143</u>	<u>30,418,029</u>	<u>28,014,053</u>	<u>2,403,976</u>
Pupil Transportation Services:				
Salaries	13,953,618	13,974,749	13,002,046	972,703
Benefits	4,853,981	4,716,394	4,375,993	340,401
Purchased Services	1,101,007	1,655,157	1,619,971	35,186
Energy Services	2,331,877	3,252,356	3,145,133	107,223
Materials and Supplies	969,510	1,014,510	1,013,060	1,450
Capital Outlay	83,814	107,846	105,713	2,133
Other Expenses	109,073	109,073	86,871	22,202
Total Pupil Transportation Services	<u>23,402,880</u>	<u>24,830,085</u>	<u>23,348,787</u>	<u>1,481,298</u>
Operation and Maintenance of Plant:				
Salaries	16,243,171	16,364,678	15,440,784	923,894
Benefits	5,490,066	5,346,530	4,698,630	647,900
Purchased Services	11,251,611	11,541,848	11,343,227	198,621
Energy Services	7,240,888	7,373,388	7,228,321	145,067
Materials and Supplies	1,320,076	1,690,854	1,663,999	26,855
Capital Outlay	1,990,577	1,796,673	1,242,991	553,682
Other Expenses	90,909	98,909	74,247	24,662
Total Operation and Maintenance of Plant	<u>43,627,298</u>	<u>44,212,880</u>	<u>41,692,199</u>	<u>2,520,681</u>

MARION COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
MAJOR FUND - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Concluded)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (Concluded)				
Current Education: <i>(Concluded)</i>				
Community Services:				
Salaries	\$ 2,034,244	\$ 2,395,688	\$ 2,386,005	\$ 9,683
Benefits	402,302	482,873	460,501	22,372
Purchased Services	111,700	85,700	81,706	3,994
Materials and Supplies	82,500	74,000	37,162	36,838
Capital Outlay	37,500	39,804	39,745	59
Other Expenses	200	9,512	8,697	815
Total Community Services	<u>2,668,446</u>	<u>3,087,577</u>	<u>3,013,816</u>	<u>73,761</u>
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	23,061	23,061	-
Other Capital Outlay	-	1,469,995	1,469,995	-
Total Capital Outlay	<u>-</u>	<u>1,493,056</u>	<u>1,493,056</u>	<u>-</u>
(Total Expenditures)	<u>(338,802,170)</u>	<u>(337,393,470)</u>	<u>(320,683,479)</u>	<u>16,709,991</u>
(Deficiency) of Revenues Over Expenditures	<u>(18,389,959)</u>	<u>(19,582,260)</u>	<u>(8,926,448)</u>	<u>10,655,812</u>
Other Financing Sources (Uses)				
Transfers in	4,500,000	4,687,809	4,670,339	(17,470)
Proceeds from Sale of Capital Assets	-	-	12,000	12,000
Loss Recoveries	-	118,591	120,516	1,925
Transfers (out)	(20,000)	(44,830)	(33,911)	10,919
Total Other Financing Sources (Uses)	<u>4,480,000</u>	<u>4,761,570</u>	<u>4,768,944</u>	<u>7,374</u>
Net Change in Fund Balance	(13,909,959)	(14,820,690)	(4,157,504)	10,663,186
Fund Balance, Beginning of Year	<u>1,437,134</u>	<u>(15,256,806)</u>	<u>32,969,633</u>	<u>48,226,439</u>
Fund Balance, End of Year	<u>\$ (12,472,825)</u>	<u>\$ (30,077,496)</u>	<u>\$ 28,812,129</u>	<u>\$ 58,889,625</u>

**MARION COUNTY DISTRICT SCHOOL BOARD
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

Budgetary Compliance and Accountability

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

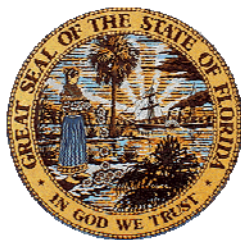
**MARION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

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:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 2,943,319
National School Lunch Program	10.555	300	9,036,777
Summer Food Service Program for Children	10.559	323	303,947
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555(2)	None	1,012,428
Total Child Nutrition Cluster			<u>13,296,471</u>
Florida Department of Banking and Finance:			
Schools and Roads - Grants to States	10.665	None	<u>398,383</u>
Total United States Department of Agriculture			<u>13,694,854</u>
United States Department of Housing and Urban Development:			
Indirect:			
City of Ocala:			
Community Development Block Grants/Entitlement Grants	14.218	None	<u>4,759</u>
United States Department of Justice:			
Indirect:			
Florida Department of Juvenile Justice:			
Juvenile Accountability Block Grants	16.523	None	100,831
Marion County Children's Alliance:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	None	15,170
Marion County Board of Commission:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	None	<u>31,889</u>
Total United States Department of Justice			<u>147,890</u>
National Science Foundation			
Indirect:			
University of Florida:			
Engineering Grants	47.041	None	<u>2,723</u>
United States Department of Education:			
Direct:			
Federal Pell Grant Program	84.063	N/A	368,682
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	189,575
Total Direct			<u>558,257</u>
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027	262, 263	10,144,743
Special Education - Preschool Grants	84.173	267	340,246
Total Special Education Cluster			<u>10,484,989</u>
Adult Education - Basic Grants to States	84.002	191	342,800
Title I Grants to Local Educational Agencies	84.010	212, 222, 226	11,435,474
Migrant Education - State Grant Program	84.011	217	20,766
Title I Program for Neglected and Delinquent Children	84.013	223	213,122
Career and Technical Education - Basic Grants to States	84.048	151	616,005
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	220,471
Education for Homeless Children and Youth	84.196	127	69,990
State Grants for Innovative Programs	84.298	113	95,861
Education Technology State Grants	84.318	121	102,621
Transition to Teaching	84.350	227	50,684
Reading First State Grants	84.357	211	750,249
English Language Acquisition Grants	84.365	102	278,853
Improving Teacher Quality State Grants	84.367	224	1,628,036
Central Florida Community College:			
Tech-Prep Education	84.243	None	41,150
Marion County Children's Alliance:			
Fund for the Improvement of Education	84.215	None	456,642
Total Indirect			<u>26,807,713</u>
Total United States Department of Education			<u>27,365,970</u>

**MARION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

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 Health and Human Services:			
Indirect:			
University of South Florida: Temporary Assistance for Needy Families	93.558	None	\$ 137,754
Early Learning Coalition of Marion County, Inc.: Child Care and Development Block Grant	93.575	None	<u>14,314</u>
Total United States Department of Health and Human Services			<u>152,068</u>
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	234	660
The Florida Commission on Community Service: AmeriCorps	94.006	None	<u>96,530</u>
Total Corporation for National Community Service			<u>97,190</u>
United States Department of Homeland Security			
Indirect:			
Florida Department of Education: Homeland Security Grant Program	97.067	None	<u>13,183</u>
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officer Training Corps	None	N/A	191,742
Navy Junior Reserve Officer Training Corps	None	N/A	48,656
Army Junior Reserve Officers Training Corps	None	N/A	<u>94,800</u>
Total United States Department of Defense			<u>335,198</u>
Total Expenditures of Federal Awards			<u><u>\$ 41,813,835</u></u>

- Notes:
- (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2007-08 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. Represents the amount of donated food received during the 2007-08 fiscal year. Commodities are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



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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 Marion County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Marion 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 Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is not a material weakness.

Compliance and Other Matters

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

We noted certain operational matters that we reported to District management in our audit report No. 2009-028.

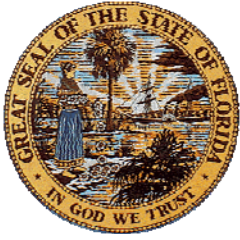
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
December 11, 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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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 Marion County District School Board'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, 2008. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

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 a deficiency in internal control over compliance that we considered to be a significant deficiency.

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 deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

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 the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be a material weakness.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
December 11, 2008

**MARION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,254,415
Auditee qualified as low-risk auditee?	Yes

**MARION COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENT FINDINGS

Significant Deficiency

Finding No. 1: Financial Reporting

Our review of the District’s 2007-08 fiscal year annual financial report, as presented for audit, disclosed that enhancements in procedures should be made for reporting certain account balances. District personnel typically record encumbrances in the general ledger as they issue purchase orders, and reduce the encumbrance amounts as payments are made. However, since payments were not made for retainage payables, totaling \$255,097 and \$6,383,207, respectively, in the Capital Projects Funds – Section 1011.71 Capital Improvement Fund and the Capital Projects – Other Capital Projects Fund, the District inadvertently overstated reserved for encumbrances and understated unreserved fund balances reported in capital projects funds. Additionally, we noted other control deficiencies over financial reporting, such as on the statement of net assets, the District erroneously excluded the portion of the debt attributable to unexpended proceeds, totaling approximately \$69 million, in the calculation of net assets - restricted for capital projects, resulting in an understatement of unrestricted net assets and an overstatement of net assets - restricted for capital projects. We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the account balances.

Recommendation: To facilitate proper financial reporting, the District should enhance procedures to ensure the accuracy of the District’s financial statements.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Improving Teacher Quality State Grants (CFDA No. 84.367)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: Not Applicable**

Special Tests and Provisions – Highly Qualified Teachers. Title 20, Section 6623, United States Code, provides that Improving Teacher Quality (ITQ) funds may be used to hire highly qualified teachers. Title 34, Section 200.56, Code of Federal Regulations, stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be highly qualified.

The Florida Department of Education performed a monitoring review of the ITQ program for the 2007-08 fiscal year which disclosed that the District used program funds to pay the salaries and benefits of two employees, who were not highly qualified teachers. The District subsequently determined that program funds were also used to compensate a third non-highly qualified teacher. In February 2008, the District restored these questioned costs by transferring expenditures of \$67,879, representing salaries and benefits costs of the three non-highly qualified teachers, from the ITQ program to the General Fund.

Recommendation: The District should implement procedures to ensure that all teachers paid from the Improving Teacher Quality program are highly qualified.

District Contact Person: Marilyn Underwood, Executive Director of Staff Development

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit – A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*MARION COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008*

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
Purvis, Gray and Company		No Prior Federal Audit Findings		

EXHIBIT – A
MANAGEMENT’S RESPONSE



**Marion County
Public Schools**

Where Every Child Can Learn

512 SE Third Street • PO Box 670 • Ocala FL 34478-0670
(352) 671-7700 • Fax (352) 671-7788
www.marion.k12.fl.us
FRS (800) 955-8770 (voice) • (800) 955-8771 (TTY)

November 12, 2008

Superintendent
Mr. James M. Yancey, Jr.

District I
Mrs. Judith Zenetti
2927 SE 22nd Avenue
Ocala FL 34471

District II
Mr. Steven Hering
13700 SE 45th Court
Summerfield FL 34491

District III
Mr. Bobby L. James
20566 Walnut Street
Dunnellon FL 34431

District IV
Mrs. Sue Mosley
5184 SE 20th Street
Ocala FL 34471

District V
Mr. Ronald B. Crawford
PO Box 787
McIntosh FL 32664

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

SUBJECT: Responses to Preliminary and Tentative Audit Findings
Of the Marion County District School Board Operational
Audit for the Period July 1, 2007 through June 30, 2008

Dear Mr. Martin:

The following are our responses to the preliminary and tentative audit findings and recommendations of the federal and financial audit for the fiscal year ended June 2008.

Financial Statement Findings

Finding No. 1: Financial Reporting

The District will enhance current procedures to ensure the accuracy of the District’s financial statement statements. The deficiency has been noted and the District will enhance the review process of the financial statements.

Federal Awards Finding

Finding No. 1: Special Tests and Provisions – Highly Qualified Teachers

The District has developed a procedure for ensuring that only Highly Qualified teachers received funds from the Title II program. The process involves verification by the Executive Director of Staff Development and coordination with the Employment Services Department to research and document that all those proposed for funding under Title II are Highly Qualified.

EXHIBIT – A (CONTINUED)
MANAGEMENT’S RESPONSE

We appreciate the opportunity to respond to these findings.

Sincerely,

A handwritten signature in black ink, appearing to read "Yancey". The signature is written in a cursive style with a large, looped initial "Y".

Mr. James M. Yancey, Jr.
Superintendent
Marion County Public Schools

tbe