

**LEE COUNTY
DISTRICT SCHOOL BOARD**

Financial and Federal Single Audit

For the Fiscal Year Ended
June 30, 2008



BOARD MEMBERS AND SUPERINTENDENT

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

	<i>District</i>
	<u>No.</u>
<i>Robert D. Chilmonik</i>	1
<i>Jeanne S. Dozier, Chair</i>	2
<i>Dr. Jane E. Kuckel, Vice-Chair</i>	3
<i>Steven K. Tueber, J.D.</i>	4
<i>Dr. Elinor C. Scricca</i>	5
 <i>Dr. James W. Browder, Superintendent</i>	

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 David A. Pournaras, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. 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.

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

SIGNIFICANT DEFICIENCY

Finding No. 1: The District incurred expenditures, totaling approximately \$3.7 million, from 2005-06 fiscal year capital outlay millage proceeds for computer software and related items, which were not specifically listed in Section 1011.71(5), Florida Statutes (2005), as allowable uses of such proceeds.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal program tested.

Audit Objectives and Scope

Our audit objectives were to determine whether the Lee 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;
- 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; and
- Taken corrective actions for findings included in previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 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. 2009-048.

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
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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 Lee 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 aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lee County District School Board as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Lee 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 18) and the **SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS** (page 65) 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 Lee 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

January 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the School District of Lee County's Annual Financial Report presents management's discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2008. Please read it in conjunction with the District's Financial Statements, which immediately follow this section.

Financial Highlights

- District's assets exceeded its liabilities by \$1,236,775,091 as of fiscal year ending June 30, 2008.
- Net assets of the District increased by \$158,004,739, or 14.6 percent in comparison to 2006-07 fiscal year.
- The District's Government-wide revenues totaled \$988,495,729, comprised of general revenues of \$861,725,130 or 87.2 percent of the total revenues, program specific revenues from charges for services, operating grants and contributions, and capital grants and contributions, totaling \$126,770,599 or 12.8 percent of the total revenues.
- Expenses incurred by the District totaled \$830,490,990 for governmental related activities. Program specific revenues offset these expenses by \$126,770,599 and general revenues funded the remaining difference.
- The District's governmental funds reported combined ending balances of \$464,474,941 or an increase of \$11,110,213 or 2.5 percent in 2007-08 fiscal year in comparison with the prior year.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$90,266,253, at June 30, 2008, or 14.0 percent of total General Fund expenditures.
- The General Fund total fund balance as of June 30, 2008, totaled \$122,165,805, a 5.3 percent increase in comparison to the 2006-07 fiscal year total of \$116,001,550. The increase in total fund balance of the General Fund is mainly attributed to the increase in local revenues of \$23,456,632.
- The District's investment in capital assets (net of accumulated depreciation) increased by \$118,628,940 or 9.4 percent.

Overview of the Financial Statements

The financial section of the District's annual financial report consists of two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements include several statements that present different views of the District:

- The first two statements are *Government-wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.
- The *Governmental Funds Statements* tell how basic services, such as regular and special education, were financed in the *short term* as well as what remains for future spending.

- The *General Fund's Statement of Revenues, Expenditures and Changes in Fund Balance- Budget vs. Actual* is presented for the primary operating fund of the District.
- The *Proprietary Funds Statements* offer *short-term* and *long-term* financial information about the activities the District operates as Internal Service Funds, such as self-insurance.
- The *Fiduciary Funds Statement* provides information about the financial relationship in which the District acts solely as a *trustee or agent* for the benefit of others.

The Basic Financial Statements also include notes that explain information in the statements and provide more detailed data. Figure A-1 on the following page shows how the various parts of this report are arranged and related to one another.

Figure A-1

Organization of the District's Annual Financial Report

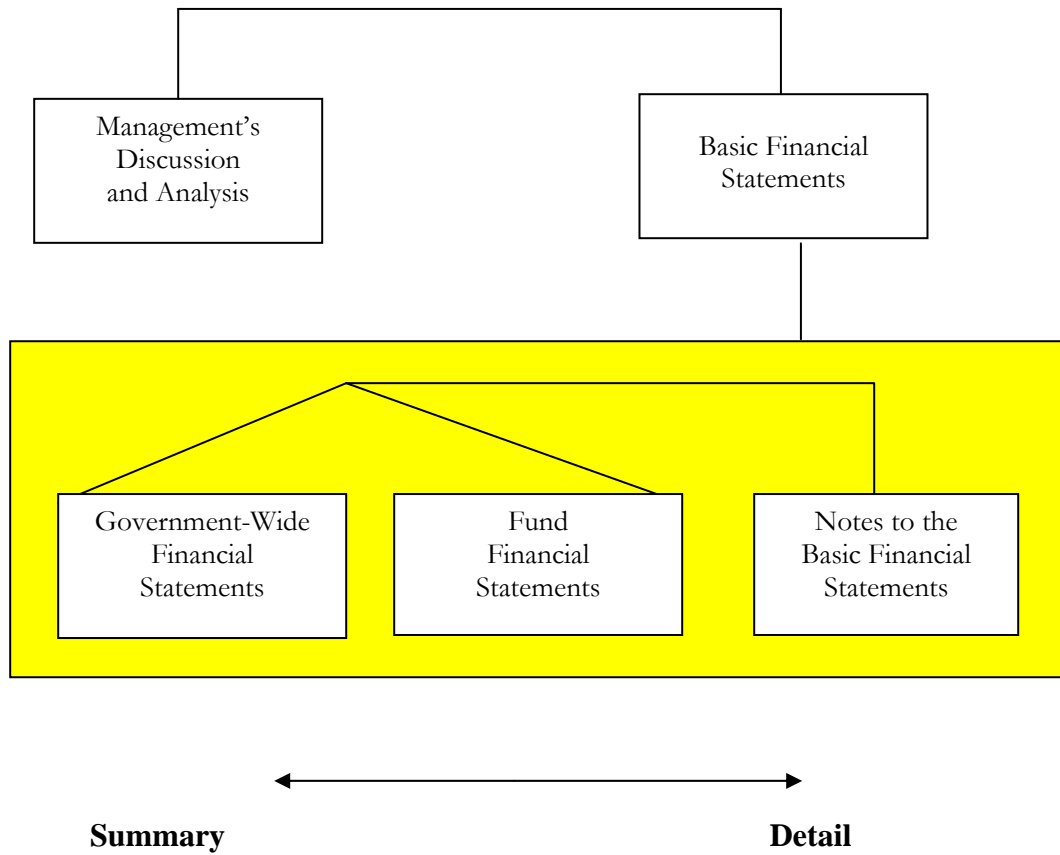


Figure A-2 summarizes the major features of the District’s Basic Financial Statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of Management’s Discussion and Analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as delivery of student instruction and building maintenance.	Activities the District operates similar to private businesses.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenditures, and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Assets and Liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both financial and capital, short-term and long-term; funds do not currently contain capital assets, although they can.
Type of in-flow/out-flow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and deductions during the year, regardless of when cash is received or paid.

Government-Wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's nonfiduciary assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two Government-wide statements report the District's *net assets* and *how they have changed*. Net assets (the difference between the District's assets and liabilities) are one way to measure the District's financial health or *position*.

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

In the Government-wide statements, the District's activities are divided into two categories:

Governmental Activities: Most of the District's basic services are included here, such as student instruction, transportation, maintenance and operations, and administration. Property taxes and State aid finance most of these activities. The Lee County School Board Leasing Corporation (Leasing Corporation), although legally separate, was formed December 17, 2003, to facilitate financing for the acquisition of facilities and equipment. Due to a substantive economic relationship between the District and Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

Component Units: The District includes eleven other entities in its report – The Foundation for Lee County Public Schools, Inc., Bonita Springs Charter School, Cape Coral Charter School, Gateway Charter School, Gateway Charter High School, Goodwill Academies of Southwest Florida, Inc., Lee Charter Academy, Inc., L.I.F.E. Skills Center Lee County, Inc., Richard Milburn Academy of Florida, Inc., Six Mile Charter Academy, and The Island School, Inc. Although legally separate, these “component units” are important because the District is financially accountable. The Lee County School Board Leasing Corporation (Leasing Corporation) was formed on December 17, 2003, to facilitate financing for the acquisition of facilities and equipment. 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.

Fund Financial Statements

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

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

The District has three kinds of funds:

Governmental Funds

Most of the District's basic services, such as instruction and facilities acquisition and construction, are included in governmental funds. These funds generally focus on 1) how cash and other financial assets can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statement provides a detailed, short-term view that assists the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation is provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance which explains the relationships and/or differences between the funds.

Proprietary Funds

Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District uses two *Internal Service Funds* (a type of proprietary fund), to report activities that provide supplies and services for its other programs and activities.

Fiduciary Funds

The District is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes. The District excludes these activities from the Government-wide statements because it cannot use these funds to finance its operations.

Financial Analysis of the District (Primary Government) as a Whole

Net Assets. The District's *combined* net assets were significantly larger on June 30, 2008, than they were the previous year, increasing \$158.0 million, or 14.6 percent to \$1,236.8 million (see Figure A-3). By far, the largest portion of the District's net assets, \$802.5 million (64.9 percent) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, equipment, motor vehicles, software and audio visual materials), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to house and educate the students of Lee County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets, \$357.1 million (28.9 percent), represents resources that are subject to external restrictions on how they may be used. The remaining net assets, \$77.2 million (6.2 percent), are unrestricted assets. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Figure A-3

Condensed Statement of Net Assets (in millions of dollars)

	Governmental Activities		Total Percentage Change
	2007	2008	
Current and Other Assets	\$ 588.3	\$ 607.8	3.3%
Capital Assets	1,257.0	1,375.6	9.4%
Total Assets	1,845.3	1,983.4	7.5%
Long-Term Debt Outstanding	676.2	674.7	(0.2)%
Other Liabilities	90.3	71.9	(20.4)%
Total Liabilities	766.5	746.6	(2.6)%
Net Assets			
Invested in Capital Assets, net of related debt	648.0	802.5	23.8%
Restricted	354.9	357.1	0.6%
Unrestricted	75.9	77.2	1.7%
Total Net Assets	\$ 1,078.8	\$ 1,236.8	14.6%

The District's improved financial position is the product of many factors, but the most significant increases are due to:

- An increase in food service revenue; and
- Increases in assessed property values.

Changes in Net Assets. The District's total revenue decreased 3.3 percent to \$988.5 million (see Figure A-4). Property taxes, other Federal and State sources and contributions, and capital grants and contributions for specific program funding accounted for most of the District's revenue, contributing about 89 cents of every dollar raised (see Figure A-5). Another four percent came from operating grants for specific programs, with the remainder from fees charged for services, investment earnings and local sources. The \$44.0 million increase in property taxes was derived largely from the growth in the tax base.

The total cost of all programs and services rose 7.4 percent to \$830.5 million. Eighty-seven percent of the District's expenses are related to student instruction, student services, and maintenance of schools (see Figure A-6). The District's administrative activities, including school administration, accounted for ten percent of total costs. The \$33.9 million increase in instructional costs was derived largely from salary increases and benefits, in this case for teachers and other educational staff.

Total revenue surpassed expenses, increasing net assets \$158.0 million and contributing to the District's healthier fiscal status.

Figure A-4

Changes in Net Assets from Operating Results (in millions of dollars)

	Governmental Activities		Total Percentage Change
	2007	2008	
<i>Revenues</i>			
Program Revenues			
Charges for Services	\$ 20.9	\$ 20.7	(1.0)%
Operating Grants and Contributions	36.1	39.7	10.0%
Capital Grants and Contributions	96.8	66.4	(31.4)%
General Revenues			
Property Taxes	608.8	652.8	7.2%
Florida Education Finance Program	31.4	16.0	(49.0)%
Other Federal Sources	51.2	49.6	(3.1)%
Other State Sources	100.6	118.9	18.2%
Other Local Sources	49.1	7.8	(84.1)%
Investment Earnings	27.8	16.6	(40.3)%
Total Revenues	1,022.7	988.5	(3.3)%
<i>Expenses</i>			
Instruction	381.9	415.8	8.9%
Pupil Personnel Services	25.9	28.7	10.8%
Instructional Media Services	6.9	7.3	5.8%
Instruction and Curriculum Development Services	18.8	16.1	(14.4)%
Instructional Staff Training Services	7.6	11.9	56.6%
Instruction Related Technology	3.9	4.5	15.4%
Board	0.8	0.9	12.5%
General Administration	4.5	4.7	4.4%
School Administration	39.6	42.9	8.3%
Facilities Services	75.1	77.7	3.5%
Fiscal Services	3.9	3.8	(2.6)%
Food Services	30.8	30.7	(0.3)%
Central Services	8.1	10.2	25.9%
Pupil Transportation Services	45.3	51.4	13.5%
Operation of Plant	66.1	69.7	5.4%
Maintenance of Plant	15.3	16.7	9.2%
Administrative Technology Services	3.7	4.1	10.8%
Community Services	7.6	7.1	(6.6)%
Interest on Long-Term Debt	27.1	26.3	(3.0)%
Unallocated Depreciation Expense	0.1	-	(100.0)%
Total Expenses	773.0	830.5	7.4%
Increase in Net Assets	249.7	158.0	(36.7)%
Net Assets, Beginning	829.1	1,078.8	30.1%
Net Assets, Ending	\$ 1,078.8	\$ 1,236.8	14.6%

Figure A-5

Sources of Revenues for Fiscal Year 2008

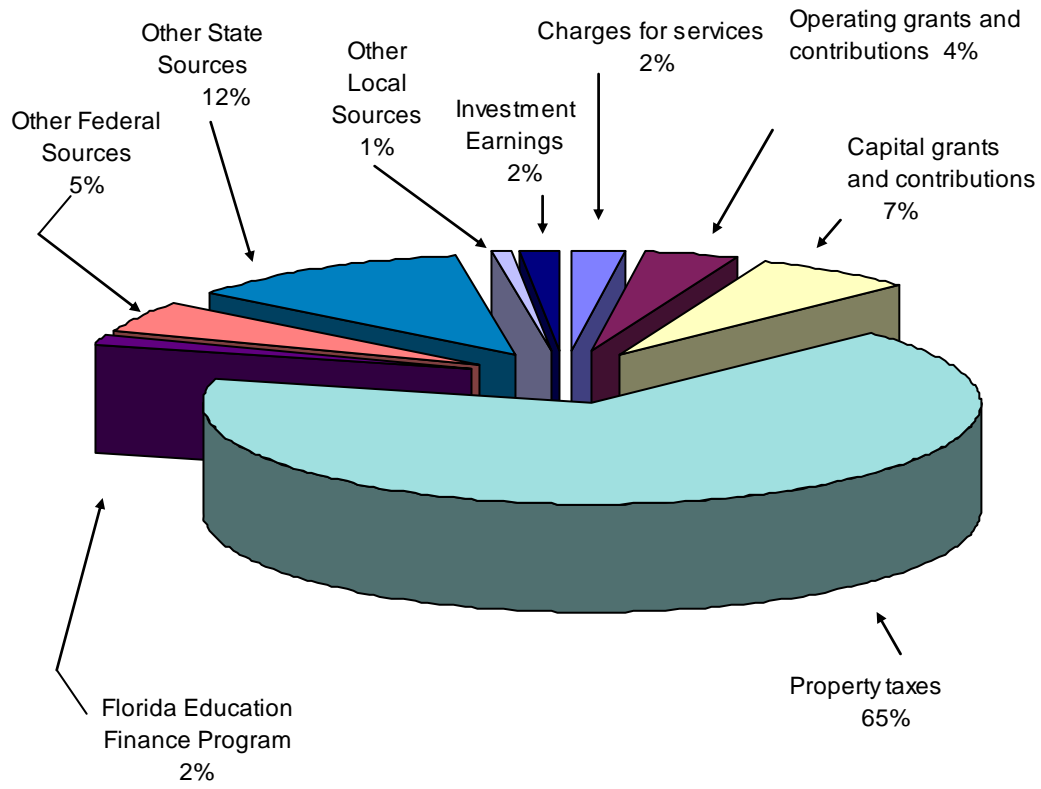
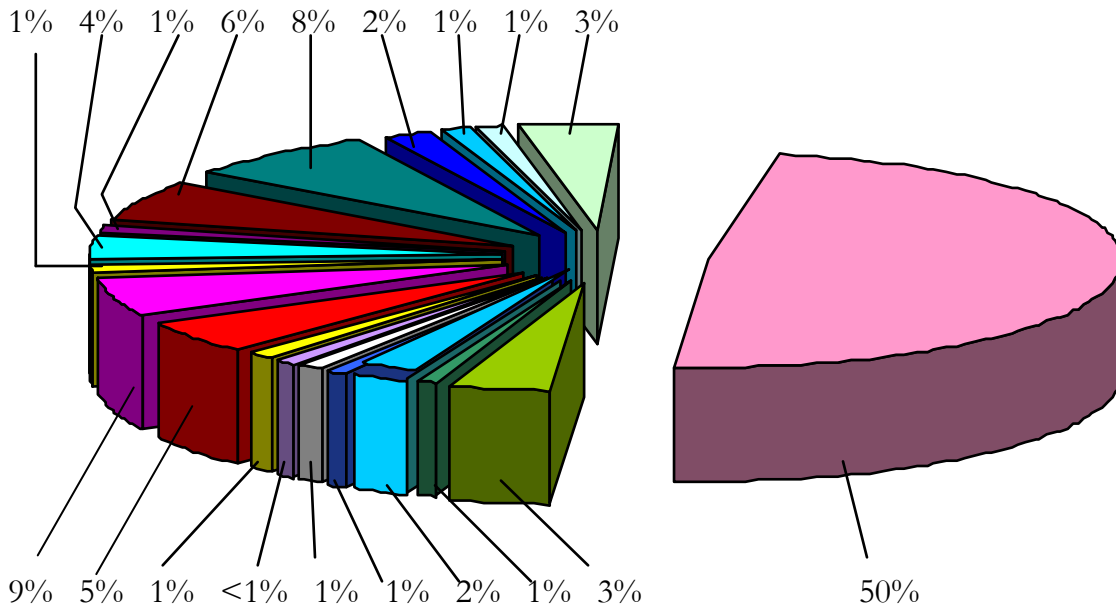





















Figure A-6

Expenses for Fiscal Year 2008

(i)



- | | |
|--|---|
|  Instruction - 50% |  Fiscal Services - 1% |
|  Pupil Personnel Services - 3% |  Food Services - 4% |
|  Instructional Media Services - 1% |  Central Services - 1% |
|  Instruction and Curriculum Development Services - 2% |  Pupil Transportation Services - 6% |
|  Instructional Staff Training Services - 1% |  Operation of Plant - 8% |
|  Instruction Related Technology - 1% |  Maintenance of Plant - 2% |
|  Board <1% |  Administrative Technology Services - 1% |
|  General Administration - 1% |  Community Services - 1% |
|  School Administration - 5% |  Interest on Long-Term Debt - 3% |
|  Facilities Services - 9% | |

Governmental Activities

Revenues for the District's governmental activities decreased 3.3 percent, while expenses increased 7.4 percent. The increase in net assets for governmental activities was \$158.0 million in 2008.

Figure A-7 presents the cost of the District's activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the taxpayers by each of these functions.

Figure A-7

Net Cost of Governmental Activities, Primary Government (in millions of dollars)

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2007	2008	Change	2007	2008	Change
Instruction	\$ 381.9	\$ 415.8	8.9%	\$ (373.0)	\$ (406.7)	9.0%
Pupil Personnel Services	25.9	28.7	10.8%	(25.9)	(28.7)	10.8%
Instructional Media Services	6.9	7.3	5.8%	(6.9)	(7.3)	5.8%
Instruction and Curriculum Development Services	18.8	16.1	(14.4)%	(18.8)	(16.1)	(14.4)%
Instructional Staff Training Services	7.6	11.9	56.6%	(7.6)	(11.9)	56.6%
Instruction Related Technology	3.9	4.5	15.4%	(3.9)	(4.5)	15.4%
Board	0.8	0.9	12.5%	(0.8)	(0.9)	12.5%
General Administration	4.5	4.7	4.4%	(4.5)	(4.7)	4.4%
School Administration	39.6	42.9	8.3%	(39.6)	(42.9)	8.3%
Facilities Services	75.1	77.7	3.5%	19.4	(13.6)	(170.1)%
Fiscal Services	3.9	3.8	(2.6)%	(3.9)	(3.8)	(2.6)%
Food Services	30.8	30.7	(0.3)%	(2.6)	(0.4)	(84.6)%
Central Services	8.1	10.2	25.9%	(8.1)	(10.2)	25.9%
Pupil Transportation Services	45.3	51.4	13.5%	(25.3)	(30.4)	20.2%
Operation of Plant	66.1	69.7	5.4%	(66.1)	(69.7)	5.4%
Maintenance of Plant	15.3	16.7	9.2%	(15.3)	(16.7)	9.2%
Administrative Technology Services	3.7	4.1	10.8%	(3.7)	(4.1)	10.8%
Community Services	7.6	7.1	(6.6)%	(7.6)	(7.1)	(6.6)%
Interest on Long-Term Debt	27.1	26.3	(3.0)%	(24.8)	(24.0)	(3.2)%
Unallocated Depreciation Expense	0.1	-	(100.0)%	(0.1)	(0.0)	(100.0)%
Total	\$ 773.0	\$ 830.5	7.4%	\$ (619.1)	\$ (703.7)	13.7%

The cost of all governmental activities this year was \$830.5 million.

Part of the cost was financed by the users of the District's programs (\$20.7 million).

The Federal and State governments subsidized certain programs with grants and contributions (\$106.1 million).

However, most of the District's costs (\$703.7 million) were financed by District and State taxpayers. This portion of governmental activities was financed with \$652.8 million from property taxes and \$208.9 million of unrestricted FEFP based on the Statewide education aid formula, and other Federal, state, and local sources.

Financial Analysis of the District's Funds

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

end of the fiscal year. As the District completed the year, its Governmental Funds reported combined fund balances of \$464.5 million, which is above last year's ending fund balances of \$453.4 million. Unreserved fund balance of \$378.1 million represents 81.4 percent of the ending fund balances and is available to meet the District's short-term spending needs within the corresponding fund types. The remainder of fund balance is reserved to indicate that it is not available for new spending, because it has already been committed: 1) to liquidate contracts and purchase orders outstanding at year-end of \$41.0 million; 2) to pay debt service of \$2.8 million; and 3) to fund state categorical programs of \$38.3 million.

Five of the 11 Governmental Funds had more revenue and other financing sources than expenditures and other financing uses in 2008, thereby contributing to the increase in total fund balance. Most significantly, \$57.6 million of capital outlays connected with construction remodeling and renovation of various schools were not expended in the current year. Many of these projects are ongoing and require multiple years to complete. Some funds reflect deficits (\$59.2 million) between current year revenues and expenditures. These deficits occurred because prior year resources were used to finance current year expenditures.

The *General Fund* is the District's chief operating fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$90.3 million, while total fund balance reached \$122.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 14.0 percent of total General Fund expenditures, while total fund balance represents 18.9 percent of that same amount. During the current fiscal year, the fund balance of the General Fund increased by \$6.2 million. A key factor in this increase was a \$26.2 million increase in property taxes as a result of a growth in the tax base.

The *Certificates of Participation Debt Service Fund* is used to account for the resources accumulated and payments made for principal, interest, and related costs on the long-term Certificates of Participation. The reserved fund balance at the end of fiscal year 2008 was \$2.2 million, a decrease of \$0.93 million from the prior fiscal year. The reason for this decrease is the increase in principal, interest, and related costs payments on the long-term Certificates of Participation.

The *Local Capital Improvement Tax Capital Projects Fund* is used to account for the resources generated by the local capital improvement tax to be used for educational capital outlay needs. At June 30, 2008, the total fund balance was \$200.0 million. This was an increase of \$57.6 million over the prior fiscal year. The reason for this increase is due to conservative spending.

The *Certificates of Participation/Impact Fees/State Grants Capital Projects Fund* is used to account for the resources generated by various sources for educational capital outlay needs, including new construction and renovation and remodeling projects as specified in statute, ordinance, or contract. The total fund balance for this fund at the end of the current fiscal year was \$111.6 million, a decrease of \$55.1 million from the prior fiscal year. The primary reason for this change was because prior year resources were used to finance current year expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual budget several times. These budget amendments generally fall into two categories:

Amendments Related to Changes in Revenue Estimates.

Throughout the school year, the District received revised calculations in the FEFP (Florida Education Finance Program – the funding formula for Florida school districts), based on changes in student counts, State revenue estimates, and local tax roll estimates. With each calculation, the budget is amended to reflect the current revenue estimates provided in the FEFP. The District will also amend revenues in the General Fund for new State grants and changes in Local revenue sources, such as interest income and indirect cost revenue.

Amendments to Modify Appropriations.

Throughout the fiscal year, the District may increase appropriations for new grants and unanticipated expenditures such as hurricane damage.

Each school and department is allowed to modify its existing budget to meet its operational needs throughout the school year. An example of this type of amendment would be to move appropriations from purchased supplies to textbooks in order to acquire new textbooks for the art class.

Budgeted expenditures were decreased \$5.3 million from the original budget to the final amended budget to account for decreases in employee salaries and benefits and energy expenditures.

- Although the District’s final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by approximately \$93.1 million, the actual results for the year show that revenues exceeded expenditures by \$6.2 million.
- The actual expenditures were \$96.9 million below budgeted levels. Actual expenditures for instruction were more than \$51.3 million below budgeted levels due to conservative spending at the schools.
- Actual expenditures for maintenance of plant and capital outlay were \$16.0 million below budgeted levels due to conservative spending at the schools.

Capital Assets and Debt Administration

Capital Assets

By the end of 2008, the District had invested \$1,375.6 million in a broad range of assets, including land, school buildings, athletic facilities, computer and audio visual equipment, and administrative offices (see Figure A-8). This amount represents a net increase of \$118.6 million, or 9.4 percent, from last year. Additions to land, buildings, land improvements, equipment and furniture amounted to \$274.2 million for the fiscal year. Total depreciation expense for the year exceeded \$45 million. (More detailed information about capital assets can be found in Note 5 to the Financial Statements.)

Figure A-8

Capital Assets (net of depreciation, in millions of dollars)

	Governmental		Total Percentage Change
	Activities		
	<u>2007</u>	<u>2008</u>	
Land	\$ 150.0	\$ 158.3	5.5%
Improvements Other Than Buildings	23.0	27.4	19.1%
Construction in Progress	277.5	155.5	(44.0)%
Buildings	754.5	973.5	29.0%
Furniture, Fixtures and Equipment	19.4	24.0	23.7%
Motor Vehicles	29.6	33.1	11.8%
Audio Visual Materials and Software	3.0	3.8	26.7%
Total	\$ 1,257.0	\$ 1,375.6	9.4%

The District’s approved five-year Capital Outlay Plan includes 7 new schools over the next five years. The District’s student enrollment has grown steadily over the last several years – 20.2 percent since 2004 for a present enrollment of 79,446 students. Since the early 1990s, student enrollment has exceeded the District’s seating capacity.

The District’s capital projects budget shows spending another \$512.4 million in fiscal year 2008-09 for capital projects, principally in four areas:

- 1) \$297.4 million to begin the construction of four new schools, four school additions, one school renovation and two new ancillary buildings and to complete the construction of nine new schools.
- 2) \$10.0 million for new land acquisition.
- 3) \$37.1 million to continue the upgrade of technology equipment.
- 4) \$86.8 million for school maintenance.

Long-Term Debt

At year-end, the District had \$580.9 million in COPS, SBE bonds, and Capital Leases outstanding, a decrease of 2.9 percent from last year, as shown in Figure A-9. (More detailed information about the District’s long-term liabilities is presented in Note 7 to the Financial Statements.)

Figure A-9

Outstanding Long-Term Debt (in millions of dollars)

	Total School District		Total Percentage Change
	<u>2007</u>	<u>2008</u>	
Certificates of Participation and Capital Leases (financed with property taxes)	\$ 577.8	\$ 561.3	(2.9%)
State School Bonds (financed with specific taxes & fee revenues)	20.5	19.6	(4.4%)
Total	\$ 598.3	\$ 580.9	(2.9%)

During the year, \$20.7 million in old debt was defeased.

The District continues to retire its outstanding debt as it becomes due, retiring \$24.3 million of outstanding certificates of participation and bonds during the 2007-08 fiscal year.

Factors Bearing on the District's Future

At the time these Financial Statements were prepared, the District was aware of six existing circumstances that could significantly affect its financial health in the future:

- State of Florida estimates project that the Lee County School District will lose more than 800 students during a two-year period beginning in School Year 2008-09. If it holds true, it may be the first time the District's year-to-year student head count has dropped. This estimate does not take into account growth within the county's charter schools or juvenile justice centers. Though the District grew by about 20,000 students between 2000 and 2007, it recently lost students mid-year. From August 2007 to May 2008, the District lost about 2,400 students. However, in the aftermath of the exodus, the District still posted a gain of about 115 students, since more than 2,500 new students enrolled in the beginning of the school year. In its most recent head count, the District had 79,446 students. Despite the large mid-year loss of students, the state estimate, which was released June 24, actually projects a growth of more than 1,900 students for the upcoming school year.
- The Capital Outlay millage is an important source of revenue for schools and each school district must determine the amount of millage to levy, which can range from 0-mills up to a maximum of the full 2-mills authorized by §1011.71(2) F.S. House Bill 5083 amended §1011.71 (2) F.S., by reducing the authorization from 2.0 mills down to 1.75 mills. For the 2008-2009 fiscal year, districts cannot levy more than the 1.75 mills for capital outlay purposes.
- Current revenue shortfalls at the state level, bleak estimates of state sales tax revenue, and the passing of Amendment One in 2008 all add up to reduced education funding for next year. The District is facing an almost \$30 million budget deficit for 2009.
- On January 29, 2008, Florida voters passed Amendment One, increasing the homestead exemption. While we estimate that this amendment will cost our school district approximately \$8.9 million in 2009 and over \$65 million over five years, the governor guaranteed to hold school districts harmless and replace this funding with state funding.
- Florida's Economic Estimating Conference forecast reveals an economy burdened in the short run but still showing underlying resilience in the longer-term. Nevertheless, the report anticipates that normal economic growth will not return until the latter half of FY 2009-10, which is 6 months later than had been predicted earlier
- The Support Personnel Association of Lee County (SPALC), Teachers Association of Lee County (TALC), and the District Bargaining Teams met in a joint session to bargain the impact of the financial crisis facing the School District of Lee County. Using the Interest Based Bargaining Process the Teams have agreed to the following straw design:
 - Until negotiations are completed and an agreement is ratified, the parties agreed to freeze all bargaining unit employees compensation, including step progression at 2007-2008 salary schedule pay rates.
 - The parties agree to commence formal joint negotiations no later than September 30, 2008, to continue discussions related to the economic provisions of the agreements.
 - The Insurance Task Force will continue discussions on health insurance options and the impact of the benefit bank.

Contacting the District's Financial Management

This Annual Financial Report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Financial Accounting, The School District of Lee County, 2855 Colonial Blvd., Fort Myers, Florida 33966.

BASIC FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government Governmental Activities	Component Units	Total Reporting Unit
ASSETS			
Cash	\$ 173,510,914	\$ 7,444,602	\$ 180,955,516
Investments	316,777,541	-	316,777,541
Accounts Receivable	518,069	174,401	692,470
Deposits Receivable	-	299,490	299,490
Taxes Receivable	57,970,530	-	57,970,530
Due from other Agencies	49,260,485	490,829	49,751,314
Inventory	4,385,460	-	4,385,460
Prepaid Expenses	-	211,735	211,735
Capital Credits Receivable	5,110,262	-	5,110,262
Restricted assets:			
Cash with Fiscal Agent	310,000	-	310,000
Capital assets:			
Land	158,268,489	-	158,268,489
Improvements other than Buildings	33,139,094	429,022	33,568,116
Less Accumulated Depreciation	(5,711,000)	(115,988)	(5,826,988)
Buildings	1,215,142,560	74,122,956	1,289,265,516
Less Accumulated Depreciation	(241,668,694)	(2,278,873)	(243,947,567)
Furniture, Fixtures and Equipment	64,541,440	4,584,008	69,125,448
Less Accumulated Depreciation	(40,575,853)	(3,452,995)	(44,028,848)
Motor Vehicles	65,692,323	-	65,692,323
Less Accumulated Depreciation	(32,576,322)	-	(32,576,322)
Construction in Progress	155,485,516	-	155,485,516
Audio Visual Materials	139,746	-	139,746
Less Accumulated Depreciation	(87,361)	-	(87,361)
Computer Software	13,509,538	6,750	13,516,288
Less Accumulated Amortization	(9,719,163)	(3,938)	(9,723,101)
Total assets	1,983,423,574	81,911,999	2,065,335,573
LIABILITIES AND NET ASSETS			
LIABILITIES			
Salaries and Wages Payable	2,502,191	2,205,529	4,707,720
Payroll Deductions and Withholdings	126,089	-	126,089
Accounts Payable	10,150,050	5,021,752	15,171,802
Construction Contracts Payable	2,969,602	-	2,969,602
Construction Contracts Payable - Retainage	8,103,602	-	8,103,602
Matured Principal and Interest Payable	33,767,914	-	33,767,914
Accrued Interest Payable	3,365	-	3,365
Deposits Payable	29,276	-	29,276
Unearned Revenue	12,047,806	1,102	12,048,908
Due to other Agencies	2,260,465	288,348	2,548,813
Noncurrent liabilities:			
 Portion due within one year:			
Notes Payable	-	665,764	665,764
Bonds Payable	1,405,000	-	1,405,000
Obligations under Capital Leases	312,580	255,083	567,663
Liability for Compensated Absences	3,628,436	-	3,628,436
Certificates of Participation Payable	23,905,000	-	23,905,000
Estimated Early Retirement Payable	30,000	-	30,000
Estimated Insurance Claims Payable	27,249,747	-	27,249,747
 Portion due after one year:			
Notes Payable	-	512,494	512,494
Bonds Payable	18,197,736	-	18,197,736
Obligations under Capital Leases	3,030,462	70,484,927	73,515,389
Liability for Compensated Absences	55,921,807	-	55,921,807
Certificates of Participation Payable	534,026,791	-	534,026,791
Estimated Early Retirement Payable	1,218,000	-	1,218,000
Estimated Insurance Claims Payable	1,277,513	-	1,277,513
Postemployment Benefits Payable	4,412,142	-	4,412,142
Arbitrage Payable	72,909	-	72,909
Total liabilities	746,648,483	79,434,999	826,083,482
NET ASSETS			
Invested in Capital Assets, net of related debt	802,535,660	784,417	803,320,077
Restricted for:			
Categorical Carryover Programs	38,309,005	-	38,309,005
Debt Service	2,705,464	-	2,705,464
Capital Projects	312,273,674	98,873	312,372,547
Other Purposes	3,747,150	535,792	4,282,942
Unrestricted	77,204,138	1,057,918	78,262,056
Total net assets	\$ 1,236,775,091	\$ 2,477,000	\$ 1,239,252,091

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

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total Reporting Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Units	
Governmental activities:							
Instruction	\$ 415,766,690	\$ 9,086,860	\$ -	\$ -	\$ (406,679,830)	\$ -	\$ (406,679,830)
Pupil Personnel Services	28,665,777	-	-	-	(28,665,777)	-	(28,665,777)
Instructional Media Services	7,306,522	-	-	-	(7,306,522)	-	(7,306,522)
Instruction and Curriculum Development Services	16,110,826	-	-	-	(16,110,826)	-	(16,110,826)
Instructional Staff Training Services	11,870,616	-	-	-	(11,870,616)	-	(11,870,616)
Instruction Related Technology	4,451,217	-	-	-	(4,451,217)	-	(4,451,217)
Board	939,760	-	-	-	(939,760)	-	(939,760)
General Administration	4,725,583	-	-	-	(4,725,583)	-	(4,725,583)
School Administration	42,946,103	-	-	-	(42,946,103)	-	(42,946,103)
Facilities Services	77,705,092	-	-	64,079,984	(13,625,108)	-	(13,625,108)
Fiscal Services	3,771,067	-	-	-	(3,771,067)	-	(3,771,067)
Food Services	30,718,899	10,998,127	19,301,862	-	(418,910)	-	(418,910)
Central Services	10,198,141	-	-	-	(10,198,141)	-	(10,198,141)
Pupil Transportation Services	51,400,897	568,513	20,416,741	-	(30,415,643)	-	(30,415,643)
Operation of Plant	69,654,630	-	-	-	(69,654,630)	-	(69,654,630)
Maintenance of Plant	16,736,525	-	-	-	(16,736,525)	-	(16,736,525)
Administrative Technology Services	4,067,658	-	-	-	(4,067,658)	-	(4,067,658)
Community Services	7,120,486	-	-	-	(7,120,486)	-	(7,120,486)
Interest and Fiscal Charges on Long-term Debt	26,334,501	-	-	2,318,512	(24,015,989)	-	(24,015,989)
Total governmental activities	830,490,990	20,653,500	39,718,603	66,398,496	(703,720,391)		(703,720,391)
Total primary government	\$ 830,490,990	\$ 20,653,500	\$ 39,718,603	\$ 66,398,496	(703,720,391)		
Component units:							
Charter Schools	48,407,359	1,956,444	640,041	3,290,585	(42,520,289)		(42,520,289)
The Foundation for Lee County Public Schools, Inc	1,760,664	-	1,732,530	-	(28,134)		(28,134)
Total component units	\$ 50,168,023	\$ 1,956,444	\$ 2,372,571	\$ 3,290,585	(42,548,423)		(42,548,423)
General Revenues:							
Taxes:							
Property Taxes, Levied for Operational Purposes				467,802,060	-		467,802,060
Property Taxes, Levied for Capital Projects				185,018,539	-		185,018,539
Florida Education Finance Program				16,024,448	-		16,024,448
Other Federal Sources Not Restricted to Specific Programs				49,627,333	-		49,627,333
Other State Sources Not Restricted to Specific Programs				118,906,905	40,938,991		159,845,896
Other Miscellaneous Sources Not Restricted to Specific Programs				7,751,265	575,184		8,326,449
Unrestricted Investment Earnings				16,594,580	10,897		16,605,477
Total General Revenues				861,725,130	41,525,072		903,250,202
Change in Net Assets				158,004,739	(1,023,351)		156,981,388
Net Assets - July 1, 2007				1,078,770,352	3,529,675		1,082,300,027
Adjustment to Beginning Net Assets				-	(29,324)		(29,324)
Net Assets - July 1, 2007, Restated				1,078,770,352	3,500,351		1,082,270,703
Net Assets - June 30, 2008				\$ 1,236,775,091	\$ 2,477,000		\$ 1,239,252,091

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

**THE SCHOOL DISTRICT OF LEE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	General Fund	Debt Service Fund Certificates of Participation	Capital Projects Fund Local Capital Improvement Tax	Capital Projects Fund Certificates of Participation/ Impact Fees/State Grants	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 30,554,096	\$ 33,644,619	\$ 71,826,026	\$ 14,488,902	\$ 5,838,047	\$ 156,351,690
Investments	53,167,559	2,365,609	134,181,818	93,513,184	1,640,426	284,868,596
Accounts Receivable	492,455	-	620	4,064	20,930	518,069
Taxes Receivable	41,332,988	-	16,637,542	-	-	57,970,530
Due from Other Funds	23,950,058	-	-	-	13,975	23,964,033
Due from Other Agencies	893,553	-	-	20,852,728	27,514,204	49,260,485
Inventory	4,152,437	-	-	-	233,023	4,385,460
Total Assets	\$ 154,543,146	\$ 36,010,228	\$ 222,646,006	\$ 128,858,878	\$ 35,260,605	\$ 577,318,863
LIABILITIES AND FUND BALANCES						
Salaries and Wages Payable	\$ 2,502,191	\$ -	\$ -	\$ -	\$ -	\$ 2,502,191
Payroll Deductions and Withholdings	126,089	-	-	-	-	126,089
Accounts Payable	5,326,733	-	2,938,616	805,169	987,043	10,057,561
Matured COPS Payable	-	22,640,000	-	-	-	22,640,000
Matured Interest Payable	-	11,127,914	-	-	-	11,127,914
Construction Contracts Payable	-	-	2,821,118	148,484	-	2,969,602
Construction Contracts Payable - Retainage	-	-	1,640,495	6,053,865	409,242	8,103,602
Deposits Payable	29,276	-	-	-	-	29,276
Due to Other Agencies	2,260,465	-	-	-	-	2,260,465
Due to Other Funds	8,667,422	-	9,823,379	8,680,601	5,446,078	32,617,480
Deferred Revenue	13,465,165	-	5,420,059	1,524,518	-	20,409,742
Total Liabilities	32,377,341	33,767,914	22,643,667	17,212,637	6,842,363	112,843,922
Fund Balance						
Reserve for:						
State Categorical Programs	22,300,867	-	-	16,008,138	-	38,309,005
Encumbrances	5,446,248	-	28,232,679	4,606,885	2,669,904	40,955,716
Inventory	4,152,437	-	-	-	233,023	4,385,460
Debt Service	-	2,242,314	-	-	523,435	2,765,749
Unreserved, reported in:						
General Fund	90,266,253	-	-	-	-	90,266,253
Special Revenue Funds	-	-	-	-	3,144,941	3,144,941
Capital Projects Funds	-	-	171,769,660	91,031,218	21,846,939	284,647,817
Total Fund Balances	122,165,805	2,242,314	200,002,339	111,646,241	28,418,242	464,474,941
Total Liabilities and Fund Balances	\$ 154,543,146	\$ 36,010,228	\$ 222,646,006	\$ 128,858,878	\$ 35,260,605	\$ 577,318,863

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

**THE SCHOOL DISTRICT OF LEE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008**

Total Fund Balance - Governmental Funds \$ 464,474,941

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

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

Original cost of capital assets	\$ 1,705,918,706	
Accumulated depreciation	(330,338,393)	
		1,375,580,313

Property taxes are accrued in the government-wide statements as unearned revenue, but are not recognized in the governmental funds because the revenue will not be collected in time to pay current obligations.

18,877,744

Capital credits to be received in future years are not available to liquidate liabilities in governmental funds, but are accrued in the government-wide financial statements.

5,110,262

Long-term liabilities are reported in the statement of net assets but not in the governmental funds because they are not due and payable in the current period. Balances at June 30, were:

Arbitrage payable	(72,909)	
Interest payable	(3,365)	
Bonds payable	(19,602,736)	
Certificates of participation payable	(557,931,791)	
Obligations under capital lease	(3,343,042)	
Estimated insurance claims payable	(28,527,260)	
Liability for compensated absences	(59,550,243)	
Estimated early retirement payable	(1,248,000)	
Postemployment benefits payable	(4,412,142)	
Subtotal, long-term liabilities		(674,691,488)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds of the district. The assets and liabilities of the internal service funds, which are reported in the proprietary funds rather than the governmental funds, are included in governmental activities in the statement of net assets. The internal service funds net assets are \$18,868,855. This includes \$ 214 in capital assets (net), \$27,418 in compensated absences and \$28,527,260 in estimated insurance claims included above. The net amount is as follows:

47,423,319

Total net assets - governmental activities

\$ 1,236,775,091

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

**THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008**

	General Fund	Debt Service Fund Certificates of Participation	Capital Projects Fund Local Capital Improvement Tax	Capital Projects Fund Certificates of Participation/Impact Fees/State Grants	Other Governmental Funds	Total Governmental Funds
REVENUES						
Federal Direct Sources	\$ 1,099,940	\$ -	\$ -	\$ -	\$ 6,571,938	\$ 7,671,878
Federal Through State Sources	1,751,180	-	-	-	59,058,910	60,810,090
State Sources	151,946,988	-	-	39,450,358	25,253,902	216,651,248
Local Sources						
Taxes	459,645,361	-	185,018,539	-	-	644,663,900
Miscellaneous	21,159,535	185,958	7,349,415	9,900,035	11,299,682	49,894,625
Total Revenues	635,603,004	185,958	192,367,954	49,350,393	102,184,432	979,691,741
EXPENDITURES						
Current						
Instruction	385,854,493	-	-	-	23,909,695	409,764,188
Pupil Personnel Services	24,376,344	-	-	-	3,911,194	28,287,538
Instructional Media Services	7,159,616	-	-	-	71,190	7,230,806
Instruction and Curriculum Development Services	8,864,747	-	-	-	7,426,737	16,291,484
Instructional Staff Training Services	5,227,302	-	-	-	6,161,984	11,389,286
Instruction Related Technology	4,333,682	-	-	-	-	4,333,682
Board	945,379	-	-	-	-	945,379
General Administration	3,284,496	-	-	-	1,418,331	4,702,827
School Administration	42,371,546	-	-	-	113,550	42,485,096
Facilities Services	3,801,000	-	248,597	522,337	241,726	4,813,660
Fiscal Services	3,804,122	-	-	-	-	3,804,122
Food Service	-	-	-	-	29,819,922	29,819,922
Central Services	8,302,136	-	-	-	313,779	8,615,915
Pupil Transportation Services	49,462,031	-	-	-	216,484	49,678,515
Operation of Plant	68,492,025	-	-	-	34,563	68,526,588
Maintenance of Plant	16,286,751	-	-	-	231	16,286,982
Administrative Technology Services	3,899,495	-	-	-	-	3,899,495
Community Services	5,680,451	-	-	-	1,367,711	7,048,162
Capital Outlay						
Facilities Acquisition and Construction	82,952	-	77,352,132	103,859,833	14,426,623	195,721,540
Other Capital Outlay	3,703,609	-	-	-	1,491,752	5,195,361
Debt Service						
Principal	-	22,926,083	-	-	1,365,000	24,291,083
Interest and Fiscal Charges	-	25,328,343	-	50	982,058	26,310,451
Total Expenditures	645,932,177	48,254,426	77,600,729	104,382,220	93,272,530	969,442,082
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,329,173)	(48,068,468)	114,767,225	(55,031,827)	8,911,902	10,249,659
OTHER FINANCING SOURCES (USES)						
Certificates of Participation Issued	-	21,215,000	-	-	-	21,215,000
Loss Recoveries	351,198	-	-	-	-	351,198
Proceeds on Sale of Capital Assets	-	-	430,380	-	-	430,380
Transfer In	16,142,230	47,896,015	-	-	-	64,038,245
Payments to Refunded COPS Escrow Agent	-	(21,136,024)	-	-	-	(21,136,024)
Transfer Out	-	-	(57,587,307)	(111,418)	(6,339,520)	(64,038,245)
Total Other Financing Sources (Uses)	16,493,428	47,974,991	(57,156,927)	(111,418)	(6,339,520)	860,554
Net Change in Fund Balance	6,164,255	(93,477)	57,610,298	(55,143,245)	2,572,382	11,110,213
Fund Balance, Beginning	116,001,550	2,335,791	142,392,041	166,789,486	25,845,860	453,364,728
Fund Balance, Ending	\$ 122,165,805	\$ 2,242,314	\$ 200,002,339	\$ 111,646,241	\$ 28,418,242	\$ 464,474,941

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

**THE SCHOOL DISTRICT OF LEE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008**

Net change in fund balances- governmental funds \$ 11,110,213

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays, net of noncapitalized outlays, and other additions exceed depreciation expense in the current period.

Capital outlays	\$ 165,668,633	
Depreciation expense	<u>(45,077,839)</u>	120,590,794

In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (1,961,854)

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt proceeds	(21,215,000)	
Amortization-net	60,716	
Repayments	<u>45,366,822</u>	24,212,538

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. They are, however, recorded as revenues in the statement of activities. This represents the increase in unearned property tax revenues from June 30, 2007 to June 30, 2008. 8,156,699

The District has recorded vested utility interest revenue in the government-wide statements that does not meet the earned criterion for recognition in the fund financial statements. 394,785

The net change in the early retirement benefit program liability is reported in the government-wide statements, but not in the governmental fund statements. 9,000

In the governmental funds, interest on long-term debt is recorded as an expenditure when due and payable. In the statement of activities, interest is recorded as it accrues. (3,365)

In the governmental funds, arbitrage on long-term debt is recorded as an expenditure when due and payable. In the statement of activities, arbitrage is recorded as it accrues. (21,115)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (2,442,081)

The net change in the liability for postemployment health benefits is reported in the government-wide statements, but not in the governmental fund statements. (4,412,142)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds of the district. The net revenue of the internal service funds, of \$ 2,358,378 is reported with governmental activities. This includes \$214 in depreciation and \$12,675 in compensated absences included above. The net amount is as follows: 2,371,267

Change in net assets of governmental activities \$ 158,004,739

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

**THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	General Fund			Variance with Final Budget - Under (Over)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Federal Direct Sources	\$ 706,250	\$ 904,424	\$ 1,099,940	\$ (195,516)
Federal Through State Sources	1,500,000	1,939,818	1,751,180	188,638
State Sources	183,865,690	152,830,962	151,946,988	883,974
Local Sources				
Taxes	455,634,302	454,653,507	459,645,361	(4,991,854)
Miscellaneous	20,152,459	23,126,045	21,159,535	1,966,510
Total Revenues	661,858,701	633,454,756	635,603,004	(2,148,248)
EXPENDITURES				
Current				
Instruction	452,287,947	437,204,380	385,854,493	51,349,887
Pupil Personnel Services	25,882,275	26,297,986	24,376,344	1,921,642
Instructional Media Services	8,176,762	7,623,349	7,159,616	463,733
Instruction and Curriculum Development Services	10,689,525	9,163,508	8,864,747	298,761
Instructional Staff Training Services	3,502,016	6,361,865	5,227,302	1,134,563
Instruction Related Technology	4,400,390	4,531,017	4,333,682	197,335
Board	1,010,243	1,040,997	945,379	95,618
General Administration	3,826,070	3,783,477	3,284,496	498,981
School Administration	44,364,001	44,860,045	42,371,546	2,488,499
Facilities Services	7,603,396	4,934,168	3,801,000	1,133,168
Fiscal Services	4,203,257	4,129,781	3,804,122	325,659
Central Services	8,730,495	8,819,770	8,302,136	517,634
Pupil Transportation Services	49,123,939	52,133,017	49,462,031	2,670,986
Operation of Plant	81,614,774	81,831,004	68,492,025	13,338,979
Maintenance of Plant	24,345,110	24,250,636	16,286,751	7,963,885
Administrative Technology Services	4,774,592	4,566,398	3,899,495	666,903
Community Services	13,636,505	9,502,512	5,680,451	3,822,061
Capital Outlay				
Facilities Acquisition and Construction	-	317,432	82,952	234,480
Other Capital Outlay	-	11,512,944	3,703,609	7,809,335
Total Expenditures	748,171,297	742,864,286	645,932,177	96,932,109
Deficiency of Revenues Over Expenditures	(86,312,596)	(109,409,530)	(10,329,173)	(99,080,357)
OTHER FINANCING SOURCES				
Loss Recoveries	6,405	191,709	351,198	(159,489)
Proceeds on Sale of Capital Assets	-	-	-	-
Transfer In	11,000,000	16,142,230	16,142,230	-
Total Other Financing Sources	11,006,405	16,333,939	16,493,428	(159,489)
Net Change in Fund Balance	(75,306,191)	(93,075,591)	6,164,255	(99,239,846)
Fund Balance, Beginning	116,156,191	116,001,550	116,001,550	-
Fund Balance, Ending	\$ 40,850,000	\$ 22,925,959	\$ 122,165,805	\$ (99,239,846)

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

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Governmental Activities- Internal Service Funds
	<hr/>
ASSETS	
Current Assets	
Cash	\$ 17,159,224
Investments	31,908,945
Due from Governmental Funds	8,653,447
Total Current Assets	<hr/> <u>57,721,616</u>
Noncurrent Assets	
Restricted Cash with Fiscal Agent	310,000
Furniture, Fixtures and Equipment	4,459
Less Accumulated Depreciation	(4,245)
Motor Vehicles	15,434
Less Accumulated Depreciation	(15,434)
Total Noncurrent Assets	<hr/> <u>310,214</u>
 Total Assets	 <hr/> <u>58,031,830</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	92,489
Unearned Revenue	10,515,808
Estimated Insurance Claims Payable	27,249,747
Liability for Compensated Absences	27,418
Total Current Liabilities	<hr/> <u>37,885,462</u>
Long-Term Liabilities	
Estimated Insurance Claims Payable	<hr/> <u>1,277,513</u>
Total Liabilities	<hr/> <u>39,162,975</u>
NET ASSETS	
Invested in Capital Assets	214
Restricted Cash with Fiscal Agent	310,000
Unrestricted	18,558,641
Total Net Assets	<hr/> <u>\$ 18,868,855</u>

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

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Governmental Activities- Internal Service Funds
	Funds
OPERATING REVENUES	
Premium Revenue	\$ 92,767,029
Other Operating Revenues	4,894
	92,771,923
OPERATING EXPENSE	
Salaries	313,002
Employee Benefits	108,812
Purchased Services	14,571,214
Insurance Claims	76,885,705
Depreciation	214
	91,878,947
Operating Income	892,976
NONOPERATING REVENUES	
Interest Income	1,465,402
	1,465,402
Change in Net Assets	2,358,378
Net Assets - July 1, 2007	16,510,477
Net Assets - June 30, 2008	\$ 18,868,855

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

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

		Governmental Activities- Internal Service Funds
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers, Users and Participants	\$	84,089,829
Cash Payments to Suppliers for Goods and Services		(19,510,837)
Cash Payments to Employees for Services		(409,140)
Cash Payments for Insurance Claims		(61,050,189)
		<hr/>
Net Cash Provided by Operating Activities		<hr/> <u>3,119,663</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		<hr/> <u>1,465,402</u>
Net Cash Provided by Investing Activities		<hr/> <u>1,465,402</u>
Net Increase in Cash and Cash Equivalents		4,585,065
Cash and Cash Equivalents, Beginning		<hr/> <u>44,483,104</u>
Cash and Cash Equivalents, Ending	\$	<hr/> <u><u>49,068,169</u></u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income	\$	<hr/> <u>892,976</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		214
Change in Assets and Liabilities:		
Decrease in Unearned Revenue		(28,648)
Increase in Compensated Absences Payable		12,675
Decrease in Accounts Payable		(4,939,623)
Increase in Due from Governmental Funds		(8,653,447)
Increase in Estimated Insurance Claims Payable		<hr/> <u>15,835,516</u>
Total Adjustments		<hr/> <u>2,226,687</u>
Net Cash Provided by Operating Activities	\$	<hr/> <u><u>3,119,663</u></u>

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

THE SCHOOL DISTRICT OF LEE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2008

	Fiduciary Funds
	Agency Funds
ASSETS	
Cash	\$ 664,812
Investments	6,239,389
Accounts Receivable	203,264
Inventory	505,303
 Total Assets	 \$ 7,612,768
LIABILITIES	
Accounts Payable and Other Current Liabilities	\$ 7,612,768
 Total Liabilities	 \$ 7,612,768

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

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

Reporting Entity

The District School Board of Lee County (the Board) has direct responsibility for operation, control, and supervision of The School District of Lee County (the District) and is considered a primary government for financial reporting. The District is part of the Florida system of public education under the general direction of the State Board of Education. The governing body of the District is the Board, which is composed of five elected members. The appointed Superintendent of Schools (the Superintendent) is the executive officer of the Board. The general operating authority of the Board and the Superintendent is contained in Chapters 1000-1013, Florida Statutes. Geographic boundaries of the District correspond with those of Lee County, Florida.

Pursuant to Section 1010.51, Florida Statutes, the Superintendent is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education.

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

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

Blended Component Unit – Leasing Corporation

The Lee County School Board Leasing Corporation (Leasing Corporation) was formed on December 17, 2003, to facilitate financing for the acquisition of facilities and equipment. 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 Component Unit – Foundation

The Foundation for Lee County Public Schools, Inc., (Foundation) was formed for the purpose of improving the quality of education by increasing community involvement with and support for Lee County schools. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources (or incomes thereon) that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used for the benefit of the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. An annual post-audit of the Foundation's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Discretely Presented Component Units – Charter Schools

The component units column includes the financial data of the following charter schools: Bonita Springs Charter School, Cape Coral Charter School, The Island School, Gateway Charter School, Gateway High Charter School, Goodwill Academy, Lee Charter School, LIFE Skills Academy, Richard Milburn Academy, and Six Mile Charter School. The charter schools are separate, not-for-profit corporations organized and operated as charter schools under Section 1002.33, Florida Statutes and sponsored by the District, to enhance the education of the Lee County students attending these schools. Audits were performed for each Charter School for the year ended June 30, 2008 by an independent certified public accountant and they are on file at the District's administrative office. These Charter Schools are considered to be Component Units of the District since they are fiscally dependent on the District.

Bonita Springs Charter School – The school's Charter was granted December 18, 2001, for a K-8 school. As of June 30, 2008, the school was a K-8 school. The school is located in Bonita Springs, Florida.

Cape Coral Charter School – The school's Charter was granted August 20, 2002, for a grade K-8 school. As of June 30, 2008, the school was a grade K-8 school. The school is located in Cape Coral, Florida.

The Island School, Inc. - The school's Charter was granted May 2, 2000, for a grade K-8 school. As of June 30, 2008, the school was a grade K-5 school. The school is located on Gasparilla Island in Boca Grande, Florida.

Gateway Charter School – The school's Charter was granted August 20, 2002, for a grade K-8 school. As of June 30, 2008, the school was a grade K-8 school. The school is located in Fort Myers, Florida.

Gateway High Charter School – The school's Charter was granted October 21, 2003, for a grade 9-12 school. As of June 30, 2008, the school was a grade 9-12 school. The school is located in Fort Myers, Florida.

Goodwill Academies of Southwest Florida, Inc. – The school's Charter was granted October 19, 2004, for a grade 9-12 school. As of June 30, 2008, the school was a grade 9-12 school. The school is located in Fort Myers, Florida.

Lee Charter Academies, Inc. – The school's Charter was granted March 23, 2004, for a grade K-6 school. As of June 30, 2008, the school was a grade K-6 school. The school is located in Fort Myers, Florida.

LIFE Skills Center Lee County, Inc. – The school's Charter was granted October 25, 2005, for a grade 9-12 school. As of June 30, 2008, the school was a grade 9-12 school. The school is located in Fort Myers, Florida.

Richard Milburn Academy of Florida, Inc. – The school's Charter was granted November 27, 2000, for a grade 9-12 school. As of June 30, 2008, the school was a grade 9-12 school. The school is located in Fort Myers, Florida.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Six Mile Charter School – The school’s Charter was granted August 10, 2004, for a grade K-8 school. As of June 30, 2008, the school was a grade K-8 school. The school is located in Fort Myers, Florida.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* that rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function (i.e., food service fees, student fees, print fees, and transportation fees), and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function (i.e., Federal food service, transportation, and Public Education Capital Outlay [PECO] grants). Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

The effects of interfund activities have been eliminated from the government-wide financial statements. Interfund transactions, include transactions involving the internal service funds. These transactions were eliminated by allocating the change in net assets of internal services funds in direct proportion as they were charged as expenses to the various functions/programs.

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, reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- *General Fund* is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *Debt Service Fund – Certificates of Participation Fund* accounts for the resources accumulated and payments made for principal, interest, and related costs on the long-term Certificates of Participation.
- *Capital Projects Fund – Local Capital Improvement Tax Fund* accounts for the resources used for the acquisition or construction of major capital facilities financed through tax levies pursuant to Section 1011.71(2), Florida Statutes.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

- *Capital Projects Fund – Certificates of Participation/Impact Fees/State Grants Fund* accounts for the resources used for the acquisition or construction of major capital facilities financed through certificates of participation, impact fees, and state capital grant proceeds.

Additionally, the District reports the following fund types:

- The *Internal Service Fund* accounts for the self-insurance programs.
- The *Agency Fund* accounts for resources of the school internal funds that are used to administer money collected at the several schools in connection with school, student athletic, class, and club activities.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. The agency fund is custodial in nature (assets equal liabilities) and as such do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility or expenditure requirements imposed by the provider have been met.

Governmental fund financial statements, which include the General, Special Revenue, Debt Service, and Capital Projects funds, are prepared using the current financial resource measurement focus and the modified accrual basis of accounting. 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: (a) prepaid items are generally not accrued; (b) interest on general long-term debt is recognized as expenditures when due; and (c) expenditures related to long-term liabilities are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Revenues can be classified into two kinds of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal value and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange.

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. Revenues resulting from nonexchange transactions are further classified into (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government-mandated nonexchange transactions, and (d) voluntary nonexchange transactions. Derived tax revenues (ex: sales tax) are recorded when the exchange transaction occurs. Imposed nonexchange transactions (ex: property taxes) are recorded

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

when use of the resource is required or first permitted by time requirement (for example, for property taxes, the period for which they are levied). Government-mandated and voluntary nonexchange transactions (ex: Federal mandates, grants, and donations) are recorded when all eligibility requirements have been met.

When applying the susceptible to accrual concept under the modified accrual basis, resources also should be available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. The District considers property taxes to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for employee health insurance premiums. Operating expenses for internal service funds include insurance claims and excess coverage premiums, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. These funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by GASB thereafter.

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

Each of the charter schools, included as discretely presented component units, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

The Foundation for Lee County Public Schools, Inc., shown as a discretely presented component unit, is accounted for using the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

Budgetary Basis Accounting

The following procedures, established by State Statutes and State Board of Education rules, are used by the Board in setting up final budget balances reported on the financial statements:

- 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.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

- Appropriations are controlled at the function level (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the Annual Financial Report. This function level is the legal level of budgetary control.
- Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

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 year-end and encumbrances outstanding are honored from the subsequent year's appropriations as described in a subsequent note on reserve for encumbrances. During the fiscal year ended June 30, 2008, budgets for all governmental fund types were amended to reflect adjustments to appropriations due to changes in student counts, the addition of new education programs, and other events.

Cash

Banks qualified as public depositories under Florida law hold cash deposits. All deposits are insured by Federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes. The Statement of Cash Flows considers cash as those accounts used as demand deposit accounts and cash equivalents amounts with State Board of Administration.

Restricted Cash with Fiscal Agent

Self Insurance Funds are required to establish and maintain prescribed amounts of resources (consisting of cash) that can be used only to pay insurance claims.

Investments

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds 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 State Board of Administration 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. At June 30, 2008, certain significant withdrawals from the Local Government Surplus Funds Trust Fund may be subject to a 2 percent redemption fee by the State Board of Administration.

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. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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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 also consist of amounts held by the trustee under a trust agreement related to the Certificates of Participation, Series 1995A, 1999A, 2002A/B, 2004A/B/C, 2005A, 2006A and 2008A; amounts placed with The Primary Fund Liquidity Class I Money Market Fund (a Securities and Exchange Commission Rule 2a7-like external investment pool) which is reported at fair value which is amortized cost.

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

Inventory

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on a weighted-average basis for the central stores, maintenance, transportation, and food service inventories and at last invoice price, which approximates the first-in, first-out basis for the print shop and media/textbook inventories. United States Department of Agriculture surplus commodities are stated at their fair market value, as determined at the time of donation to the District's food service program by the Bureau of Food Distribution, Florida Department of Agriculture and Consumer Services. The costs of inventories are recorded as expenditures when used rather than purchased. The inventories at year-end are reported as a reservation of fund balance.

Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental funds that financed the acquisition or construction. The capital assets so acquired are reported at cost in the governmental activities columns in the government-wide financial statements but are not reported in the governmental fund financial statement. The District defines capital assets as assets with an initial individual cost of \$1,000 or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated assets are recorded at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives, are not capitalized. Interest costs incurred during construction of capital assets are not capitalized as part of the cost of construction.

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

<u>Assets</u>	<u>Years</u>
Improvements other than buildings	10-40
Buildings and Fixed Equipment	10-50
Motor Vehicles	5-10
Furniture Fixtures and Equipment	3-15
Audio Visual Materials	3-5
Computer Software	5

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

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Noncurrent Liabilities and Compensated Absences

In the government-wide financial statements and proprietary fund types in the fund financial statements, noncurrent obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave, including applicable salary-related amounts for Social Security, Medicare, and Retirement contributions. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payment and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Changes in noncurrent liabilities for the current year are reported in a subsequent note.

Fund Balance/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets in the government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, law and regulations of other governments, or imposed by law through State statute.

Estimates

The preparation of the financial statement in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

State Revenue Sources

Revenues from State sources for current operations are primarily from the Florida Education Finance Program, administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department

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performs certain edit checks on the reported number of FTE students 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 students and related data. Normally, such adjustments are treated as reductions or additions to 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 these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. For selected categorical programs, funds received that are not expended at the fiscal year-end are recognized as deferred revenue until expended. A portion of the fund balance of the General Fund is reserved for the unencumbered balance of categorical educational program resources.

The State allocates gross receipts taxes, generally known as public education capital outlay money, to the District on an annual basis. The District also received an allocation under the Class Size Reduction 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 Class Size Reduction Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

Property Taxes – Revenue Recognition

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

Property taxes consist of ad valorem taxes on real and personal property within the District. The Lee County Property Appraiser determines property values and the Lee County Tax Collector's office collects the property taxes.

The Board adopted the 2007 tax levy on September 11, 2007. Taxes become an enforceable lien on property as of January 1, tax bills are mailed in October, and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to four percent for early payment.

Taxes become delinquent on April 1 of the year following the year of assessment and 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 certificates to satisfy unpaid taxes. These procedures result in the collection of substantially all taxes prior to June 30 of the year following the year of assessment.

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Property tax revenues are recognized in the Government-wide and Governmental Fund financial statements when the taxes are levied. However, at fiscal year end, property tax revenue not expected to be collected within 60 days are recorded as deferred revenue in the Governmental Fund financial statements.

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

Educational Impact Fees

The District receives educational impact fees based on an ordinance adopted by the Board of County Commissioners of Lee County on November 27, 2001. The fee is collected by the County for new residential construction, and can only be used to provide for the acquisition of fixed assets or additions to fixed assets and expenditures for site acquisition, construction design, site development, necessary off-site improvements, and equipment. Educational impact fee revenues are recognized in the Government-wide and Governmental Fund financial statements when the fees are collected by the county.

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.

NOTE 2: CASH AND INVESTMENTS

2-A. Cash Deposits

Florida Statutes authorize the deposit of District funds in demand deposits or time deposits of financial institutions approved by the State Treasurer and are defined as public deposits. All District public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, the "Florida Security for Public Deposits Act." Under the act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50 percent to 125 percent depending upon the depository's financial condition and the length of time that the depository has been established. All collateral must be deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories if the same type as the depository in default. All bank balances of the District are fully insured or collateralized. As of June 30, 2008, the carrying amount of the District's bank deposits was \$173,510,914 and the respective bank balances totaled \$184,996,974. As of June 30, 2008, the carrying amount of the Agency Fund's bank deposits was \$664,812.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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2-B. Investments

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

Investment	Fair Value	Investment Maturities (in years)			
		6 Months	1 - 5	6 - 10	10 - 15
Florida State Board of Administration					
Local Governmental Surplus Funds					
Trust Funds – Fund A (1)	\$ 183,559,281	\$ 183,559,281	\$ -	\$ -	\$ -
Trust Funds – Fund B (1)	18,153,964	-	-	18,153,964	-
The Reserve Primary Liquidity I Money Market Fund	114,897,570	114,897,570	-	-	-
First America Treasury Money Market Fund	166,726	166,726	-	-	-
Total Investments, Primary Government	316,777,541	298,623,577	-	18,153,964	-
Agency Fund					
Local Governmental Surplus Funds					
Trust Funds – Fund A	6,239,389	6,239,389	-	-	-
Total Investments, Reporting Entity	\$ 323,016,930	\$ 304,862,966	\$ -	\$ 18,153,964	\$ -

Note (1) At June 30, 2008, investments totaling \$25,938,467 are held under trust agreements in connection with Certificates of Participation, Series 1995A, 1999A, 2002A/B, 2004A/B/C, 2005A, 2006A and 2008A, financing agreements. (See Note 7.)

Section 218.415, Florida Statutes, limits the types of investments that a District can invest in unless specifically authorized in District policy.

2-C. Investments – 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 arising 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. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2008, the District's investment in The Reserve Primary Liquidity Class I Money Market Fund was \$114,897,570 in fair market value. The Reserve Primary Liquidity Class I Money Market Fund is a 2a-7 like fund and has a portfolio weighted average maturity not to exceed 90 days.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

2-D. Investments – Credit Risk

Section 218.415(17), Florida Statutes, limits investments to the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. Investments authorized by District policy are:

- a. Florida Local Government Surplus Trust Funds (SBA Investment Pool). Investments totaling \$189,798,670 in the SBA Investment Pool A are rated AAAM by Standard and Poor's reported at fair value. Investments totaling \$18,153,964 in the SBA Investment Pool B are unrated and reported at fair value.
- b. Direct Obligations of U.S. Treasury.
- c. U.S. Federal Government Agency Securities.
- d. U.S. Government Sponsored Agencies/Federal Instrumentalities.
- e. Repurchase Agreements fully collateralized at 102 percent of market value, by U.S. Treasuries, U.S. Government Agencies, U.S. Government Sponsored Agencies/Federal Instrumentalities.
- f. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. As of June 30, 2008, the District had investments in The Reserve Primary Liquidity Class I Money Market Fund with a fair value \$114,897,570, which were rated AAAM by Standard and Poor's and US Bank First American Treasury Obligation Class Y Money Market Funds with a fair value \$166,726, which were rated AAAM by Standard and Poor's.
- g. Certificates of Deposit, collateralized at 102 percent of market value, by U.S. Treasuries, U.S. Government Agencies, U.S. Government Sponsored Agencies/Federal Instrumentalities.
- h. Passbook savings accounts and interest bearing time deposits with banks organized under the laws of the State of Florida or in banks doing business in the State of Florida.

2-E. Investments – Custodial Credit Risk

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

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Funds held by US Bank First American Treasury Money Market Fund are held pursuant to a trust agreement in connection with the issuance of various certificates of participation.

2-F. Investments – Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer.

NOTE 3: DUE FROM OTHER AGENCIES

The majority of receivables are due from other agencies. At June 30, 2008, the District had a total of \$49,260,485 in Due From Other Agencies: \$5,188,739 is due from Federal, State and Local governments for various grant programs; \$19,846,846 and \$23,115,129 are due from the State for Class Size Reduction Program and Public Education Capital Outlay, respectively; \$879,260 is due from the County for impact fees; and \$230,511 is due from other State and Local agencies for miscellaneous items. These receivables and the remaining accounts receivable are considered to be fully collectable. As such, no allowance for uncollectible accounts receivable is accrued.

NOTE 4: CONSTRUCTION AND OTHER SIGNIFICANT CONTRACT COMMITMENTS

The following is a summary of major construction and other significant contract commitments as of year-end:

Projects	Contract Amount	Completed to date 6/30/2008	Balance Committed 6/30/2008
New Island Coast High School			
Contractor	\$ 40,930,988	\$ 38,824,046	\$ 2,106,942
Others	10,879,999	10,367,752	512,247
New Treeline Elementary School			
Contractor	14,823,438	13,555,060	1,268,378
Others	5,052,520	4,838,438	214,082
Administrative Software	17,267,725	6,979,458	10,288,267
Total	\$ 88,954,670	\$ 74,564,754	\$ 14,389,916

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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NOTE 5: CAPITAL ASSETS

Capital asset balances and activities for the year ended June 30, 2008, were as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
<i>Capital Assets not being depreciated</i>				
Land	\$ 150,004,575	\$ 8,662,080	\$ (398,166)	\$ 158,268,489
Construction in Progress	277,478,986	123,297,635	(245,291,105)	155,485,516
Total Capital Assets not being depreciated	427,483,561	131,959,715	(245,689,271)	313,754,005
<i>Capital Assets being depreciated</i>				
Improvements other than buildings	27,281,653	5,857,441	-	33,139,094
Buildings	969,483,647	246,060,913	(402,000)	1,215,142,560
Furniture, Fixtures, and Equipment	58,173,153	13,640,949	(7,272,662)	64,541,440
Motor Vehicles	61,352,590	9,650,444	(5,310,711)	65,692,323
Audio Visual Materials	107,029	36,160	(3,443)	139,746
Computer Software	9,993,915	4,152,282	(636,659)	13,509,538
Total Capital Assets being depreciated	1,126,391,987	279,398,189	(13,625,475)	1,392,164,701
<i>Less accumulated depreciation for</i>				
Improvements other than buildings	4,273,319	1,437,681	-	5,711,000
Buildings	215,027,873	26,967,648	(326,827)	241,668,694
Furniture, Fixtures, and Equipment	38,809,554	7,475,933	(5,709,634)	40,575,853
Motor Vehicles	31,825,115	5,845,060	(5,093,853)	32,576,322
Audio Visual Materials	76,060	12,603	(1,302)	87,361
Computer Software	6,912,254	3,338,914	(532,005)	9,719,163
Total accumulated depreciation	296,924,175	45,077,839	(11,663,621)	330,338,393
<i>Capital Assets being depreciated, Net</i>	829,467,812	234,320,350	(1,961,854)	1,061,826,308
Governmental Activities				
Capital Assets, Net	\$ 1,256,951,373	\$ 366,280,065	\$ (247,651,125)	\$ 1,375,580,313

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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Depreciation expense was charged to governmental functions as follows:

<u>Governmental Function</u>	<u>Amount</u>
Instruction	\$ 2,569,139
Pupil Personnel Services	19,394
Instructional Media Services	121,203
Instruction & Curriculum Development Services	100,701
Instructional Staff Training Services	222,196
Instruction Related Technology	979
General Administration	17,435
School Administration	55,802
Facilities Services	37,378,030
Fiscal Services	498
Food Services	740,445
Central Services	1,573,688
Pupil Transportation Services	1,156,777
Operation of Plant	673,423
Maintenance of Plant	253,841
Administrative Technology Services	122,334
Community Services	71,954
Total Depreciation Expense – Governmental Functions	<u>\$ 45,077,839</u>

A summary of changes in capital assets for the discretely presented component units is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<i>Capital Assets not being depreciated</i>				
Construction in progress	\$ 2,028,788	\$ 907,716	\$ (2,936,504)	\$ -
<i>Capital Assets being depreciated</i>				
Improvements other than buildings	306,024	122,998	-	429,022
Buildings	70,517,371	3,638,029	(32,444)	74,122,956
Furniture, Fixtures, and Equipment	4,110,156	498,226	(24,374)	4,584,008
Software	6,750	-	-	6,750
Total Capital Assets being depreciated	<u>74,940,301</u>	<u>4,259,253</u>	<u>(56,818)</u>	<u>79,142,736</u>
<i>Less accumulated depreciation for</i>				
Improvements other than buildings	70,015	45,973	-	115,988
Buildings	456,374	1,838,342	(15,843)	2,278,873
Furniture, Fixtures, and Equipment	2,632,534	844,835	(24,374)	3,452,995
Software	1,688	2,250	-	3,938
Total accumulated depreciation	<u>3,160,611</u>	<u>2,731,400</u>	<u>(40,217)</u>	<u>5,851,794</u>
Total Capital Assets being depreciated, Net	<u>71,779,690</u>	<u>1,527,853</u>	<u>(16,601)</u>	<u>73,290,942</u>
Total Capital Assets, Net	<u>\$ 73,808,478</u>	<u>\$ 2,435,569</u>	<u>\$ (2,953,105)</u>	<u>\$ 73,290,942</u>

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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Depreciation expense was charged to governmental functions as follows:

Governmental Function	Amount
Instruction	\$ 26,282
School Administration	819,671
Facilities Services	70,100
Operation of Plant	1,814,214
Community Services	1,133
Total Depreciation	\$ 2,731,400

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Funds	Interfund Receivable	Interfund Payable
Major Funds:		
General	\$ 23,950,058	\$ 8,667,422
Capital Projects:		
Local Capital Improvement Tax		9,823,379
Certificates of Participation/Impact		
Fees/State Grants	-	8,680,601
Nonmajor Governmental Funds	13,975	5,446,078
Proprietary Funds	8,653,447	-
Total	\$ 32,617,480	\$ 32,617,480

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

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

Funds	Transfers In	Transfers Out
Major Funds:		
General	\$ 16,142,230	\$ -
Debt Service:		
Certificates of Participation	47,896,015	-
Capital Projects:		
Local Capital Improvements Tax	-	57,587,307
Certificates of Participation/Impact		
Fees/State Grants	-	111,418
Nonmajor Governmental Funds	-	6,339,520
Total	\$ 64,038,245	\$ 64,038,245

The majority of the transfers out of the capital projects funds were to provide debt service principal and interest payments and to assist in funding maintenance operations of the District. The remaining transfers between funds were operational in nature.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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June 30, 2008

NOTE 7: NONCURRENT LIABILITIES

7-A. Certificates of Participation

The District entered into several financing arrangements which arrangements are characterized as lease-purchase agreements, with the Florida School Boards Association, Inc., and the Lee County School Board Leasing Corporation (lessors) whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance and refunding of several series of certificates of participation. Issues with remaining outstanding balances include Series 1999A (original issue: \$58,370,000); Series 2002A and 2002B (original issue: \$103,910,000); Series 2004A, 2004B, and 2004C (original issue \$230,045,000); Series 2005A (original issue: \$107,995,000); Series 2006A (original issue: \$94,790,000), and Series 2008A (original issue: \$21,215,000); be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the lessors with a rental fee of \$1 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to 2028.

The District properties included in the ground leases under these arrangements include:

Series 1999A

One Elementary School
One Middle School
One High School

Series 2002A

Two Elementary Schools
One Middle School
One Specialty School
Two Transportation Facilities

Series 2004A and 2004B

Three Elementary Schools
One Middle School
Two High Schools
Two Building Conversions
New Administration Building
Vocational School Addition

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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Series 2004C

One Elementary School
One Specialty School
Seven Additions to Existing Schools

Series 2005A

One Elementary School
One Middle School
One High School
New Administration Building

Series 2006A

Two Elementary Schools
Seven Additions to Existing Schools

Series 2008A

Six Elementary Schools
One Middle School
One High School

The lease payments are payable by the District, semi-annually on December 30 and June 30, at interest rates ranging from two to six percent except that Series 2004B has a variable rate which is assumed to be 3.47 percent for purposes of calculating future minimum lease payments. 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	\$ 47,285,066	\$ 23,905,000	\$ 23,380,066
2010	47,285,325	24,690,000	22,595,325
2011	47,286,747	25,565,000	21,721,747
2012	41,265,517	20,460,000	20,805,517
2013	41,114,211	21,105,000	20,009,211
2014-2018	205,519,817	119,115,000	86,404,817
2019-2023	205,554,028	149,280,000	56,274,028
2024-2028	190,092,583	168,005,000	22,087,583
Total Minimum Lease Payments	825,403,294	552,125,000	273,278,294
Add: Unamortized Premium, net	5,806,791	5,806,791	
Total Certificates of Participation	<u>\$ 831,210,085</u>	<u>\$ 557,931,791</u>	<u>\$ 273,278,294</u>

All Certificates of Participation issued are subject to arbitrage rebate. At June 30, 2008, the arbitrage rebate liability was \$72,909.

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June 30, 2008

7-B. Capital Lease

On August 21, 2006, the District entered into a lease agreement to complete design, engineering and installation of various facility improvement measures including lighting upgrades, sensors, HVAC chiller replacements, upgraded compressors and pumps, trash compactors, cooling tower meters and various bathroom fixtures which are stated at acquisition cost and included as part of capital assets. At June 30, 2008, the amount of leased property recorded as capital assets was \$3,451,257.

The following is a summary of the future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of June 30, 2008:

Fiscal Year Ending June 30	Total	Principal	Interest
Capital Lease			
2009	\$ 441,476	\$ 312,580	\$ 128,896
2010	441,476	325,402	116,074
2011	441,476	338,751	102,725
2012	441,476	352,647	88,829
2013	441,476	367,113	74,363
2014-2018	1,787,172	1,646,549	140,623
Total Minimum Lease Payments	<u>\$ 3,994,552</u>	<u>\$ 3,343,042</u>	<u>\$ 651,510</u>

The stated interest rate is 6.2821 percent.

7-C. Bonds Payable

The following is a description of bonded debt issues:

State School Bonds: The State Board of Education issued these bonds 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 pledged for all of these State Board of Education Bonds. The original amount of State Board of Education bonds issued was \$43,010,000. The State Board of Education and the State Board of Administration administer principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
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Bonds payable at June 30, 2008, are as follows:

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
State School Bonds			
Series 1999A	1,575,000	4.125-4.75	2019
Series 2000A	85,000	5.00-6.00	2010
Series 2002A	445,000	3.00-5.00	2022
Series 2003A	1,170,000	3.00-4.25	2023
Series 2004A	1,570,000	3.25-4.625	2024
Series 2005B	<u>14,290,000</u>	4.00-5.00	2020
Sub-Total	\$ 19,135,000		
Add: Unamortized Premium, Net	<u>467,736</u>		
Total Bonds Payable	<u>\$ 19,602,736</u>		

The annual requirements to amortize all bonded debt outstanding as of June 30, 2008, including interest payments, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds			
2009	\$ 2,324,671	\$ 1,405,000	\$ 919,671
2010	2,328,252	1,475,000	853,252
2011	2,317,853	1,535,000	782,853
2012	2,319,458	1,610,000	709,458
2013	2,307,120	1,675,000	632,120
2014-2018	11,602,291	9,750,000	1,852,291
2019-2023	1,756,053	1,530,000	226,053
2024	<u>162,169</u>	<u>155,000</u>	<u>7,169</u>
Subtotal Bonds Payable	25,117,867	19,135,000	5,982,867
Add: Unamortized Premium, net	<u>467,736</u>	<u>467,736</u>	<u>-</u>
Total Bonds Payable	<u>\$ 25,585,603</u>	<u>\$ 19,602,736</u>	<u>\$ 5,982,867</u>

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Changes in NonCurrent Liabilities

Noncurrent liability balances and activity for the year ended June 30, 2008, were as follows:

	Balance 06/30/07	Additions	Deductions	Balance 06/30/08*	Amounts Due within One Year
Governmental Activities					
<i>Long-Term Debt</i>					
Bonds Payable, net of premiums and discounts	\$ 21,006,615	\$ -	\$ 1,403,879	\$ 19,602,736	\$ 1,405,000
Certificates of Participation, net of premiums and discounts	580,514,651	21,215,000	43,797,860	557,931,791	23,905,000
Arbitrage Payable	51,794	21,115	-	72,909	-
Obligations under Capital Lease	3,568,840	-	225,798	3,343,042	312,580
Total Long-Term Debt	605,141,900	21,236,115	45,427,537	580,950,478	25,622,580
<i>Other Liabilities</i>					
Estimated Early Retirement Payable	1,257,000	-	9,000	1,248,000	30,000
Estimated Insurance Claims Payable	12,691,744	76,885,705	61,050,189	28,527,260	27,249,747
Postemployment Benefits Payable	-	7,257,409	2,845,267	4,412,142	-
Liability for Compensated Absences	57,108,162	15,094,320	12,652,239	59,550,243	3,628,436
Total Other Liabilities	71,056,906	99,237,434	76,556,695	93,737,645	30,908,183
Total Non-current Liabilities	\$ 676,198,806	\$ 120,473,549	\$ 121,984,232	\$ 674,688,123	\$ 56,530,763

**Payments on the bonds and notes payable are made by the Debt Service Funds. Payments on the arbitrage payable are made by the Certificates of Participation Capital Project Fund. Payments on the estimated insurance claims payable are made by the Internal Service Fund. The early retirement payable and compensated absences liabilities are generally liquidated by the General Fund. The postemployment benefits payable are generally liquidated by the General Fund and Special Revenue Funds.*

Internal service funds predominantly serve the governmental funds. Accordingly, noncurrent liabilities for them are included as part of the above totals for governmental activities. At fiscal year-end, \$27,418 internal service fund compensated absences is included in the above amounts.

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The following is a summary of changes in long-term liabilities of the discretely presented component units:

Description	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Notes Payable	\$ 481,436	\$ 944,138	\$ 247,316	\$ 1,178,258	\$ 665,764
Obligations Under Capital Leases	71,132,340	-	392,330	70,740,010	255,083
Total	<u>\$ 71,613,776</u>	<u>\$ 944,138</u>	<u>\$ 639,646</u>	<u>\$ 71,918,268</u>	<u>\$ 920,847</u>

In April 2007, the Lee County Industrial Development Authority (the "Authority") issued \$80,520,000 in Tax Exempt Industrial Development Revenue Bonds, Series 2007A, and \$1,645,000 in Taxable Industrial Development Revenue Bonds, Series 2007B, pursuant to an Indenture of Trust between the Authority and a trustee to make a loan to Lee County Community Charter Schools, LLC (the "LLC") to finance the acquisition of the facilities of four charter schools (Cape Coral Charter, Gateway Charter, Gateway Charter High and Six Mile Charter) under the Lee Charter Foundation, Inc. (the "Foundation").

Pursuant to a loan agreement, the Authority loaned the proceeds of the bonds to the LLC. In order to secure the payment of the principal and interest on the bonds, the Authority assigned all of its rights and interest in the loan agreement to the trustee. The bonds are payable from and secured by a lien upon and pledge of payments to be received by the trustee.

The schools lease their facilities from LLC. The capital lease payments and terms of the leases are based on the debt service requirements of the bonds. These payments are made from revenues received from the School District of Lee County for the operation of the schools. The Foundation is obligated under the indenture to deposit all Charter revenues received from the District and additional revenues, if any, directly with the trustee during the term of the lease. The payments are applied by the trustee to make sinking fund payments.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2009	\$ 2,709,403	\$ 920,847	\$ 1,788,556
2010	5,628,749	1,371,720	4,257,029
2011	5,619,979	1,438,303	4,181,676
2012	5,496,769	1,401,180	4,095,589
2013	5,424,212	1,407,557	4,016,655
2014-2018	26,765,879	7,835,519	18,930,360
2019-2023	26,771,898	10,148,920	16,622,978
2024-2028	28,154,221	13,935,860	14,218,361
2029-2033	26,881,110	17,354,709	9,526,401
2034-2037	19,976,198	16,103,653	3,872,545
Total Minimum Lease Payments	<u>\$ 153,428,418</u>	<u>\$ 71,918,268</u>	<u>\$ 81,510,150</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8: DEFEASED DEBT

On May 12, 2008, the Board issued \$21,215,000 in Certificates of Participation, Series 2008-A, with an average interest rate of 2.77 percent, to refund a portion of the District's Certificates of Participation, Series 1995A. The Refunding Certificates are being issued to refund the \$26,870,000 principal amount of the District's Certificates of Participation, Series 1995A, that mature on or after August 1, 2008. The net proceeds of \$21,136,024 (after payment of \$83,976 in underwriting fees, insurance, and other issuance costs) were placed in an irrevocable trust to call on August 1, 2009, all outstanding future debt payments on the Certificates of Participation, Series 1995A. As a result, \$20,680,000 of the 1995A series bonds are considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 1995A Certificates of Participation were refunded to reduce total debt service payments over the next three years by approximately \$763,371 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$744,923.

In prior years, the District defeased State Board of Education Bonds, Series 2000A, and Certificates of Participation, Series 1993A, and a portion of the Certificates of Participation, Series 1996A, by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's long-term debt. As of June 30, 2008, the amount of defeased debt outstanding is \$51,055,000.

NOTE 9: RESERVE FOR ENCUMBRANCES

Appropriations in governmental fund types are encumbered upon issuance of purchase orders for goods and/or 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 year-end to report an amount likely to be expended from the fiscal year 2008-2009 budget as a result of purchase orders outstanding at June 30, 2008.

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NOTE 10: SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 16,024,448
Categorical Educational Programs:	
Class Size Reduction	81,172,706
Instructional Materials	20,416,741
Transportation	8,185,678
Other	9,689,263
Class Size Reduction Program (Capital Outlay)	35,776,033
Gross Receipts Tax (Public Education Capital Outlay)	21,475,040
Workforce Development Program	11,122,931
Discretionary Lottery Funds	3,910,457
Charter School Capital Outlay Funding	3,351,654
Motor Vehicle License Tax (Capital Outlay and Debt Service)	3,284,131
Mobile Home License Tax	497,288
Food Service Supplement	447,227
Racing Commission Funds	223,250
Miscellaneous	1,074,401
	1,074,401
 Total	 \$ 216,651,248

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

NOTE 11: PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2007 tax roll in fiscal year 2007-2008:

	Mills	Amount
<u>General Fund:</u>		
Nonvoted School Tax		
Required Local Effort	4.361	\$ 421,693,801
Basic Discretionary Local Effort	0.510	49,315,258
Supplemental Discretionary Local Effort	0.089	8,605,996
 <u>Capital Projects Funds:</u>		
Nonvoted School Tax		
Local Improvements	2.000	193,393,167
 Total	 6.960	 \$ 673,008,222

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NOTE 12: STATE RETIREMENT PROGRAMS

All regular employees of the District are covered by one of two retirement plans maintained by the Florida Retirement System – A State-administered cost-sharing multiple employer defined benefit retirement plan (FRS Pension Plan), or a State-administered defined contribution plan (PEORP).

All retirement plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein benefits are defined and described in detail.

Essentially, all regular employees of participating employers are eligible to enroll in either of the two retirement plans. Employees who do not choose a retirement plan are automatically enrolled in the FRS Pension Plan. A member of the FRS Pension Plan's retirement pension benefit vests after six years of service. Members are eligible for normal retirement benefits at age 62 with six years of service, or at any age after thirty years of service and which may include up to four years of credit for military service. For normal retirement, benefit payments are based on the member's best five-year average annual salary (average final compensation) times the number of years of service, and multiplied by a percentage ranging from 1.60 percent at either age 62 or with thirty years of service to 1.68 percent at age 65 or with thirty three years of service. Members may individually elect to receive decreased monthly benefits during their lifetime in order to provide survivor benefits to a spouse or dependent. Members are eligible for early retirement after six years of creditable service, but before age 62; however, normal benefits are reduced by five percent for each year a member retires before age 62.

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 the DROP are not eligible to participate in the PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in the PEORP vest after one year of service. There were 1,621 District participants during the 2007-08 fiscal year. Contributions made to the PEORP totaled \$5,425,174, which equaled the required contributions.

The Florida Retirement System provides benefits in addition to the retirement pensions described above. Benefits include post-retirement payments for health care insurance, cost of living supplements and, for certain retirees, a supplement to cover social security benefits lost by virtue of retirement system membership. Members are eligible for in-line-of-duty disability benefits from the first day of employment, or regular disability benefits after eight years of service. Disability benefit payments are calculated in the same manner as retirement benefits, except that disability benefits are not less than 42 percent of the member's average final compensation for disability incurred in the line of duty and not less than 25 percent of the average final compensation for regular disability. Survivors of members who die in the line of duty are entitled to a monthly benefit equal to one-half of the member's monthly salary at death. Survivors of members whose death is other than in the line of duty may elect to either receive benefits as if the member had retired on the date of death and had opted to provide survivor

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benefits, or defer benefits to a later date and receive payments as if the member had retired at that later date.

Benefits described above are in summary form. Accordingly, not all conditions, limitations, and restrictions are mentioned.

Effective July 1, 1998, a Deferred Retirement Option Program (DROP) was established subject to provisions of Section 121.091, Florida Statutes. It permits employees eligible for normal retirement under the FRS Pension Plan to defer receipt of monthly benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in DROP for a period not to exceed sixty months after electing to participate, except that certain instructional personnel may participate in DROP for up to ninety six months upon authorization from the District's Superintendent. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

The retirement plans' financial statements and other supplemental information 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 the retirement plans, which includes the financial statements, required supplementary information, the actuarial report, and other relevant information, may be obtained from the Florida Department of Management Services, Division of Retirement.

Funding Policy

The contribution rates for retirement plan members are established, and may be amended, by the State of Florida. During fiscal year 2007-2008, contribution rates for the FRS Pension Plan and the FRS Investment Plan were as follows:

Class or Plan	Employer Contribution (Percent of Gross Salary)
Florida Retirement System, Regular	9.85
Florida Retirement System, Elected County Officers	16.53
Florida Retirement System, Senior Management Service	13.12
Deferred Retirement Option Program (Applicable to members from all of the above classes or plans)	10.91
Florida Retirement System, Re-Employed Retiree, Regular	9.85

Note: Employer rates include the postemployment health insurance supplement of 1.11 percent. The District's fiscal year 2007-2008 payrolls subject to FRS employer contributions for all employees totaled \$400,021,706. Required contributions made to the Florida Retirement System for fiscal years June 30, 2006; June 30, 2007; and June 30, 2008, totaled \$26,295,795; \$36,470,593; and \$39,722,509 respectively which were equal to the required contributions for each fiscal year.

NOTE 13: EARLY RETIREMENT INCENTIVE PROGRAM

As authorized by Section 1012.685, Part VII, Florida Statutes, the Board implemented an Early Retirement Plans (Plans) effective July 1, 1995, July 1, 1997, and July 1, 1999. The plans were offered

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to eligible employees on a one-time basis until May 15, 1995, May 15, 1997, and May 15, 1999, respectively. The purpose of the Plans was to provide eligible employees, who elect to retire under the retirement provisions of the Florida Retirement System (FRS), described in Note 12, with one of several incentive options which supplement the employee's (participant's) retirement benefits. A summary of the plan eligibility, benefits, and contribution obligations for the 1995 Plan follows:

Eligibility

Participants must be 57 years of age with a minimum of five years of service with the School District of Lee County (District) or 62 years of age with at least ten years of FRS service and a minimum of five years of service with the District or any age with at least thirty years of FRS service and a minimum of five years of service with the District.

Benefits

Incentive option one includes a bonus equal to twenty-five percent of the employee's final annual salary, health contribution by the District for eight continuous years, and a life insurance benefit of \$10,000.

Incentive option two includes lifetime monthly payments for five years to offset the FRS early retirement penalty of five percent per year when an employee retires prior to age 62 with less than thirty years FRS service and a life insurance benefit for the retiree's beneficiary of \$10,000.

Incentive option three includes monthly payments for five years to offset the FRS early retirement penalty of five percent per year when an employee retires prior to age 62 with less than thirty years FRS service, a health insurance contribution by the District for eight continuous years, and a life insurance benefit of \$10,000.

The amount of the bonuses (if applicable) and accumulated leave are paid in five annual installments into an Internal Revenue Code 457F deferred compensation plan and directed into an investment fund selected by the participant. Alternatively, the participant may elect to receive twenty-five percent of the annual installments directly with the balance going into the deferred compensation plan.

Contributions

No contributions shall be required or permitted from any participant. The annual amounts contributed by the District are the actual amounts payable to participants or on their behalf for contributions to the 457F deferred compensation plan, retirement benefits, and premiums for health and life insurance coverage.

Eligibility, benefits, and contributions are similar under the three Plans except that the 1997 Plan included only options one and three above less the \$10,000 insurance benefit plus a cost of living adjustment (as used by the FRS) for years two through five in option three. The 1999 Plan included options one and three above less the \$10,000 insurance benefit plus a cost of living adjustment (as used

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by the FRS) for years two through five in option three. For the 1997 and 1999 Plans, the health insurance contribution by the District is for five, not eight, continuous years.

The District reported a liability in its Statement of Net Assets of \$1,248,000 to recognize the present value of its obligation to pay death benefits to, or on behalf of, these retired employees. The Board has purchased life insurance on the participants, with itself as the beneficiary, to recover costs of the 1995 Plan over time.

The District has retained an administrator to handle the receipt of contributions and the disbursements of benefits to Plan participants.

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

For the fiscal year ending June 30, 2008, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*, for certain postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively, with the actuarially determined liability of \$70,964,299 at the July 1, 2007, date of transition being amortized over thirty years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care 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 provision of the Section 112.0801, Florida Statutes, former employees who retire from the District, and eligible dependents, may continue to participate in the District's health plan for medical and prescription coverage. The District subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the 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. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The postemployment healthcare 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

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, 1,131 retirees received health care benefits. The District provided contributions of \$2,845,267 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees net of retiree contributions totaling \$3,843,960.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB

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Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation:

Employer Fiscal Year Ending June 30	2008
Normal cost (service cost for one year)	\$ 4,431,700
Amortization of Unfunded Actuarial Accrued Liability	2,590,034
Interest on Normal Cost and Amortization	235,675
Annual required Contribution	7,257,409
Net OPEB Obligation, Beginning of year	-
Annual OPEB Cost (Expense)	7,257,409
Contribution toward the OPEB cost	(2,845,267)
Increase in Net OPEB Obligation	4,412,142
Net OPEB Obligation, End of year	\$ 4,412,142

The District's annual OPEB cost, 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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	New OPEB Obligation
June 30, 2008	\$ 7,257,409	39.2%	\$ 4,412,142

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (a)	\$70,964,299
Actuarial Value of Plan Assets (b)	-
Unfunded Actuarial Accrued Liability (c)=(a-b)	\$70,964,299
Funded Ratio (b/a)	0.0%
Covered Payroll (Active Plan Members) (d)	\$344,160,676
UALL as a Percentage of Covered Payroll (c/d)	20.62%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare costs 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend

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information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the October 1, 2006 OPEB actuarial valuation, entry age normal cost actuarial method was used. This method was selected because it produced the lowest OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.5 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 includes a payroll growth of four percent per year, and an annual healthcare cost trend rate of 9.5 percent initially for fiscal year 2008, reduced by 0.5 percent per year, to an ultimate rate of 7.5 percent after four years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2008, is twenty nine years.

NOTE 15: VESTED INTERESTS IN UTILITY COOPERATIVES

The District has purchased electricity since 1969 from the *Lee County Electric Cooperative, Inc.* The District's estimated vested interest in this Cooperative is \$5,110,262 at December 31, 2007. Such interest, also referred to as capital credits, would be payable to the District over a thirty-year period should the District terminate its business relationship with the Cooperative. During the fiscal year, the District recorded the earned capital credits as other local sources revenue in the government-wide statement but did not record any general revenue on the governmental fund statements as the District did not receive any capital credits. The District would receive capital credits from *Bonita Springs Water System, Inc.*, or *Greater Pine Island Water Association, Inc.*, only in the unlikely event that they were to permanently cease operations. During the fiscal year, the District did not record any general revenue for capital credits earned from *Bonita Springs Water System, Inc.*, or *Greater Pine Island Water Association, Inc.*

NOTE 16: RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Buildings and contents are insured. Workers' compensation, automobile liability, and general liability coverage are self-insured up to specified limits. The District purchases policies with various insurance companies to provide coverage excess of claims amounts above the stated self-insured retention deductible on any individual/aggregate claim. The District has contracted with a third-party administrator to administer the property/casualty program, including the processing, investigation, and payment of claims.

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Health coverage was being provided through purchased commercial insurance until March 31, 2007. As of April 01, 2007, the District returned to providing health coverage through a self-insurance program administered by an outside provider. The District reports the self-insurance programs in the Internal Service Funds. Amounts are transferred from various funds to the Internal Service Funds to provide sufficient resources to cover claims incurred, to pay for the purchase of excess insurance, and to pay the insurance services agent's administrative fees.

There have been no significant reductions in insurance coverage. Settled claims resulting from risks described above have not exceeded commercial insurance coverage for the past three fiscal years.

A liability in the amount of \$8,505,338 was actuarially determined to cover outstanding claims and estimated incurred but not reported insurance claims payable for the Self-Insurance-Casualty, Liability and Workers' Compensation Fund, at June 30, 2008. A liability in the amount of \$20,021,922 was actuarially determined to cover outstanding claims and estimated incurred but not reported insurance claims payable for the Self-Insurance- Health Insurance Fund, at June 30, 2008.

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

Casualty, Liability, Workers' Compensation Self-Insurance Fund:

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2006 – 2007	\$ 7,454,655	\$ 6,498,924	\$ (5,466,767)	\$ 8,486,812
2007 – 2008	\$ 8,486,812	\$ 6,055,891	\$ (6,037,365)	\$ 8,505,338

Health Insurance Self-Insurance Fund:

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2006 – 2007	\$ -	\$ 15,142,281	\$ (10,937,349)	\$ 4,204,932
2007 – 2008	\$ 4,204,932	\$ 70,829,814	\$ (55,012,824)	\$ 20,021,922

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 17: INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2007-08 fiscal year:

	<u>Total</u>	<u>Self-Insurance</u>	
		<u>Health</u>	<u>Other</u>
ASSETS			
Current Assets			
Cash	\$ 17,159,224	\$ 17,159,224	\$ -
Investments	31,908,945	31,908,945	-
Due from Governmental Funds	8,653,447	-	8,653,447
Total Current Assets	<u>57,721,616</u>	<u>49,068,169</u>	<u>8,653,447</u>
Noncurrent Assets			
Restricted Cash With Fiscal Agent	310,000	10,000	300,000
Furniture, Fixtures and Equipment	4,459	4,459	-
Less Accumulated Depreciation	(4,245)	(4,245)	-
Motor Vehicles	15,434	-	15,434
Less Accumulated Depreciation	(15,434)	-	(15,434)
Total Noncurrent Assets	<u>310,214</u>	<u>10,214</u>	<u>300,000</u>
Total Assets	<u>58,031,830</u>	<u>49,078,383</u>	<u>8,953,447</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	92,489	-	92,489
Unearned Revenue	10,515,808	10,515,808	-
Estimated Insurance Claims Payable	27,249,747	19,552,713	7,697,034
Liability for Compensated Absences	27,418	21,798	5,620
Total Current Liabilities	<u>37,885,462</u>	<u>30,090,319</u>	<u>7,795,143</u>
Long-Term Liabilities			
Estimated Insurance Claims Payable	1,277,513	469,209	808,304
Total Liabilities	<u>39,162,975</u>	<u>30,559,528</u>	<u>8,603,447</u>
NET ASSETS			
Invested in Capital Assets	214	214	-
Restricted Cash With Fiscal Agent	310,000	10,000	300,000
Unrestricted	18,558,641	18,508,641	50,000
Total Net Assets	<u>\$ 18,868,855</u>	<u>\$ 18,518,855</u>	<u>\$ 350,000</u>

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

	<u>Total</u>	<u>Self-Insurance</u>	
		<u>Health</u>	<u>Other</u>
OPERATING REVENUES			
Premium Revenue	\$ 92,767,029	\$ 77,938,370	\$ 14,828,659
Other Operating Revenues	4,894	4,894	-
Total Operating Revenues	<u>92,771,923</u>	<u>77,943,264</u>	<u>14,828,659</u>
OPERATING EXPENSE			
Salaries	313,002	195,537	117,465
Employee Benefits	108,812	50,531	58,281
Purchased Services	14,571,214	5,866,815	8,704,399
Materials and Supplies	-	-	-
Noncapitalized Equipment	-	-	-
Insurance Claims	76,885,705	70,829,814	6,055,891
Depreciation	214	214	-
Total Operating Expenses	<u>91,878,947</u>	<u>76,942,911</u>	<u>14,936,036</u>
Operating Income (Loss)	<u>892,976</u>	<u>1,000,353</u>	<u>(107,377)</u>
NONOPERATING REVENUES			
Interest Income	1,465,402	1,465,402	-
Total Nonoperating Revenues	<u>1,465,402</u>	<u>1,465,402</u>	<u>-</u>
Changes in Net Assets	2,358,378	2,465,755	(107,377)
Net Assets - July 01, 2007	<u>16,510,477</u>	<u>16,053,100</u>	<u>457,377</u>
Net Assets - June 30, 2008	<u>\$ 18,868,855</u>	<u>\$ 18,518,855</u>	<u>\$ 350,000</u>

NOTE 18: LITIGATION

The District is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operation. Management believes that any liability arising from such claims would be immaterial to the financial statements.

In 2001, the Lee County Board of County Commissioners adopted a school impact fee ordinance. Soon after adoption, a lawsuit was filed against the County and the School District attacking the ordinance on two legal grounds. The major ground upon which the ordinance was challenged was an assertion that the methodology was inappropriate and, therefore, unconstitutional. The County was successful in defending the methodology and the trial court decision has been appealed and upheld. The second legal challenge made to the impact fee ordinance was an assertion that it unconstitutionally impaired contracts that were in place at the time the ordinance was adopted. The plaintiffs were successful in obtaining a Motion for Summary Judgment on this portion of this case. The Order Granting Summary Judgment was appealed to the Second District Court of Appeal. This portion of the case concerns approximately \$1.7 million in school impact fees. To cover the potential liability on this portion of the

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

litigation, the County is holding approximately \$3 million in escrow. The Order Granting Summary Judgment was reversed by the Appellate Court and remanded to the trial court for further proceedings.

The City of Cape Coral has filed a lawsuit against the School District and the County seeking to share in the school impact fees. The City of Cape Coral asserts that, since it has established charter schools that serve a portion of the student population in Lee County, it is entitled to a portion of the school impact fees. The City of Cape Coral does not indicate what portion of school impact fees it feels it is entitled to in the lawsuit. It is anticipated that the School District will be successful in defending this matter.

NOTE 19: SUBSEQUENT EVENTS

As discussed in Note 2B, at June 30, 2008, the District had \$114,897,570 invested in The Reserve Primary Liquidity Class I Fund. On September 16, 2008, the District transferred its balance in The Reserve Primary Liquidity Class I Fund to The Reserve U.S. Government Fund (The Reserve Fund). The amount transferred was \$114,766,585.

On September 19, 2008, The Reserve Fund filed with the Securities and Exchange Commission (“SEC”) an Application for an Order to suspend all rights of redemption from either fund and to postpone the date of payment of redemption proceeds for a period longer than seven days after the tender of shares for redemption. The staff of the SEC has advised The Reserve Fund that it intends to recommend the issuance of such Order.

The filing of the Application, pursuant to Section 22(e) of the Investment Company Act of 1940, was precipitated by the extraordinary market conditions, including the filing, on September 15, 2008, by Lehman Brothers Holdings, Inc., of a petition for bankruptcy protection. These conditions contributed to unprecedented requests for redemptions for this fund. The Reserve Fund, which had approximately \$10 billion in assets under management at the opening of business on September 15, 2008, has received redemption requests as of September 19, 2008, of approximately \$6 billion. With continued significant illiquidity in the markets, The Reserve Fund’s investment adviser is unable to dispose of securities to fund redemptions without impairing the net asset value of the fund. The issuance of the Order is intended to ensure an orderly liquidation of securities in The Reserve Fund and that all shareholders are protected in the process.

On September 22, 2008, the SEC issued an order granting The Reserve Fund’s application for an Order to suspend all rights of redemption from the U.S. Government Fund. The Board of Trustees of The Reserve Fund (the “Board”) announced on September 30, 2008, that it had voted to liquidate the assets of The Reserve Fund. The Board and The Reserve Fund’s adviser worked diligently and in conjunction with the SEC to develop a plan to distribute the assets of The Reserve Fund in a fair and equitable manner. The Reserve Fund at that time could not estimate when distributions to investors would be made.

On November 3, 2008, The Reserve Fund’s total assets were approximately \$10.8 billion. The Reserve Fund made the first distribution to investor’s on November 14, 2008, of which the District received approximately \$47 million. The District believes it will recover the balance of The Reserve Fund in January, 2009.

THE SCHOOL DISTRICT OF LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

On June 23, 2008, the Commissioner notified school districts of a fund release plan for 2008-09 that included a 4 percent holdback in state Florida Education Finance Program (FEFP) funds. The revised general revenue forecast estimates a shortfall in state revenue. The School District of Lee County has been notified that \$11,567,524 will be withheld from the 2nd FEFP calculation. Implementation of the holdback in funds will begin with the December 10, 2008, FEFP payment.

Disruptions in the market for auction rate securities have resulted in instability and the potential of severe escalations in the interest portion of basic lease payments represented by the Series 2004B Certificates of Participation. In order to stabilize the current interest rate with respect to the portion of basic lease payments represented by the Series 2004B Certificates, on November 18, 2008, the School Board decided to refinance all of its obligations under the 2004 Lease represented by the 2004B Certificates by further amending and restating the 2004 Lease and the issuance of refunding Certificates of Participation 2008B to refund all of the outstanding 2004B Certificates. Bank of America presented a proposal for the direct purchase of the 2008B Certificates at the "Index Floating Rate" equal to the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA" Index) plus 90 basis points. The School Board entered into an interest rate exchange agreement in the form of the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement on December 17, 2008, with Bank of America for \$60,000,000. Effectively, the interest rate exchange agreement changed the District's variable rate on the Series 2004B Certificates to a synthetically fixed interest rate of 1.778 percent.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF LEE COUNTY
 SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
 For the Fiscal Year Ended June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
October 1, 2006	\$ -	\$ 70,964,299	\$ 70,964,299	0.0%	\$ 344,160,676	20.6%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LEE 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)	Amounts Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 2,838,433	\$
National School Lunch Program	10.555	300	14,071,474	
Summer Food Service Program for Children	10.559	323	454,302	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	1,490,426	
Total Child Nutrition Cluster			18,854,635	
Total United States Department of Agriculture			18,854,635	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	9,444	
Federal Pell Grant Program	84.063	N/A	523,010	
Magnet Schools Assistance	84.165	N/A	301,381	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	N/A	<u>395,057</u>	
Total Direct			1,228,892	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	14,821,527	260,357
Special Education - Preschool Grants	84.173	266, 267	<u>426,844</u>	
Total Special Education Cluster			15,248,371	260,357
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	669,991	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	13,396,181	
Migrant Education - State Grant Program	84.011	217	964,898	
Career and Technical Education - Basic Grants to States	84.048	151	837,601	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	297,836	
Education for Homeless Children and Youth	84.196	127	64,994	
Even Start - State Educational Agencies	84.213	219	42,113	
Tech-Prep Education	84.243	157	263,174	
Charter Schools	84.282	298	648,767	60,873
State Grants for Innovative Programs	84.298	113	103,664	
Education Technology State Grants	84.318	121	120,820	
Comprehensive School Reform Demonstration	84.332	128	5,164	
Reading First State Grants	84.357	211	3,302,698	1,228,441
Voluntary Public School Choice	84.361	299	21,031	
English Language Acquisition Grants	84.365	102	1,139,256	
Improving Teacher Quality State Grants	84.367	224, 225	<u>3,056,757</u>	
Total Indirect			40,183,316	1,549,671
Total United States Department of Education			41,412,208	1,549,671

**LEE 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)	Amounts Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	\$ 5,352,491	\$
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	20,958	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	211,593	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	776,072	
Indirect:				
CCSC, Inc., Doing Business as Naplesyacht.com:				
Section 1206 of the Third Border Initiative Projects	None	None	286,415	
Total United States Department of Defense			<u>1,062,487</u>	
Total Expenditures of Federal Awards			<u>\$ 66,914,372</u>	<u>\$ 1,549,671</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 - National School Lunch Program. Represents the amount of donated food received during the 2007-08 fiscal year, including cash in lieu of donated food of \$61,842. Commodities are valued at fair value as determined at the time of donation.
- (3) Head Start. Expenditures include \$407,038 for grant number/program year 04CH3269/41 and \$4,945,453 for grant number/program year 04CH3269/42.



David W. Martin, CPA
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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 Lee 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 aggregate discretely presented component units, as described in our report on the Lee 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. 2009-048.

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
January 13, 2009



David W. Martin, CPA
AUDITOR GENERAL

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

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

Compliance

We have audited the Lee 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.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing

our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

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

January 13, 2009

**LEE 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?	None reported
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> ?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Dollar threshold used to distinguish between Type A and Type B programs:	\$2,007,431
Auditee qualified as low-risk auditee?	Yes

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

Significant Deficiency

Finding No. 1: Ad Valorem Taxation

Section 1011.71, Florida Statutes, provides for allowable uses of ad valorem taxes (capital outlay millage levy) proceeds and the use of those moneys is dependent upon the statutory language in place during the year in which the moneys were collected and expended, i.e., moneys collected for the 2005-06 fiscal year should be expended based on the provisions of the 2005 Florida Statutes. Our audit procedures disclosed that the District incurred costs, totaling \$3,662,802, from its 2005-06 fiscal year capital outlay millage levy funds that were not allowable under the provisions of Section 1011.71(5), Florida Statutes (2005). Section 1011.71(5), Florida Statutes (2005), provided that the allowable uses of capital outlay millage levy proceeds included, among other things, funding construction, renovation, remodeling, maintenance, and repair of the educational plant; school bus purchases; and purchases of equipment, educational plants, and construction materials directly related to the delivery of student instruction.

On October 23, 2007, the Board approved purchasing computer software programs to use for a Districtwide upgrade from its 2005-06 fiscal year capital outlay millage levy proceeds with estimated project costs, totaling over \$19 million. As of November 14, 2008, District expenditures for the software project, including the value of District personnel assigned to the project as well as consultant costs, totaled \$3,662,802 from these proceeds, of which \$2,110,790 was incurred as of June 30, 2008. However, computer software purchases were not specifically listed in Section 1011.71(5), Florida Statutes (2005), as allowable uses of such proceeds.

District personnel indicated that because the District certified to the Florida Department of Education that the District's educational space needs would be met for the next five years pursuant to Section 1011.71(5)(d), Florida Statutes (2005), the restrictions set forth in the 2005 statute would not apply and the software project could be funded from the capital outlay millage levy. However, the exemptions noted in Section 1011.71(5)(d), Florida Statutes (2005), only authorize the use of capital outlay funds to acquire, construct, or repair of ancillary plant. Computer software is not listed as an allowable use of capital outlay proceeds pursuant to Section 1011.71(5), Florida Statutes (2005), nor does it relate to the acquisition of ancillary plants. Section 1011.71(5)(d), Florida Statutes (2005), further provides that a district that violated these expenditure restrictions shall have an equal dollar reduction in funds appropriated to the district in the fiscal year following the audit citation.

Recommendation: The District should establish procedures to ensure that it limits use of capital outlay millage funds to the purposes set forth in Section 1011.71, Florida Statutes. Additionally, the District should document the allowability of the questioned expenditures, totaling \$3,662,802, to the Florida Department of Education or these questioned costs should be restored to the 2005-06 fiscal year capital outlay millage levy fund.

Follow-up to Management's Response:

In its response to Finding No. 1, the District states that use of capital outlay tax proceeds to purchase computer software for districtwide operational purposes is acceptable since Section 1011.71, Florida Statutes, allows such proceeds to purchase equipment and the statute does not specifically define equipment to include or exclude software. The District further urges that the statutory language be interpreted liberally to enable the District to accomplish its responsibilities. However, the purchase of this software does not appear allowable as either maintenance of the educational plant or as the purchase of equipment directly related to the delivery of student instruction, as permitted by Section 1011.71(5)(a), Florida Statutes (2005). The text of Subsection 1011.71(5), Florida Statutes (2005), makes it clear that the Legislature intended that the funds raised by the capital outlay tax could only be used for limited purposes and that the provisions in Subsection (5) act as additional expenditure restrictions to those contained in Subsection (2). As previously indicated, in resolving the questioned expenditures, the District should document to the Department of Education the allowability of these questioned costs.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit – A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*LEE 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
Cherry, Bekaert, & Holland, L.L.P. 2006-07 Report		No prior Federal audit findings.		

**EXHIBIT – A
MANGEMENT’S RESPONSE**



THE SCHOOL DISTRICT OF LEE COUNTY

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January 5, 2009

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

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DISTRICT 2
ELINOR C. SCRICCA, PH.D.
DISTRICT 5
JAMES W. BROWDER, ED.D.
SUPERINTENDENT
KEITH B. MARTIN, ESQ.
BOARD ATTORNEY

Dear Mr. Martin:

The School District of Lee County is in receipt of your preliminary and tentative Financial and Federal Audit Finding Number 1 regarding the use of ad valorem taxes (capital outlay millage levy) for the purchase of computer software programs to use for a District wide upgrade. The finding was that in the 2007-08 fiscal year, the School Board spent \$3,662,802.00 from 2005-06 capital outlay funds for the purchase of software in violation of Florida Statutes, Section 1011.71 (2005). Note that Section 1011.71(5) (2005) allows the use of such funds to purchase "equipment". It is true Section 1011.71(5), Florida Statutes (2005), does not specifically state that capital outlay millage funds can be used for the purchase of computer software programs. However, equipment is not specifically defined in the relevant section or chapter. There is no definition that would include or exclude computer software from the definition of equipment. Therefore, one should look at other portions of the School Code or other Statutes applicable to School Districts, to attempt to determine the intent of the legislature with respect to the meaning of "equipment" and the appropriateness of the use of capital outlay millage funds to purchase computer software.

Section 1011.14(1), Florida Statutes (2005), addresses the purposes for which a School Board may incur obligations by way of anticipation of budgeted revenues in excess of one (1) year. These purposes include purchase of school buses, land, and equipment for educational purposes; the erection of, alterations to or additions to educational facilities and the adjustment of insurance on educational property. This list of purposes would appear to include expenditures which are traditionally considered capital expenditures.

In 2000, the Department of Education General Counsel's office was asked for an opinion by the School Board Attorney for the St. John's County School District. The question was whether the term equipment for educational purposes in Section 237.161, Florida Statutes (2000) which was renumbered to Section 1011.14 in 2002, includes computer software programs and the ancillary services needed to implement the programs. The software program in question was used county-wide for the day to day operations of the School District, including business, financial, payroll, personnel and accounting matters along with student assessment and achievement information. The Department of Education's General Counsel opined that the purchase of such a computer software system and the ancillary services necessary to implement it, are included in the term equipment for educational purposes under Section 237.161, Florida Statutes (2000). The language of Section 237.161(1), Florida Statutes (2000), is identical to the language in Section 1011.14(1), Florida Statutes (2005) and the present 1011.14(1), Florida Statutes (2008). As the General Counsel aptly pointed out, Section 228.002, Florida Statutes (2000) states that "the provisions of the Florida School Code shall be liberally construed to the end that its objects may be effected". The same language is present in Section 1000.01(2), Florida Statutes (2005) and 1000.01(2), Florida Statutes (2008). The referenced opinion is 00-07, issued October 25, 2000. The School Code should be liberally construed to the end that its objects may be effected. Section 1011.02(4), Florida Statutes (2005) requires the School Board to adopt a balanced

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budget. This section evidences an intention that one objective of the School Code is that the School Board have the flexibility to use the funds it is entrusted with to provide the services required by law, while maintaining a balanced budget. This same requirement continues in Section 1011.02(4) (2008). If the Lee County School District had been required in FY 2007-08 to use operating funds to pay for the purchase and implementation of the computer software program; it would have been unable to adopt a balanced budget. Additionally, if required in the future to use operating dollars for this purpose, the District would be unable to effect the objective established by the Florida Legislature, Section 1011.02(4) to adopt a balanced budget while providing the high quality education required by Article IX, Section 1 of the Florida Constitution.

Additionally, under Section 212.055(6), Florida Statutes, the School Board may levy school capital outlay surtax upon voter approval. The Statute allows the use of such funds for fixed capital expenditures and fixed capital costs associated with construction...land acquisition, land improvement design and engineering costs related thereto. In addition, the capital outlay surtax funds may be used for costs of retrofitting and providing for technology implementation including hardware and "software" for various sites within the School District. "Capital Outlay" is the term used in Section 212.055(6). The same term is used in 1011.71 to describe the funds provided through this millage. It is reasonable to expect that when it uses the same terms in statutory provisions applying to School Districts, the legislature means the same thing. Therefore, the use of the term "capital outlay" in both Section 1011.14 and 212.055(6) should indicate that the funds are of the same character and can be used for the same "capital" purposes including computer software programs. The language in this Section appears to evidence an intention by the legislature that the purchase by the School District of software to support District operations and any costs to implement that software, are a capital purchase for which capital outlay funds in the form of 212.055(6) capital outlay surtax or 1011.71 discretionary millage may be used.

It is true that Section 1011.71, Florida Statutes does not contain a specific definition of the term "equipment". Therefore, there is no definition of equipment to specifically include or exclude software. The wording should be interpreted liberally to enable the District to accomplish its responsibilities established by the Florida School Code and Constitution. Other Sections within the Florida School Code and other portions of Florida Statute applicable to School District evidence the intent of the legislature that the purchase of software programs and the costs to implement the use of such programs is a capital cost for which discretionary millage funds can be used. Without specific wording in Section 1011.71(5) to put the School District on notice of a limited use of the term "equipment" inconsistent with other statutory provisions and previous opinion of DOE General Counsel, the School District cannot be found to have "violated" expenditure restrictions within Section 1011.71, Florida Statutes.

Your staff has been well informed of our district's current situation related to our 2.5 year planned implementation of PeopleSoft (Oracle) software to replace our 30 year old legacy inefficient systems. In fact, we have on several occasions commented in audit responses that when the new PeopleSoft system was in place that several areas of concern would be corrected.

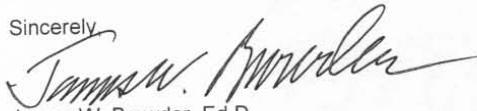
In addition to the audit responses, the Department of Education and the Department of Revenue receive two documents each year that outline the District's plan for spending the two-mill money in question. First, according to Truth in Millage Law, we must create the Notice of Tax for School Capital Outlay advertisement. This advertisement outlines specifically how each year's two mill levy will be expended. We are required to send the advertisement to both the Department of Revenue and the Department of Education Office of Funding and Financial Reporting. For the year in question, the notice stated that the School District of Lee County would be utilizing two mill funds for technology. The purchase of our software system is clearly an expenditure that qualifies as technology. Both the Department of Revenue and the Office of Funding and Financial Reporting review and approve the information presented; the state auditors also examine this advertisement each year we are audited. We have advertised in this manner since at least 2002, and at no point were we ever told that the advertisement or our budget included expenditures that were not authorized under statute.

Secondly, the Office of Educational Facilities reviews and approves our District's Tentative Facilities Work Program each year. For Fiscal Year 2007-08, the year in question, the District Software System was listed on page five of the work plan as an expenditure to take place out of the two mill fund for that year. We submitted our work plan on September 26, 2007, and entered into contract for our software system on October 23 after our work plan was accepted and approved.

In the Auditor General Annual Report dated October 1, 2007 thru October 31, 2008 on page 7 the Auditor General states two of its visions: "Reporting will include recommendations on how to improve the workings of government." "Findings and recommendations will be supported so as to preclude any doubt in the validity of the information provided." Wherein the Auditor General's office have made a similar Finding for other districts, such as Miami-Dade, numerous legal counsel opinions and CPA opinion have consistently highlighted that both the Auditor General and the Department of Education's conclusion are not supported to 'preclude any doubt in validity'. In fact, this same report from the Auditor General's office recognizes this fact by virtue of making a Recommended Statutory Change to the Legislature in the policy area of Education seeking clarification of the law relating to Capital Outlay Millage Proceeds for Section 1011.71(2)(d) Florida statute.

While we respect the auditor's authority to interpret statute and examine our financial records according to their interpretations, we do not agree with the finding related to our two mill funds.

Sincerely,



James W. Browder, Ed.D.
Superintendent

Cc: Keith Martin, Board Attorney
Lee V. Legutko, Chief Business Officer
Greta Campbell, Director, Financial Accounting & Property Inventory
Ami Desamours, Director, Budget