REPORT NO. 2012-172
MARCH 2012

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	District No.
Susan L. Valdes, Chair to 11-15-10	1
Candy Olson, Vice Chair from 11-16-10	2
Jack R. Lamb, Ed. D	3
Jennifer F. Faliero, to 11-15-10	4
Stacy R. White, Pharm. D., from 11-16-10	4
Doretha W. Edgecomb, Vice Chair to 11-15-10, Chair from 11-16-10	5
April Griffin	6
Carol W. Kurdell	7

MaryEllen Elia, Superintendent

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

The audit team leader was Chris Stanisci, CPA, and the audit was supervised by Janice Priolo, CPA. For the information technology portion of this audit, the audit team leader was Stephanie Hogg, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD
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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

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 1: The District could enhance its monitoring of overtime payments.

Finding No. 2: District records did not evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 3: The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 4: Improvements could be made in the administration of construction management contracts.

Finding No. 5: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 6: The District could improve procedures to ensure compliance with certain facility safety standards.

Finding No. 7: The Board had not adopted a policy for monitoring the workers' compensation self-insurance program accumulated net assets.

Finding No. 8: District procedures could be enhanced to ensure that the minutes of Board meetings are promptly approved.

Finding No. 9: Controls over journal entries needed improvement.

Finding No. 10: Some computer operators and a computer operations supervisor had excessive information technology (IT) access privileges within the District's enterprise application system.

Finding No. 11: The District's IT security controls related to user authentication, data loss prevention, and monitoring of changes to critical data needed improvement.

Finding No. 12: The District had not developed a written, comprehensive IT risk assessment.

Finding No. 13: The District did not have a written IT security incident plan.

Finding No. 14: The District had not implemented a comprehensive IT security awareness training program.

Finding No. 15: The District's IT program change control procedures needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Career and Technical Education; Educational Technology State Grants Cluster; School Improvement Grants; State Fiscal Stabilization Fund Cluster; Race-to-the-Top; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on

each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

<u>Federal Awards Finding No. 1</u>: The District transferred funds totaling $12.57 million from the workers' compensation internal service fund to the General Fund and General Liability internal service fund, and no determination was made of the portion that should be credited to Federal programs.

<u>Federal Awards Finding No. 2</u>: The District paid $98,076 in excess of the contract amount for supplementary instruction services provided to private school students.

<u>Federal Awards Finding No. 3</u>: The District did not allocate a total of $93,600 of Title I funds to two new charter schools, contrary to Federal regulations.

Audit Objectives and Scope

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

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**
- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of 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, 2011. 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.

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.

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 19 percent of the assets and 53 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Hillsborough County District School Board as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal 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 Hillsborough 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.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, SCHEDULE OF FUNDING PROGRESS – EARLY RETIREMENT PLAN, SCHEDULE OF EMPLOYER CONTRIBUTIONS – EARLY RETIREMENT PLAN**, and **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

David W. Martin

David W. Martin, CPA
March 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hillsborough County District School Board's (District) discussion and analysis to designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to the corporate private sector. On these financial statements, governmental activities are consolidated for the primary government.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. This statement combines governmental fund's current financial resources (short-term spendable resources) with capital assets and long term obligations. Over time, increase and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying obligation/event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The government-wide financial statements include not only the District but its component units as well. The Hillsborough School Board Leasing Corporation, although also legally separate, functions for all practical purposes, as a department of the District, and therefore has been included as an integral part of the primary government. The Hillsborough Education Foundation, Inc., and several separate charter schools, for which the District is financially accountable, are included as discretely presented component units.

Fund Financial Statements

Traditional users of governmental financial statement will find the fund financial statements presentation more familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are established for various purposes, and the fund financial statements allows the demonstration of sources and uses associated therewith. All funds of the District can be divided into three major categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds focus on the sources and uses of liquid resources and balances of spendable resources available at the end of the fiscal year.

This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Because the focus is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Reconciliation between the government-wide and the governmental fund financial information is necessary because of the different measurement focus (current financial resources versus total economic resources); such reconciliation is reflected on the page following each statement. The flow of current financial resources reflects debt proceeds and interfund transfers as other financing sources as well as capital expenditures and debt principal payments as expenditures. The reconciliations eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column in the government-wide statements.

The District maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue – Other Federal Programs Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other Fund, Debt Service - ARRA Economic Stimulus Fund, Capital Projects – Local Capital Improvement Fund, Capital Projects – Other Fund, and Capital Projects – ARRA Economic Stimulus Fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for all its governmental funds.

Proprietary Funds: The internal service fund is the District's only proprietary fund type. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its group health, workers' compensation, and liability self-insurance activities. Because these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds: The District is the trustee, or fiduciary, for its employee pension plan. It is also responsible for other assets that, because of a trust agreement, can be used only for the trust beneficiaries. Additionally, the Distict uses agency funds to account for resources held for student activities and groups. The District is liable for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by $1,870,917,278.09 at the end of the current fiscal year.

By far, the largest portion of the District's net assets (69 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The following is a summary of the District's net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

Net Assets, End of Year

	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	$ 972,353,029.13	$ 920,843,424.61
Capital Assets	2,406,732,952.53	2,423,463,154.28
Deferred Outflows	17,216,918.00	17,927,449.96
Total Assets	3,396,302,899.66	3,362,234,028.85
Long-Term Liabilities	1,393,016,649.40	1,381,720,401.03
Other Liabilities	132,368,972.17	130,753,851.33
Total Liabilities	1,525,385,621.57	1,512,474,252.36
Net Assets:		
Invested in Capital Assets - Net of Related Debt	1,290,342,572.62	1,291,084,318.48
Restricted	317,770,602.80	315,338,961.14
Unrestricted	262,804,102.67	243,336,496.87
Total Net Assets	$ 1,870,917,278.09	$ 1,849,759,776.49

A portion of the District assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $262,804,102.67 may be used to meet government's ongoing obligations to citizens and creditors.

The District's net assets increased by $21,157,501.60 during the current fiscal year, and the unrestricted net assets increased by $19,467,605.80. The increase in net assets is primarily due to revenues outpacing expenses.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	$ 49,923,478.67	$ 50,657,276.97
Operating Grants and Contributions	67,856,744.73	64,237,594.38
Capital Grants and Contributions	16,424,036.66	10,865,447.20
General Revenues:		
Property Taxes, Levied for Operational Purposes	410,958,534.96	469,725,783.69
Property Taxes, Levied for Capital Projects	101,243,465.90	114,014,997.86
Local Sales Tax	22,650,962.85	21,857,951.20
Grants and Contributions Not Restricted to Specific Programs	1,262,550,033.59	1,140,127,170.83
Unrestricted Investment Earnings	7,295,571.04	14,487,384.06
Miscellaneous	52,218,775.32	38,650,753.25
Total Revenues	1,991,121,603.72	1,924,624,359.44
Functions/Program Expenses:		
Instruction	1,049,490,840.53	1,014,162,457.00
Pupil Personnel Services	77,058,627.56	74,982,525.24
Instructional Media Services	22,842,370.48	22,445,799.01
Instruction and Curriculum Development Services	54,485,638.97	46,548,172.41
Instructional Staff Training Services	52,779,150.25	44,724,680.69
Instruction Related Technology	28,175,003.47	26,910,971.15
School Board	1,433,166.83	1,552,257.32
General Administration	11,362,638.67	12,189,896.84
School Administration	93,815,964.93	92,927,178.63
Facilities Acquisition and Construction	109,258,367.08	119,074,459.84
Fiscal Services	7,602,348.13	7,698,840.15
Food Services	87,967,256.12	84,171,466.00
Central Services	27,385,042.13	25,861,384.42
Pupil Transportation Services	71,488,697.38	67,483,868.58
Operation of Plant	108,456,025.33	112,441,790.08
Maintenance of Plant	29,131,530.76	28,052,817.74
Administrative Technology Services	607,913.22	511,731.61
Community Services	84,273,537.65	84,770,838.11
Unallocated Interest on Long-Term Debt	51,891,630.41	54,111,860.47
Unallocated Depreciation Expense	458,352.22	508,018.26
Total Functions/Program Expenses	1,969,964,102.12	1,921,131,013.55
Increase in Net Assets	$ 21,157,501.60	$ 3,493,345.89

Property taxes decreased by $71,538,780.69 due to a decrease in the assessed value of property and reduction of millage rates.

The increase in unrestricted grants and contributions revenue of $122,422,862.76 is a result of an increase in Florida Education finance Program (FEFP) and the addition of the Education Jobs Fund and American Recovery and Reinvestment Act (ARRA) stimulus grants.

Capital grants increased $5,558,589.46 due to an increase in Public Education Capital Outlay Program revenues.

For the most part, the increase in expenses is due to mandates of the State's voter-approved Class Size Reduction Program and Board-approved salary increases.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Major Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $751,168,888.94, an increase of $43,919,896.01 in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was $95,100,000.00, while total fund balance was $361,061,476.20. The fund balance of the District's General Fund increased by $17,890,918.65 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 7 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount. The fund balance increase of $17,890,918.65 in the current was due to controlling expenditures within available revenues. Revenue and transfers totaling $1,399,741,516.16 increased $28,129,341.56, while expenditures and other financing uses, totaling $1,381,850,597.51 increased $11,567,809.72. Revenue increased primarily because of higher Florida Education Finance Program revenues, and expenditures increased primarily due to hiring more teachers to meet class size requirements and employee raises.

The Special Revenues – Other Federal Programs Fund and Special Revenue Fund – Federal Economic Stimulus Fund have zero fund balances at the end of the current fiscal year. Because revenue is recognized to the extent that eligible expenditures have been incurred, these funds generally do not accumulate fund balance.

The Debt Service – Other Fund and Debt Service – ARRA Economic Stimulus Fund show nearly the same fund balances as the prior fiscal year because debt service payments are similar over the years.

The Capital Projects – Local Capital Improvement Fund's ending fund balance of $156,238,784.51 remained almost unchanged from the prior fiscal year. Although taxes for capital outlay were $12,771,531.96 less this fiscal year, expenditures were also lower due to the reduction of the District's overall capital outlay program. It should be noted that $27,761,635 of fund balance has been encumbered for specific projects.

The Capital Projects – Other Fund had a decrease in fund balance of $17,129,013.12 to a total of $66,338,864.75. The decrease was due to expenditure of debt proceeds for the ongoing renovation of schools. It should be noted that $30,409,745 of fund balance has been encumbered for specific projects.

The Capital Projects – ARRA Economic Stimulus Fund received $37,823,863.75 from the sale of Series 2010 Qualified School Construction Bonds (QSCB). Of the $36,726,034.16 of total fund balance, $6,013,749 has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the District revises its budget and brings amendments to the Board on a monthly basis. These amendments are needed to adjust to actual revenues and direct resources where needed. The original budget was completed on a conservative basis for a few reasons. The State was predicting additional budget cuts and State revenue dollars were under projections for 2010-11 fiscal year. The Board approves the final amendment to the budget after year-end.

Budgeted expenditures increased $272.34 million from the original budget to the final amended budget. The increases were due in part to hiring new teachers and support personnel for the State and voter-approved mandate to meet class size reduction and Board-approved salary raises. Additionally, the District worked towards meeting the needs of teachers and school administrators in low performing schools. Also, health insurance costs increased.

Actual expenditures were $274.5 million below the final amended expenditure budget. Unexpended appropriations of $274.5 million were composed of the following: (1) $25.1 million in restricted programs, (2) $236.1 million in other earmarked assigned funds and (3) $13.3 million in other unexpended budget items. The $13.3 million reflects less than 1 percent of the final budget. In the normal course of business, some of the budget is left unspent, primarily due to temporarily unfilled positions.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to $2,406,732,952.53 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and computer software, as follows:

	Governmental Activities	
	6-30-11	6-30-10
Land	$ 154,734,731.48	$ 154,192,279.37
Land Improvements	85,377,636.86	79,794,055.48
Construction in Progress	19,848,520.87	68,264,430.40
Improvements Other Than Buildings	87,648,868.13	89,181,624.73
Buildings and Systems	1,985,128,676.49	1,953,693,568.49
Furniture, Fixtures and Equipment	46,665,198.76	45,892,691.51
Motor Vehicles	24,487,466.33	29,538,628.41
Audio Visual Equipment		7,281.94
Computer Software	2,841,853.61	2,898,593.95
Total Capital Assets, Net	$ 2,406,732,952.53	$ 2,423,463,154.28

This fiscal year's additions of $82,368,413.57 included several renovation projects. The total of capital assets decreased because deletions and depreciation were higher than additions.

Additional information on the District's capital assets can be found in Notes 5 and 20, respectively, to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the District had total debt outstanding of $1,203,270,922.98, which is net of unamortized premiums and unamortized losses on debt refundings of $3,561,048.33. Bonds payable and certificates of participation balances for the current and prior fiscal year ends are below:

	6-30-11	6-30-10
Bonds Payable	$ 280,860,971.30	$ 290,836,620.50
Certificates of Participation	925,971,000.00	912,061,000.00
Total Long-Term Debt	$ 1,206,831,971.30	$ 1,202,897,620.50

The District's total borrowed and bonded debt increased by $3,934,350.80 (net of repayment of principal on outstanding debt) during the current fiscal year. The slight increase was due to the issuance of the Series 2010 QSCB for $37,935,000 and the State's issuance of the SBE 2010A bonds for $4,205,000.

The District has been given the following bond ratings:

	Sales Tax Revenue Bonds	
	Insured	Underlying
Moody's	A3	A3
Standard & Poor's	BBB	BBB
Fitch IBCA		BBB+

	Certificates of Participation	
	Insured	Underlying
Moody's	Aa2	Aa2
Standard & Poor's	AA-	AA-
Fitch IBCA		AA

See Notes 7 through 12 to financial statements for more information on the District's long-term debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School District of Hillsborough County's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Accounting Department, 901 E. Kennedy Blvd., Tampa, Florida, 33602.

BASIC FINANCIAL STATEMENTS

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 224,456,641.74	$ 21,676,762.00
Investments	661,224,635.74	5,795,880.00
Accounts Receivable, Net	2,500,619.74	1,363,451.00
Due from Other Agencies	49,141,420.77	403,117.00
Prepaid Items		4,023,932.00
Inventories	5,408,937.27	75,644.00
Restricted Investments	18,559,414.91	
Deferred Charges	11,061,358.96	1,081,466.00
Deferred Outflow of Resources	17,216,918.00	
Capital Assets:		
Nondepreciable Capital Assets	259,960,889.21	4,629,315.00
Depreciable Capital Assets, Net	2,146,772,063.32	23,399,599.00
TOTAL ASSETS	$ 3,396,302,899.66	$ 62,449,166.00
LIABILITIES		
Salaries and Benefits Payable	$ 1,462,769.27	$ 1,017,497.00
Payroll Deductions and Withholdings	2,771,798.66	98,481.00
Accounts Payable	46,739,595.36	15,386,134.00
Due to Other Agencies	12,896,565.41	51,865.00
Accrued Interest Payable	19,434,301.52	
Deposits Payable	142,756.89	
Unearned Revenue	18,974,774.66	631,084.00
Construction Contracts Payable - Retainage	2,247,419.40	
Derivative Instrument Liability	27,698,991.00	
Long-Term Liabilities:		
Portion Due Within One Year	72,708,496.67	3,191,813.00
Portion Due After One Year	1,320,308,152.73	22,875,358.00
Total Liabilities	1,525,385,621.57	43,252,232.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,290,342,572.62	3,051,948.00
Restricted for:		
State Required Carryover Programs	18,130,999.49	
Debt Service	76,015,362.89	1,380,468.00
Capital Projects	196,929,682.89	
Food Service	19,661,461.94	
Other Purposes	7,033,095.59	7,098,893.00
Unrestricted	262,804,102.67	7,665,575.00
Total Net Assets	1,870,917,278.09	19,196,884.00
TOTAL LIABILITIES AND NET ASSETS	$ 3,396,302,899.66	$ 62,449,116.00

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

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 1,049,490,840.53	$ 20,236,750.03	$	$
Pupil Personnel Services	77,058,627.56			
Instructional Media Services	22,842,370.48			
Instruction and Curriculum Development Services	54,485,638.97			
Instructional Staff Training Services	52,779,150.25			
Instruction Related Technology	28,175,003.47			
School Board	1,433,166.83			
General Administration	11,362,638.67			
School Administration	93,815,964.93			
Facilities Acquisition and Construction	109,258,367.08			9,630,829.43
Fiscal Services	7,602,348.13			
Food Services	87,967,256.12	26,967,771.73	67,856,744.73	
Central Services	27,385,042.13			
Pupil Transportation Services	71,488,697.38	2,718,956.91		
Operation of Plant	108,456,025.33			
Maintenance of Plant	29,131,530.76			
Administrative Technology Services	607,913.22			
Community Services	84,273,537.65			
Unallocated Interest on Long-Term Debt	51,891,630.41			6,793,207.23
Unallocated Depreciation Expense*	458,352.22			
Total Governmental Activities	1,969,964,102.12	49,923,478.67	67,856,744.73	16,424,036.66
Component Units				
Charter Schools/Educational Foundation	$ 56,463,120.00	$ 2,319,722.00	$ 3,375,531.00	$ 1,183,059.00

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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental Activities	Units
$ (1,029,254,090.50)	$
(77,058,627.56)	
(22,842,370.48)	
(54,485,638.97)	
(52,779,150.25)	
(28,175,003.47)	
(1,433,166.83)	
(11,362,638.67)	
(93,815,964.93)	
(99,627,537.65)	
(7,602,348.13)	
6,857,260.34	
(27,385,042.13)	
(68,769,740.47)	
(108,456,025.33)	
(29,131,530.76)	
(607,913.22)	
(84,273,537.65)	
(45,098,423.18)	
(458,352.22)	
(1,835,759,842.06)	
	(49,584,808.00)
410,958,534.96	
101,243,465.90	
22,650,962.85	49,573,708.00
1,262,550,033.59	397,450.00
7,295,571.04	2,453,632.00
52,218,775.32	
1,856,917,343.66	52,424,790.00
21,157,501.60	2,839,982.00
1,849,759,776.49	16,356,902.00
$ 1,870,917,278.09	$ 19,196,884.00

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	$ 205,372,287.10	$ 819,782.94	$ 2,079,510.66	$ 2,798,500.23
Investments	167,806,326.62	4,743,379.92		91,341,787.23
Accounts Receivable	2,040,961.51	47,893.78		
Due from Other Funds	12,442,016.23	92,485.33	543.66	295,675.50
Due from Other Agencies	6,778,053.36	12,910,010.07	540,971.03	1,767,122.00
Inventories	4,741,920.45			
TOTAL ASSETS	$ 399,181,565.27	$ 18,613,552.04	$ 2,621,025.35	$ 96,203,084.96
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 1,462,615.61	$	$	$
Payroll Deductions and Withholdings	2,771,798.66			
Accounts Payable	17,449,954.57	4,965,822.10	431,990.99	2,882,673.49
Due to Other Funds	187,012.99	8,475,637.12	1,918,928.36	
Due to Other Agencies	12,895,867.54	697.87		
Deposits Payable	11,925.25			130,831.64
Deferred Revenue	3,340,914.45	5,171,394.95	270,106.00	
Total Liabilities	38,120,089.07	$ 18,613,552.04	2,621,025.35	3,013,505.13
Fund Balances:				
Nonspendable:				
Inventory	4,741,920.45			
Total Nonspendable Fund Balance	4,741,920.45			
Restricted for:				
Federal Required Carryover Programs	403,697.73			
State Required Carryover Programs	18,130,999.49			
Debt Service				93,189,579.83
Capital Projects				
Local Carryover Programs	6,629,397.86			
Total Restricted Fund Balance	25,164,095.08			93,189,579.83
Assigned to School Operations	236,055,460.67			
Unassigned Fund Balance	95,100,000.00			
Total Fund Balances	361,061,476.20			93,189,579.83
TOTAL LIABILITIES AND FUND BALANCES	$ 399,181,565.27	$ 18,613,552.04	$ 2,621,025.35	$ 96,203,084.96

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$	$ 3,856,730.22	$ 6,125,251.58	$ 0.85	$ 179,884.38	$ 221,231,947.96
188.34	155,785,833.80	43,589,952.14	37,541,240.04	32,877,467.90	533,686,175.99
	602.50	1,137.01		191,833.91	2,282,428.71
	1,005,081.17			93,984.00	13,929,785.89
	114,659.08	19,769,441.41		6,505,007.39	48,385,264.34
				667,016.82	5,408,937.27
$ 188.34	$ 160,762,906.77	$ 69,485,782.14	$ 37,541,240.89	$ 40,515,194.40	$ 824,924,540.16
$	$	$	$	$ 153.66	$ 1,462,769.27
					2,771,798.66
	3,030,598.84	2,040,565.58	773,643.63	1,492,076.32	33,067,325.52
	1,493,523.42	1,106,351.81	41,563.10	706,769.09	13,929,785.89
					12,896,565.41
					142,756.89
				702,234.18	9,484,649.58
	4,524,122.26	3,146,917.39	815,206.73	2,901,233.25	73,755,651.22
				667,016.82	5,408,937.27
				667,016.82	5,408,937.27
				18,994,445.12	19,398,142.85
					18,130,999.49
188.34				2,259,896.24	95,449,664.41
	156,238,784.51	66,338,864.75	36,726,034.16	15,692,602.97	274,996,286.39
					6,629,397.86
188.34	156,238,784.51	66,338,864.75	36,726,034.16	36,946,944.33	414,604,491.00
					236,055,460.67
					95,100,000.00
188.34	156,238,784.51	66,338,864.75	36,726,034.16	37,613,961.15	751,168,888.94
$ 188.34	$ 160,762,906.77	$ 69,485,782.14	$ 37,541,240.89	$ 40,515,194.40	$ 824,924,540.16

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		$ 751,168,888.94
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		2,406,732,952.53
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		11,061,358.96
Deferred outflow of resources is reported as a result of changes in fair value of hedging derivative instruments in the statement of net assets.		17,216,918.00
Derivative instrument liability is not due and payable in the current period and therefore is not reported in the governmental funds.		(27,698,991.00)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		110,851,462.98
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	$ 278,885,261.99	
Certificates of Participation	924,385,660.98	
Other Postemployment Benefits Payable	40,019,078.00	
Compensated Absences Payable	133,443,590.43	(1,376,733,591.40)
Accrued interest on long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds.		(19,434,301.52)
Accrued retainage payable is not due and payable in the fiscal year and, therefore, is not reported as a liability in the governmental funds.		(2,247,419.40)
Total Net Assets - Governmental Activities		$ 1,870,917,278.09

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

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HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 2,139,399.37	$ 15,758,018.96	$	$
Federal Through State and Local	9,426,623.82	179,803,996.67	158,605,439.42	
State	893,523,607.18	926,814.16		
Local:				
Property Taxes	410,958,534.96			
Local Sales Taxes				22,650,962.85
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	71,671,164.83	356,307.62		454,349.58
Total Revenues	1,387,719,330.16	196,845,137.41	158,605,439.42	23,105,312.43
Expenditures				
Current - Education:				
Instruction	841,929,990.64	73,046,830.95	128,947,586.77	
Pupil Personnel Services	56,563,354.87	16,738,201.07	4,089,255.29	
Instructional Media Services	18,723,813.63	2,721,988.70	1,109,763.26	
Instruction and Curriculum Development Services	20,699,847.11	31,810,028.83	1,307,061.84	
Instructional Staff Training Services	32,069,065.79	10,647,013.36	9,586,026.73	
Instruction Related Technology	25,924,316.41	876,122.99	349,588.81	
School Board	1,443,370.23			
General Administration	3,694,582.82	3,743,592.48	3,945,071.10	
School Administration	88,683,545.08	1,369,804.07	3,723,312.78	
Facilities Acquisition and Construction	3,977,991.23	190,685.46		
Fiscal Services	6,925,950.79	620,596.52		
Food Services	367,906.49			
Central Services	25,262,060.51	1,128,383.83	113,353.83	
Pupil Transportation Services	69,053,144.18	760,221.26	49,745.03	
Operation of Plant	107,280,700.99	284,309.83	1,777,988.63	
Maintenance of Plant	28,979,979.83		50,902.92	
Administrative Technology Services	583,302.75			
Community Services	33,754,170.63	50,351,735.78	102,500.00	
Fixed Capital Outlay:				
Facilities Acquisition and Construction	8,943,962.47	19,394.95		
Other Capital Outlay	6,913,909.05	2,611,759.34	3,453,282.43	
Debt Service:				
Principal				33,640,000.00
Interest and Fiscal Charges				48,905,963.07
Total Expenditures	1,381,774,965.50	196,920,669.42	158,605,439.42	82,545,963.07
Excess (Deficiency) of Revenues Over Expenditures	5,944,364.66	(75,532.01)		(59,440,650.64)
Other Financing Sources (Uses)				
Transfers In	12,022,186.00	75,632.01		65,294,934.49
Certificate of Participation Series Issued				
District Refunding Bonds Issued				
District Long-Term Bonds Issued				
Premium on District Refunding Bonds				
Premium on District Bonds Issued				
Payment to Refund Escrow Agent				
Transfers Out	(75,632.01)	(100.00)		(19,748.36)
Total Other Financing Sources (Uses)	11,946,553.99	75,532.01		65,275,186.13
Net Change in Fund Balances	17,890,918.65			5,834,535.49
Fund Balances, Beginning	343,170,557.55			87,355,044.34
Fund Balances, Ending	$ 361,061,476.20	$ 0.00	$ 0.00	$ 93,189,579.83

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$	$ 66,401,326.73	$ 84,298,745.06
					347,836,059.91
		2,022,086.00		18,223,502.67	914,696,010.01
	101,243,465.90				512,202,000.86
					22,650,962.85
		7,579,219.00			7,579,219.00
				26,967,771.73	26,967,771.73
198.08	2,043,320.17	397,176.00	50,414.29	179,916.20	75,152,846.77
198.08	103,286,786.07	9,998,481.00	50,414.29	111,772,517.33	1,991,383,616.19
					1,043,924,408.36
					77,390,811.23
					22,555,565.59
					53,816,937.78
					52,302,105.88
					27,150,028.21
					1,443,370.23
					11,383,246.40
					93,776,661.93
	19,401,400.43	240,359.53	100,869.96	3,211,138.07	27,122,444.68
					7,546,547.31
				88,216,744.04	88,584,650.53
					26,503,798.17
					69,863,110.47
					109,342,999.45
					29,030,882.75
					583,302.75
					84,208,406.41
	18,942,030.32	22,048,248.52	1,054,222.37	17,869,773.84	68,877,632.47
				673,404.04	13,652,354.86
				4,565,649.20	38,205,649.20
104,297.54				2,649,818.90	51,660,079.51
104,297.54	38,343,430.75	22,288,608.05	1,155,092.33	117,186,528.09	1,998,924,994.17
(104,099.46)	64,943,355.32	(12,290,127.05)	(1,104,678.04)	(5,414,010.76)	(7,541,377.98)
			6,848.45		77,399,600.95
111,136.25			37,823,863.75		37,935,000.00
				970,000.00	970,000.00
				3,235,000.00	3,235,000.00
				157,154.75	157,154.75
				294,767.55	294,767.55
				(1,130,648.31)	(1,130,648.31)
(6,848.45)	(62,458,386.06)	(4,838,886.07)			(67,399,600.95)
104,287.80	(62,458,386.06)	(4,838,886.07)	37,830,712.20	3,526,273.99	51,461,273.99
188.34	2,484,969.26	(17,129,013.12)	36,726,034.16	(1,887,736.77)	43,919,896.01
	153,753,815.25	83,467,877.87		39,501,697.92	707,248,992.93
$ 188.34	$ 156,238,784.51	$ 66,338,864.75	$ 36,726,034.16	$ 37,613,961.15	$ 751,168,888.94

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds		$ 43,919,896.01
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($82,529,987.33) was less than depreciation expense ($95,943,778.70) during the current period.		(13,413,791.37)
In the governmental funds, the cost of capital assets are 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.		(3,063,288.71)
Donated capital assets are reported as revenue in the statement of activities but do not provide current financial resource and therefore are not reported in the governmental funds.		1,337,070.60
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments in the current fiscal year.		(2,803,702.49)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Interest expense (including arbitrage rebate)		215,681.78
Amortization of bond discount, premium, loss on refunding and issuance costs		
Net premium amortization	$ 1,620,233.84	
Debt issuance cost amortization	(833,319.48)	
Loss on refunding amortization	(1,709,762.35)	(922,847.99)
Amortization of investment derivative		873,506.00
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 used in excess of the amount earned in the current fiscal year.		3,035,670.64
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(10,937,171.00)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		2,916,478.13
Change in Net Assets - Governmental Activities		$ 21,157,501.60

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

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS - PROPRIETARY FUNDS June 30, 2011

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,224,693.78
Investments		146,097,874.66
Accounts Receivable		218,191.03
Due From Other Agencies		756,156.43
TOTAL ASSETS	$	150,296,915.90
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	13,672,269.84
Deferred Revenue		9,490,125.08
Estimated Insurance Claims Payable		7,078,865.00
Total Current Liabilities		30,241,259.92
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		9,204,193.00
Total Liabilities		39,445,452.92
NET ASSETS		
Unrestricted		110,851,462.98
TOTAL LIABILITIES AND NET ASSETS	$	150,296,915.90

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

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	$ 178,403,531.51
Other Operating Revenues	1,421,624.05
Total Operating Revenues	179,825,155.56
OPERATING EXPENSES	
Salaries	428,178.32
Employee Benefits	181,485.62
Purchased Services	259,319.07
Insurance Claims	166,549,547.06
Total Operating Expenses	167,418,530.07
Operating Income	12,406,625.49
NONOPERATING REVENUES	
Interest Revenue	509,852.64
Income Before Transfers	12,916,478.13
Transfers In	2,570,000.00
Transfers Out	(12,570,000.00)
Change in Net Assets	2,916,478.13
Total Net Assets - Beginning	107,934,984.85
Total Net Assets - Ending	$ 110,851,462.98

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

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

		Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Interfund Services provided	$	179,581,523.67
Cash Payments to Employees		(609,663.94)
Cash Received from Other Operating Revenues		1,540,414.73
Cash Payments to Suppliers for Goods and Services		(164,912,585.72)
Net Cash Provided by Operating Activities		15,599,688.74
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds		(10,000,000.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(6,094,766.90)
Interest Income		509,852.64
Net Cash Used by Investing Activities		(5,584,914.26)
Net Increase in Cash and Cash Equivalents		14,774.48
Cash and Cash Equivalents, Beginning		3,209,919.30
Cash and Cash Equivalents, Ending	$	3,224,693.78

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

Operating Income	$	12,406,625.49
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		90,165.87
Increase in Due From Other Agencies		(76,173.23)
Increase in Accounts Payable		1,686,123.64
Increase in Deferred Revenue		1,206,616.97
Increase in Estimated Insurance Claims Payable		286,330.00
Total Adjustments		3,193,063.25
Net Cash Provided by Operating Activities	$	15,599,688.74

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

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2011

	Pension Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$	$ 14,680,821.14
Investments:		
United States Treasury Securities	8,999,034.10	
United States Instrumentalities	6,325,462.12	
Wells Fargo Treasury Plus Money Market Fund	80,971.65	32,873,415.65
Accounts Receivable, Net	65,384.81	
Inventories		185,719.06
TOTAL ASSETS	$ 15,470,852.68	$ 47,739,955.85
LIABILITIES		
Payroll Deductions and Withholdings	$	$ 28,922,617.83
Accounts Payable		1,455,290.81
Internal Accounts Payable		17,362,047.21
Total Liabilities		$ 47,739,955.85
NET ASSETS		
Assets Held in Trust for Pension Benefits	15,470,852.68	
TOTAL LIABILITIES AND NET ASSETS	$ 15,470,852.68	

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

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS For the Fiscal Year Ended June 30, 2011

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	$ 1,953,117.00
Investment Earnings:	
Net Decrease in Fair Value of Investments	(49,131.75)
Interest, Dividends, and Other	216,642.93
Total Investment Income	167,511.18
Less Investment Expense	36,743.99
Net Investment Income	130,767.19
Total Additions	2,083,884.19
DEDUCTIONS	
Benefits Paid to Participants	2,096,577.11
Administrative Expenses	12,445.57
Total Deductions	2,109,022.68
Change in Net Assets	(25,138.49)
Net Assets - Beginning	15,495,991.17
Net Assets - Ending	$ 15,470,852.68

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

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

The District School Board of Hillsborough County, Florida (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Hillsborough County School District (District) is a part of the Florida system of public education. The governing body of the District is the Board, which is composed of seven (7) elected members. The appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hillsborough County.

The accompanying financial statements present the activities of the School Board and its component units. Criteria for determining if other entities are potential component units, which should be reported within the District's financial statements, are identified and described in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*. 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 District's financial statements to be misleading or incomplete.

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

- Blended Component Unit. The Hillsborough School Board Leasing Corporation (Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying financial statements of the District. Separate financial statements of the Corporation are not published.

- Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's other component units for the fiscal year ended June 30, 2011. These component units consist of the Hillsborough Education Foundation, Inc. (Foundation) and the District's charter schools. Both the Foundation and the charter schools are reported in a separate column to emphasize that they are legally separate from the District. While the District's officials are not financially accountable for the Foundation or the charter schools, it would be misleading to exclude them from the District's financial statements. None of the individual component units are considered to be major.

  The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of, the District.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Complete financial statements of the Foundation can be obtained from their administrative office at:

Hillsborough Education Foundation, Inc.
2306 N. Howard Ave.
Tampa, Florida 33607

The charter schools are separate not-for-profit corporations organized under Section 1002.33, Florida Statutes to operate as public (as opposed to private) schools and are held responsible for prudent use of the public funds they receive. Each charter school is a separate component unit that operates under a charter approved by their sponsor, the District. There are twenty-nine (29) charter schools operating in the District that meet the criteria for presentation as a discretely presented component unit.

The individual charter schools are listed below. Further, complete audited financial statements of the individual component units can be obtained from their administrative offices. These schools include:

Advantage Academy of Elementary School
350 West Prosser St.
Plant City, Fl 33563

Advantage Academy Middle School
350 West Prosser St.
Plant City, Fl 33563

A. T. Jones Math, Science & Technology Academy
4903 Ehrlich Road
Tampa, Fl 33624

Brooks DeBartolo Collegiate High School
11602 N. 15th Street
Tampa, Fl 33612

Community Charter School of Excellence, Inc.
10948 N. Central Ave.
Tampa, Fl 33612

Florida Autism Charter School of Excellence, Inc.
6400 East Charles St.
Tampa, Fl 33610

Kid's Community College Charter School
10544 Lake St. Charles
Riverview, Fl 33578

Kid's Community College Middle Charter School
6528 U S Hwy. 301 #114
Riverview, Fl 33578

Learning Gate Community School, Inc.
16215 Hanna Road
Lutz, Fl 33549

Literacy Leadership, Techonolgy Academy, Inc.
6771 Madison Ave.
Tampa, Fl 33619

Mount Pleasant Standard Base Middle School, Inc.
2002 Rome Ave.
Tampa, Fl 33607

New Springs Middle School
2410 E. Busch Blvd.
Tampa, Fl 33612

Newpoint High of Tampa
2584 State Road 60 E.
Valrico, Fl 33594

Pepin High School
3916 E. Hillsborough Ave.
Tampa, Fl 33610

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Pepin Elementary School
3916 E. Hillsborough Ave.
Tampa, Fl 33610

Pepin Middle School
3916 E. Hillsborough Ave.
Tampa, Fl 33610

Pepin Transitional School
3916 E. Hillsborough Ave.
Tampa, Fl 33610

Richardson Montessori Academy, Inc.
68150 N. Rome Ave.
Tampa, Fl 33604

Seminole Heights High School
400 North Florida Ave.
Tampa, Fl 33603

Shiloh Elementary Charter School
905 West Terrace St.
Plant City, Fl 33563

Shiloh Middle Charter School
905 West Terrace St.
Plant City, Fl 33563

The Charter School of Tampa Bay Academy
12012 Boyette Road
Riverview, Fl 33569

Tampa School for Children
5429 Beaumont Center
Tampa, Fl 33634

Terrace Community Middle School
4801 E. Fowler Ave.
Tampa, Fl 33617

Trinity Charter School
2402 W. Osborne Ave.
Tampa, Fl 33603

The Upper School at Trinity School for Children
4807 North Armenia
Tampa, Fl 33603

Valrico Lake Advantage Academy
1653 Bloomingdale Ave.
Valrico, Fl 33596

The Village of Excellence, Inc.
8718 North 46th St.
Temple Terrace, Fl 33617

Walton Academy for the Performing Arts
4817 N. Florida Ave.
Tampa, Fl 33603

- **Basis of Presentation**

The basic financial statements include the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - Government-wide financial statements include a statement of net assets and a statement of activities that display information about the primary government (District School Board) and its component units. These financial statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. The effect of interfund activities has been eliminated in the Statement of Activities.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the District functions. The expense of individual functions is compared to the revenues generated by the function (for instance, through user charges or intergovernmental grants). Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Program revenues include (a) fees, fines, and charges paid by the recipients of the goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - Fund financial statements provide information about the District's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Because the focus of the governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for financial resources of certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for financial resources of the Federal economic stimulus program.
- Debt Service – Other Fund – to account for various debt proceeds and principal and interest payments, including the certificates of participation.
- Debt Service – ARRA Economic Stimulus Fund – to account for proceeds and principal payments for the Qualified School Construction Bond.
- Capital Projects – Local Capital Improvement Fund – to account for and report on the revenues generated from the local capital outlay property taxes to be used for education capital outlay needs, including new construction, renovation, and remodeling projects.
- Capital Projects – Other Fund – to account for and report other miscellaneous capital outlay funds from various sources.
- Capital Projects – ARRA Economic Stimulus Fund – to account for and report on expenditures of the Qualified School Construction Bonds proceeds.

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

- Internal Service Funds – to account for the District's workers' compensation, general and automobile liability self-insurance programs, and the employee health insurance program.
- Pension Trust Fund – to account for resources used to finance the early retirement program.
- Agency Funds – to account for resources held by the District as custodian for others, primarily for the benefit of various schools and their activity funds.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues, other than grant funds, reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Grant funds are considered available if collection is expected in the coming year. Property taxes, sales taxes, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the grant agreements, the District funds certain programs by a combination of specific cost reimbursement grants, categorical and other earmarked educational allocations, and general revenues. When program expenses are incurred and both restricted and unrestricted resources are available to finance the program, it is the District's policy to first apply cost reimbursement grant resources to such programs, followed by categorical and other earmarked moneys, and then by general revenues. When expenditures are incurred for which unrestricted resources can be used, it is the District's intention to use committed resources first, followed by assigned resources and then unassigned resources.

- **Cash and Cash Equivalents**

Cash consists of petty cash funds and deposits held by banks qualified as public depositories under Florida law. All deposits are fully insured by Federal depository insurance and a multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The statement of cash flows for the Proprietary Funds considers cash and cash equivalents as those accounts used as demand deposit accounts.

- **Investments**

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in Florida PRIME and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, 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. Investments of the early retirement program are reported at fair value.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a money market account with Wells Fargo, certificates of deposit, investments in United States Government Treasury and United States instrumentalities, and a guaranteed investment contract, and are reported at fair value.

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

- **Inventories**

Inventories consist of expendable supplies and equipment held for consumption in the course of District operations. Inventories at the central warehouse, maintenance, textbook depository, and the bus garage are stated at cost based on a moving average. Food service inventories are stated at cost based on the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. All other inventories are stated at cost on the last invoice price method, which approximates the first-in, first-out basis. The cost of inventories is recorded as expenditures when used rather than purchased.

- **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets purchased after July 1, 2004, are defined as those costing more than $1,000 and having a useful life of more than one year, those purchased before July 1, 2004, are defined as those costing more than $750 and having a useful like of more than one year. Donated assets are recorded at fair 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 are not capitalized as part of the cost of construction.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

Description	Estimated Lives
Buildings and Systems	15 - 50 years
Improvements Other than Buildings	10 - 25 years
Building Improvements	10 - 20 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

- **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported in the government-wide statement of net assets. Debt premiums, discounts and losses on refunding issuances, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Debt payables are reported net of the applicable premium or discount and losses on refunding issuances. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

- **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program (FEFP) administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the Board determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions of or additions to revenue in the year when the adjustments are made.

The District receives revenue from the State to administer certain categorical and other earmarked 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. The money not expended as of the close of the fiscal year is carried forward into the following year to be expended for the same programs. The Department requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted for the balance of categorical and earmarked 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 is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

- **District Property Taxes**

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

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

The Board adopted the 2010 tax levy for fiscal year 2011 on September 7, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **Federal Revenue Sources**

The District receives Federal financial assistance for the enhancement of various educational programs. This assistance is generally received based on applications submitted to, and approved by, various granting agencies. For Federal financial assistance 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.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- **Deferred Outflows**

  In the government-wide financial statements the District records deferred outflows which represent the consumption of net assets by the District that is applicable to a future reporting period. At June 30, 2011, deferred outflows represent activity associated with various swap agreements, as discussed in Note 8.

- **Use of Estimates**

  Management of the District has made a number of assumptions relative to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

The School Board follows the procedures established by State statutes and State Board of Education rules in establishing final budget balances reported in 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. Original budgets are submitted to the State Commissioner of Education for approval.
- The budget is prepared by fund, function, object and department. Management may make transfers between departments and object. The functional level is the legal level of budgetary control and may only be amended by resolution of the Board at any Board meeting prior to the due date for the Superintendent's Annual Financial Report (State Report). Budgetary disclosure in the accompanying financial statements reflects the final budget including all amendments approved for the fiscal year through September 6, 2011.
- 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

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which has been adjusted for legally authorized revisions of the annual budget during the year).

3. CASH AND INVESTMENTS

At June 30, 2011, the District's deposits were entirely covered by Federal Depository Insurance Corporation or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	31 Day Average	$ 572,866,182.41
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	14,102,408.13
Debt Service Accounts	6 Months	1,412,263.09
Certificates of Deposit	July 2011 - June 2012	115,742,919.83
United States Treasury Securities	January 2012 - February 2014	8,999,034.10
United States Instrumentalities	August 2011 - May 2020	9,186,830.97
Wells Fargo Treasury Plus Money Market	N/A	80,971.65
Guaranteed Investment Contract	November 2015	5,672,323.99
Total Investments, Reporting Entity		$ 728,062,934.17

Investments are reflected in the financial statements as follows:

Governmental Funds	$ 533,686,175.99
Internal Service Funds	146,097,874.66
Fiduciary Funds:	
Pension Trust	15,405,467.87
Agency	32,873,415.65
Total	$ 728,062,934.17

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District has a formal investment policy that the investment objectives are safety of capital, liquidity of funds, and investment income, in that order. The performance measurement objective shall be to exceed the State Board of Administration's Florida PRIME yield. The policy limits the type of investments and the length of investments of idle funds. The weighted average duration of the investment portfolio shall not exceed five years.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. 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. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- The District has $2,563,868.11 in obligations of United States instrumentalities that include embedded options consisting of the option at the discretion of the issuer to call their obligation or pay a stated increase in the interest rate. These securities have various call dates and mature September 2011 through February 2012.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits the types of investments that the District can use. The District's investment policy authorizes the following investments:

  - The State Board of Administration (SBA) Investment Pool, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
  - Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
  - interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes;
  - direct obligations of the United States Treasury;
  - obligations of Federal agencies, government sponsored enterprises, and instrumentalities;
  - securities of, or other interest in, any open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1;
  - short-term obligations commonly referred to as "money market instruments," including but not limited to, commercial paper, provided such obligations carry the highest credit rating from a nationally recognized rating agency;
  - asset-backed securities when either a) the underlying asset is guaranteed by the issuer, or b) the security carries the highest quality rating by a nationally recognized rating agency.

  The securities listed in bullets 3 and 4 above shall be invested to provide sufficient liquidity to pay obligations as they come due.

- The District's investments in SBA consist of Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B).

  Florida PRIME is an external investment pool that is not registered with the SEC, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows funds to use amortized cost to maintain a constant net asset value (NAV) of $1.00 per share. Accordingly, the District's investment in Florida PRIME is reported at the account balance which is considered fair value. Florida PRIME is rated AAAm by Standard & Poor's.

  Fund B is accounted for as a fluctuating NAV pool. With a fluctuating NAV pool, the fair value approximates market value. The SBA provides a fair value factor to use on the Fund B account balance to determine market value as fair value. As of June 30, 2011 the fair value factor was .78965331. Fund B is not rated by any recognized rating agency. Currently, participants are unable to withdraw funds from B. Rather, as cash becomes available in Fund B from interest receipts, maturities, or sales, it is distributed to participant accounts in the Florida PRIME according to each participant's pro rata share of Fund B. All such distributions from Fund B to Florida PRIME will be 100 percent available for withdrawal upon transfer.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- The District's investments in United States instrumentalities and United States Treasuries for the Pension Trust Fund were rated either AAA by Standard & Poor's or Aaa by Moody's Investors Service. The others were rated either AA+/A-1 by Standard & Poor's or Aaa/P-1 by Moody's Investors Service.
- The District's investments in certificates of deposit are in qualified public depositories. The Wells Fargo Treasury Plus Money Market Fund is rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.

Custodial Credit Risk

- Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires every security purchased under this section on behalf of the District to be properly earmarked and 1) if registered with the issuer or its agents, must be immediately placed for safekeeping in a location that protects the District's interest in the security; 2) if in book entry form, must be held for the credit of the District 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 Florida as defined in Section 658.12, 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 Florida, 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.
- Of the District's investments, $8,999,034.10 in United States Treasuries, $9,186,830.97 in United States instrumentalities, and $80,971.65 in the Wells Fargo Treasury Plus Money Market Fund are not registered in the name of the District, are held by the counterparty's trust department or agent, and are not insured.

Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places no limit on the amount it may invest in any one issuer. The District had no investment, excluding amounts held with the State Board of Administration and certificates of deposit, which made up more than five percent of total investments. A certificate of deposit held by BB&T, Inc., comprises 8.9 percent of total investments, and a certificate of deposit held by Northern Trust, Inc., comprises 6.9 percent of total investments.

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

4. DUE FROM OTHER AGENCIES

Amounts due from other governmental agencies as of June 30, 2011 are shown below:

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Nonmajor and Proprietary Funds	Total
Federal Government:								
Miscellaneous	$ 2,972,298.10	$ 870,558.67	$	$	$	$	$	$ 3,842,856.77
State Government:								
Food Reimbursement							528,052.94	528,052.94
Public Education Capital Outlay							5,747,645.00	5,747,645.00
Miscellaneous	3,050,180.68	1,151,155.92	540,971.03				756,156.43	5,498,464.06
Local Government:								
Hillsborough County Board of County Commissioners	450,641.16	10,687,870.63		1,767,122.00	114,659.08	19,750,980.00	229,309.45	33,000,582.32
Miscellaneous	304,933.42	200,424.85				18,461.41		523,819.68
	$ 6,778,053.36	$ 12,910,010.07	$ 540,971.03	$ 1,767,122.00	$ 114,659.08	$ 19,769,441.41	$ 7,261,163.82	$ 49,141,420.77

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 154,192,279.37	$ 542,452.11	$	$ 154,734,731.48
Land Improvements - Non Depreciable	79,794,055.48	5,583,581.38		85,377,636.86
Construction in Progress	68,264,430.40	63,885,398.13	112,301,307.66	19,848,520.87
Total Capital Assets Not Being Depreciated	302,250,765.25	70,011,431.62	112,301,307.66	259,960,889.21
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	195,751,881.44	4,988,615.42	798,970.04	199,941,526.82
Buildings and Systems	2,483,933,464.01	100,568,311.32	26,076,901.73	2,558,424,873.60
Furniture, Fixtures, and Equipment	170,758,158.69	15,511,727.45	14,414,752.90	171,855,133.24
Motor Vehicles	95,178,433.39	1,818,477.01	322,814.45	96,674,095.95
Audio Visual Materials	101,707.46		31,067.05	70,640.41
Computer Software	29,561,204.58	1,771,158.41	3,052,574.66	28,279,788.33
Total Capital Assets Being Depreciated	2,975,284,849.57	124,658,289.61	44,697,080.83	3,055,246,058.35
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	106,570,256.71	6,430,723.52	708,321.54	112,292,658.69
Buildings and Systems	530,239,895.52	68,057,087.84	25,000,786.25	573,296,197.11
Furniture, Fixtures, and Equipment	124,865,467.18	12,814,733.70	12,490,266.40	125,189,934.48
Motor Vehicles	65,639,804.98	6,841,696.17	294,871.53	72,186,629.62
Audio Visual Materials	94,425.52		23,785.11	70,640.41
Computer Software	26,662,610.63	1,799,537.47	3,024,213.38	25,437,934.72
Total Accumulated Depreciation	854,072,460.54	95,943,778.70	41,542,244.21	908,473,995.03
Total Capital Assets Being Depreciated, Net	2,121,212,389.03	28,714,510.91	3,154,836.62	2,146,772,063.32
Governmental Activities Capital Assets, Net	$ 2,423,463,154.28	$ 98,725,942.53	$ 115,456,144.28	$ 2,406,732,952.53

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 6,227,360.51
Pupil Personnel Services	119,556.28
Instructional Media Services	318,024.60
Insturction and Curriculum Development	433,778.53
Instructional Staff Training	57,328.86
Instruction Related Technology	1,047,950.80
Board	814.20
General Administration	100,507.76
School Administration	252,373.14
Facilities Acquisition and Construction	82,093,517.07
Fiscal Services	220,826.15
Food Services	307,757.92
Central Services	141,897.14
Pupil Transportation Services	3,127,032.28
Operation of Plant	277,469.89
Maintenance of Plant	730,939.46
Adminstrative Technology Service	898.20
Community Services	27,393.69
Un-Allocated Depreciation	458,352.22
Total Depreciation Expense - Governmental Activities	$ 95,943,778.70

6. REVOLVING LINE OF CREDIT

Pursuant to the provision of Section 1011.13, Florida Statutes, on June 11, 2011, the Board authorized the Superintendent to establish a line-of-credit tax anticipation note for the 2011-12 fiscal in the amount of $80,000,000 with Wells Fargo Bank of Florida. The outstanding principal amount of the note shall bear interest at the three month London Interbank Offered Rate (LIBOR) plus 50 basis points adjusted monthly. This line-of-credit will allow the Board to borrow funds if established revenues (cash) are lagging behind expenditures such as weekly payrolls and weekly vendor payments. The note is secured by a pledge of anticipated ad valorem tax proceeds. The note would be repaid in full in ninety days from the first draw. The note shall not exceed $80,000,000 at any time. For the fiscal year ended June 30, 2011, no funds had been borrowed or utilized under this line-of-credit.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

7. CERTIFICATES OF PARTICIPATION

The District entered into various financing arrangements each of which was characterized as a lease-purchase agreement, with the Hillsborough School Board Leasing Corporation (Corporation), whereby the District secured financing of various educational facilities through the issuance of certificates of participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given ground leases on District property to the Corporation, with a rental fee of $10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease agreements to the trustee for the benefit of the securers of the certificates to the end of the ground lease term.

Certificates of participation that are still part of the District's debt obligations are as follows:

Certificates	Date of Certificates	Original Amount of Certificates	Ground Lease Term
Series 1998 Project	March 1, 1998	$ 336,930,000	June 30, 2017
Series 2000 QZAB Project	March 9, 2000	10,628,000	May 31, 2012
Series 2001A Project	January 15, 2001	103,770,000	June 30, 2025
Series 2001B Project	July 1, 2001	69,265,000	June 30, 2026
Series 2001 QZAB Project	November 6, 2001	9,600,000	November 6, 2015
Series 2002 Project	September 15, 2002	64,010,000	June 30, 2028
Series 2003B Project	September 1, 2003	72,065,000	June 30, 2029
Series 2004A Project	February 19, 2004	27,305,000	June 30, 2017
Series 2004B Project	February 19, 2004	56,715,000	June 30, 2026
Series 2004 QZAB Project	June 8, 2004	6,131,000	June 30, 2020
Series 2004C Project	November 4, 2004	89,750,000	June 30, 2030
Series 2005A Project	February 25, 2005	48,915,000	June 30, 2026
Series 2005 QZAB Project	December 20, 2005	3,002,000	December 20, 2020
Series 2006A Project	January 31, 2006	86,435,000	June 30, 2031
Series 2006B Project	January 26, 2007	77,900,000	June 30, 2026
Series 2007 Project	April 24, 2007	84,685,000	June 30, 2031
Series 2008A Project	July 1, 2008	109,830,000	June 23, 2023
Series 2010A Project	April 15, 2010	97,545,000	June 30, 2025
Series 2010 QSCB Project	December 21, 2010	37,935,000	December 1, 2028

The Series 1998 Certificates of Participation were also issued, in part, in order to provide the funds necessary to advance refund the Series 1994 and the Series 1995 Certificates of Participation and refinance the Series 1994 and Series 1995 facilities which the District has acquired, constructed and installed from the proceeds of Series 1994 and Series 1995. The Series 2001A Certificates of Participation were issued in order to provide funds necessary to partially advance refund the Series 1999 Certificates of Participation and refinance the Series 1999 facilities that the District has acquired, constructed, and installed from the proceeds of the Series 1999. The Series 2004A Certificates of Participation were issued in order to provide funds necessary to advance refund the Series 1996 Certificates of Participation and refinance the Series 1996

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

facilities that the School Board has acquired, constructed and installed from the proceeds of the Series 2000. The Series 2005A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 2000 Certificates of Participation and refinance the Series 2000 facilities that the District has acquired, constructed and installed from the proceeds of the Series 2000. The Series 2006A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 1998B and 2001B Certificates of Participation and refinance the Series 1998B and 2001B facilities that the School Board acquired, constructed and installed from the proceeds of the Series 1998B and 2001B. On May 23, 2008, the District remarketed the Series 2004C Certificates of Participation in order to change the auction interest rate to a daily adjustable rate. The Series 2008A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 1998A Certificates of Participation and refinance the Series 1998A facilities that the District has acquired, constructed and installed from the proceeds of the Series 1998A. The Series 2010A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 2001A Certificates of Participation and refinance the Series 2001A facilities that the District has acquired, constructed, and installed from the proceeds of the Series 2001A.

Due to the economic substance of the issuances of the certificates of participation as a financing arrangement on behalf of the District, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to certificate holders. During the year ended June 30, 2011, $14,910,780 was expended for capital outlay in the certificates of participation capital projects funds.

The lease payments for the Series 1998, Series 2001A, Series 2001B, Series 2002, Series 2003B, Series 2004A, Series 2004B, Series 2005A, Series 2006A, Series 2006B, Series 2007, and Series 2010A Certificates are payable by the District, semi-annually, on July 1 and January 1 at interest rates of, 3.600 to 5.500 percent, 3.000 to 5.000 percent, 3.000 to 5.250 percent, 2.000 to 4.625 percent, 5.000 percent, 5.250 percent, 2.000 to 5.090 percent, 2.375 to 5.000 percent, 3.500 to 5.000 percent, 3.500 to 5.000 percent, 3.750 to 5.000 percent and 3.000 to 5.000 percent, respectively. The lease payments for the Series 2004C and the 2008A Certificates of Participation are payable by the District semi-annually on July 1 and January 1. The interest is paid monthly based on a daily rate set by the remarketing agent that is expected to approximate the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index over the life of the certificates. The lease payments for the Series 2000-QZAB, 2001-QZAB, 2004-QZAB, 2005-QZAB and 2010-QSCB Certificates are due on April 10, 2012, November 1, 2015, June 3, 2020, December 20, 2020 and December 1, 2028, respectively. There is no interest to be paid on the Qualified Zone Academy Bonds (QZABs) or the Qualified School Construction Bonds (QSCB), as the certificate holders receive Federal tax credits in lieu of interest payments. The District is required to reserve a portion of the lease payments each year. The following is a schedule by years of future minimum lease payments under the lease agreements as of June 30:

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 76,571,232.75	$ 37,830,500.00	$ 38,740,732.75
2013	65,924,403.05	28,342,500.00	37,581,903.05
2014	66,773,181.19	30,402,500.00	36,370,681.19
2015	66,790,039.70	31,752,500.00	35,037,539.70
2016	76,414,953.42	42,792,500.00	33,622,453.42
2017-2021	344,255,593.72	201,425,500.00	142,830,093.72
2022-2026	337,112,638.39	242,897,500.00	94,215,138.39
2027-2031	319,862,162.69	284,092,500.00	35,769,662.69
2032	27,050,950.00	26,435,000.00	615,950.00
Total Minimum Lease Payments	$ 1,380,755,154.91	$ 925,971,000.00	$ 454,784,154.91

8. INTEREST RATE SWAP

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Fair Value	Cash Flow
A	Pay fixed interest rate swap	Hedge in changes in cash flows on Series 2004C COPS	$29,750,000	12/7/2004	12/7/2014	$2,697,944	$(1,054,283)

The terms of this pay fixed interest rate swap provide for paying a fixed rate of 3.736% and receiving a variable rate of the bond market association municipal swap index (BMA Index).

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Fair Value	Cash Flow
B	Pay fixed interest rate swap	Hedge in changes in cash flows on Series 2008C COPS	$ 109,830,000	7/1/2008	7/1/2023	$25,001,047	$(5,163,977)

As it relates to Derivative B, the District entered into a swaption contract on February 19, 2003, that provided the District an upfront payment of $5,006,500. This payment was reduced by $1,800,000, at which time the swaption was amended on April 15, 2005, to reduce the original notional amount from $177,195,000 to $109,830,000. The swaption was exercised on July 1, 2008, commencing a pay-fixed, interest rate swap that provided for payment of a fixed rate of 4.97 percent and receiving a variable rate of municipal swap index (defined as the Bond Market Association Municipal Swap Index). Prior to the exercise date, the swaption was considered an investment derivative instrument. Accordingly, the negative fair value at the exercise date in the amount of $13,102,591 is being amortized as an increase to the deferred outflow balance and a decrease to interest expense over the remaining life of the related hedgeable item (long-term debt). Such amortization amounted to $873,506 for the fiscal year ended June 30, 2011.

The fair values of the interest rate swaps are estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swaps. The fair value of the derivative instruments were recorded as derivative instrument liability in the Statement of Net Assets at June 30, 2011.

During the year ended June 30, 2011, the change in the fair value of the derivative instruments, which were recorded as increases to deferred outflows in the Statement of Net Assets, were as follows:

- Derivative Instrument A - $ 137,553
- Derivative Instrument B - $1,446,480

Risks

Credit risk. Credit risk is the risk that a counterparty will not fulfill its obligations. Both of the District's derivative instruments are held with different counterparties. The credit rating for the counterparty of Derivative A is A+ by Standard & Poor's and for the counterparty of Derivative B is AA- by Standard & Poor's.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the District's financial instruments or the District's cash flow. The District is exposed to interest rate risk on its pay fixed, receive variable interest rate swaps. As the municipal swap index decreases, the District's net payment on the swap increases.

Termination Risk. Termination risk is the risk that a hedging derivative investments unscheduled end will affect the District's asset and liability strategy or will present the District with potentially significant unscheduled termination payments to the counterparty. The District or the counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract.

Rollover Risk – Rollover risk is the risk that a hedging derivative instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. When the hedging derivative instrument terminates, the hedgeable items will no longer have the benefit of the hedging derivative instrument. The District is exposed to rollover risk related to Derivative A because the derivative matures on December 7, 2014, but the related debt instrument (2004C COPS) matures at a later date (June 30, 2030).

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

9. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002A	$ 1,140,000	4.10	2022
Series 2003A	2,135,000	3.00 - 4.25	2023
Series 2004A	2,545,000	3.350 - 4.625	2024
Series 2005A	905,000	4.0 - 5.0	2025
Series 2005Q	28,200,000	5.0	2020
Series 2006A	3,055,000	4.000 - 4.625	2026
Series 2008A	4,855,000	3.5 - 5.0	2028
Series 2009A	3,675,000	3.0 - 5.0	2029
Series 2010A	4,060,000	3.0 - 5.0	2030
District Revenue Bonds:			
Series 1998 Capital Improvement & Racetrack Revenue Refunding	1,800,971	5.10 - 5.35	2028
Series 2002 Sales Tax	7,525,000	4.150 - 5.375	2025
Series 2005 Sales Tax	126,545,000	3.25 - 5.00	2023
Series 2006 Sales Tax	46,905,000	4.00 - 4.25	2026
Series 2007 Sales Tax	47,515,000	3.5 - 5.0	2026
Total Bonds Payable	$ 280,860,971		

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

- **State School Bonds**

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

- **District Revenue Bonds**

  Capital Improvement and Racetrack Revenue Refunding Bonds of 1998. These bonds are authorized by Chapter 71-680, Laws of Florida, which authorized the Board to pledge all of the portion of the racetrack funds accruing annually to Hillsborough County, under the provisions of Chapters 550 and 551, Florida Statutes, as allocated to the Board pursuant to law, and Chapter 132, Florida Statutes, which authorized the refunding of the District Revenue Bonds of 1985. As required by the bond resolution, the Board established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

  Sales Tax Revenue Bonds, Series 2002, 2005, 2006 and 2007. These bonds are authorized by the Constitution and Laws of the State of Florida, including, particularly Chapter 1010, Florida Statutes, Chapter 212, Part I, Florida Statutes, and other appropriate provisions of law. The bonds are secured by

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a pledge of the proceeds received pursuant to the Interlocal Agreement from the levy and collection by the County of the one-half cent local infrastructure sales surtax.

The District has pledged a combined total of $1,800,971 of sales tax revenues in connection with the 1998 District Revenue Bond. During the 2010-11 fiscal year, the District recognized sales tax revenue totaling $466,500 and expended $195,649 (44 percent) of these revenue for debt service directly collateralized by these revenue. The pledged sales tax revenues are committed until final maturity of the debt on August 1, 2028. Approximately 24 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

The School Board issued Sales Tax Revenue Bonds, Series 2002, Series 2005, Series 2006, and Series 2007, in the amount of $238,585,000 on January 1, 2002, $127,975,000 on February 8, 2005, $54,860,000 on March 27, 2006, and $47,515,000 on March 15, 2007 respectively. These bonds are authorized by a pledge of proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statures. Proceeds of the bonds were used to refinance prior sales tax bonds and to finance construction of new school facilities and renovations of existing school facilities.

The District pledged a total of $228,490,000 of discretionary surtax sales revenues (sales tax revenues) in connection with these sales tax revenue bonds described above. During the 2010-11 fiscal year, the District recognized sales tax revenues totaling $22,650,963 and expended $9,615,000 (42 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt, or October 26, 2026. Assuming a nominal growth rate in the collection of sales tax revenues, which are levied through December 31, 2026, approximately 36 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	$ 6,984,262.50	$ 4,570,000.00	$ 2,414,262.50
2013	7,069,512.50	4,870,000.00	2,199,512.50
2014	7,083,283.75	5,115,000.00	1,968,283.75
2015	7,090,733.75	5,370,000.00	1,720,733.75
2016	7,102,858.75	5,645,000.00	1,457,858.75
2017-2021	20,441,583.75	16,850,000.00	3,591,583.75
2022-2026	7,468,050.00	6,270,000.00	1,198,050.00
2027-2031	2,036,450.00	1,880,000.00	156,450.00
Total State School Bonds	65,276,735.00	50,570,000.00	14,706,735.00
District Revenue Bonds:			
2012	20,374,797.51	10,208,812.40	10,165,985.11
2013	20,413,673.76	10,633,566.80	9,780,106.96
2014	20,369,361.26	10,978,731.60	9,390,629.66
2015	20,332,551.88	11,409,306.80	8,923,245.08
2016	20,329,973.75	11,915,278.00	8,414,695.75
2017-2021	100,937,781.13	68,043,121.30	32,894,659.83
2022-2026	101,834,974.61	86,753,408.40	15,081,566.21
2027-2029	21,333,227.23	20,348,746.00	984,481.23
Total District Revenue Bonds	325,926,341.13	230,290,971.30	95,635,369.83
Total	$ 391,203,076.13	$ 280,860,971.30	$ 110,342,104.83

10. STATE BOARD OF EDUCATION BONDS

On October 14, 2010, the State Board of Education issued State School Bonds Series 2010A in the amount of $3,325,000 on behalf of the District in order to finance the cost of acquiring, building, construction, remodeling, improving, enlarging, furnishing, maintaining, renovating or repairing of projects. The net proceeds were placed in a capital outlay fund.

11. DEFEASED DEBT

On October 14, 2010, the State Board of Education issued Series 2010A SBE Refunding Bonds in the amount of $970,000 at a premium, with an interest rate of 4.0 percent to 5.0 percent on behalf of the District. The proceeds were used to advance refund $1,065,000 principal amount of the District's portion of then outstanding $1,140,000 Series 2002A SBE Bonds. The net proceeds of $1,130,648.31 (after payment of $9,254.94 in underwriter's fees and other issuance costs) were placed in a trust account to refund the Series 2002A bonds that mature on or after January 1, 2013 and scheduled to be called on January 1, 2012.

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The trust account is not considered to be risk-free in accordance with GASB Statement No. 7. As a result, $1,065,000 of the Series 2002A SBE Bonds are considered to be an economic defeasance and not a legal defeasance, and the liability for these SBE Bonds have not been removed from the government-wide financial statements. When the Series 2002A SBE Bonds are called on January 1, 2012, they will be removed.

As a result of the refunding, the District reduced its debt service requirements by $7,583,155 which resulted in an economic gain (difference between the present value of debt service payment on the old and new debt) of $5,555,004.

In prior fiscal years, the District defeased in substance certain outstanding revenue bonds and certificates of participation by placing the proceeds of each of the new debt issues in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account's assets and liabilities for the in substance defeased debt are not included in the Board's financial statements. At June 30, 2011, $3,375,000 of SBE Bond Series 1999A, $64,075,000 of Series 1994 Certificates of Participation, $37,430,000 of Series 1995 Certificates of Participation, $17,450,000 of Series 1998B Certificates of Participation, $94,015,000 of Series 1999 Certificates of Participation, $45,130,000 of Series 2000 Certificates of Participation, $54,885,000 of Series 2001B Certificates of Participation, $109,475,000 of Series 1998A Certificates of Participation, $99,035,000 of Series 2001A Certificates of Participation, and $126,160,000 of the Series 2002 Sales Tax Revenue Bonds are considered defeased.

12. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	$ 15,996,728.00	$ 10,473,633.00	$ 10,187,303.00	$ 16,283,058.00	$ 7,078,865.00
Arbitrage Payable	849,812.99		849,812.99		
Bonds Payable	290,836,620.50	4,205,000.00	14,180,649.20	280,860,971.30	14,778,812.40
Certificates of Participation Payable	912,061,000.00	37,935,000.00	24,025,000.00	925,971,000.00	37,830,500.00
Compensated Absences Payable	136,479,261.07	22,544,578.58	25,580,249.22	133,443,590.43	13,020,319.27
Other Postemployment Benefits Payable	29,081,907.00	17,520,393.00	6,583,222.00	40,019,078.00	
Total Governmental Activities	$ 1,385,305,329.56	$ 92,678,604.58	$ 81,406,236.41	1,396,577,697.73	$ 72,708,496.67
Plus unamortized net premiums:					
Bonds Payable				6,893,936.93	
Certificates of Participation				10,270,193.43	
Less unamortized loss on refunding:					
Bonds Payable				(8,869,646.23)	
Certificates of Participation				(11,855,532.46)	
Total Long-Term Liabilities				$ 1,393,016,649.40	

Internal service funds predominately serve the governmental funds and, accordingly, long-term liabilities of those funds are included in the governmental activities. For the governmental activities, compensated absences are generally liquidated with resources of the General Fund and postemployment healthcare benefits are generally liquidated with resources of the General Fund and special revenues funds. The

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estimated liability for long term claims are generally liquidated with resources of the Workers' Compensation and the General and Automobile Liability Programs Internal Service Funds.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 12,442,016.23	$ 187,012.99
Special Revenue:		
Other Federal Programs	92,485.33	8,475,637.12
Federal Economic Stimulus	543.66	1,918,928.36
Debt Service:		
Other	295,675.50	
Capital Projects:		
Local Capital Improvement	1,005,081.17	1,493,523.42
Other		1,106,351.81
ARRA Economic Stimulus		41,563.10
Nonmajor Governmental	93,984.00	706,769.09
Total	$ 13,929,785.89	$ 13,929,785.89

The majority of interfund receivables and payables are established during the closing period. The receivable in the General Fund is for payback of direct and indirect charges for June. The amount in the capital projects funds and nonmajor funds is mostly due to the movements of expenditures between capital project funds.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 12,022,186.00	$ 75,632.01
Special Revenue:		
Other Federal Programs	75,632.01	100.00
Debt Service:		
Other	65,294,934.49	19,748.36
ARRA Economic Stimulus		6,848.45
Capital Projects:		
Local Capital Improvement		62,458,386.06
Other		4,838,886.07
ARRA Economic Stimulus	6,848.45	
Internal Service	2,570,000.00	12,570,000.00
Total	$ 79,969,600.95	$ 79,969,600.95

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The largest amount of interfund transfers is to move money to the debt service funds for the debt principal and interest payments.

14. FUND BALANCE REPORTING

Effective for fiscal year 2011, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The intention of GASB 54 is to provide more structured classification of fund balance reporting. The reporting standards establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal of an endowment fund. The District classifies inventories and restricted debt sinking fund investments as nonspendable.

GASB 54 provides a hierarchy of spendable fund balances, based on spending constraints:

- **Restricted**

  Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

- **Committed**

  Fund balance that contain self-imposed constraints of the government from its highest level of decision making authority.

- **Assigned**

  Fund balance that contain self-imposed constraints of the government to be used for a particular purpose. The Board has authorized the Chief Business Officer to assign fund balance by approval of the Annual Financial Report.

- **Unassigned**

  Fund balance of the General Fund that is not constrained for any particular purpose.

The District has classified its fund balances with the following hierarchy:

- **Nonspendable**

  The District has inventories totaling $5,408,937.27 that are classified as nonspendable.

- **Spendable**

  The District has classified the spendable fund balances as restricted, assigned and unassigned. The District currently has no fund balances classified as committed.

  - Restricted for Federal, State and Local Programs, Food Services, Debt Service and Capital Projects – Federal Laws, Florida Statutes and local constraints require that certain revenues be specifically used for certain expenditures. These funds have been included in the restricted category of fund balances. The restricted fund balances total $414,604,491.00, and represent $19,398,142.85 for Federal programs (including $18,994,445.12 for food service), $18,130,999.49 for State programs, $6,629,397.86 for local programs, $95,449,664.41 for debt service, and $274,996,286.39 for capital projects.

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- Assigned for School Operations – The District has set aside certain spendable fund balance for school operations in the amount of $236,055,460.67. The Board authorized the Chief Business Officer to assign fund balance.
- Unassigned – The District has $95,100,000.00 in unassigned fund balance. At the end of the fiscal year, the unassigned fund balance in the general fund is 6.85 percent of total revenues.

15. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2010-11 fiscal year:

Source	Amount
Florida Education Finance Program	$ 610,790,008.00
Categorical Educational Program - Class Size Reduction	218,007,610.00
Workforce Development Program	29,139,172.00
Voluntary Prekindergarden Program	22,158,635.25
School Recognition	8,923,420.00
Gross Receipts Tax (Public Education Capital Outlay)	8,672,645.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	7,751,391.66
Excellent Teaching Program	1,463,209.92
Food Service Supplement	1,455,418.00
Discretionary Lottery Funds	743,085.00
Mobile Home License Tax	618,391.71
Miscellaneous	4,973,023.47
Total	$ 914,696,010.01

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

16. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.344	$ 376,853,996.80
Basic Discretionary Local Effort	0.748	52,748,276.50
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	105,778,629.34
Total	7.592	$ 535,380,902.64

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17. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, 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. Employees in PEORP vest after one year of service.

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FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Teachers' Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions (including employee contributions) to the Plan for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled $98,481,287, $96,594,988, and $107,840,163, respectively, representing a percentage of payroll of 9.94 percent for the fiscal year 2009, 10.01 percent for fiscal year 2010, and 10.88 percent for fiscal year 2011. These amounts include PEORP contributions as discussed above and were equal to the required contributions for each fiscal year. There were 3,122 PEORP participants during the 2010-11 fiscal year. Required contributions to PEORP totaled $783,015.47.

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

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

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18. EARLY RETIREMENT PLAN

Plan Description and Provisions. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (Plan) effective August 1, 1984. The Plan is a single-employer defined benefit pension plan. The purpose of the Plan is to provide District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 17, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62. The Board entered into an agreement with Wells Fargo Bank, N.A., designating the Bank as the Investment Manager and Custodian (Trustee) for the Plan assets. The agreement also provides that monthly benefits be paid by the Trustee.

Based on an actuarial report as of June 30, 2011, employee membership data related to the Plan was as follows:

Retirees and Beneficiaries Currently Receiving Benefits	580

Active Plan Participants: There are no longer any active plan participants

A summary of Eligibility and Benefits follows:

- **Eligibility**. A member of the Plan is eligible upon attainment of age 55 to 59, completion of 25 but no more than 28 years of creditable service, at least 5 consecutive and uninterrupted years of service immediately preceding early retirement, and having applied for retirement under the Florida Retirement System. The Board approved to eliminate new participants to the Early Retirement Program on June 30, 2008. Certain employees were eligible to enter the plan before July 1, 2010. As of July 1, 2010, the plan was closed to any new participants.
- **Benefits**. The amount of the monthly benefit will be equal to the reduction imposed on the retirement benefit by the Florida Retirement System due to early retirement. The benefit amount will be based on the initial benefit amount determined by the Florida Retirement System prior to any cost of living adjustments and once established will remain unchanged, unless a specific increase is authorized by the Board.

Summary of Significant Accounting Policies. The Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a "capital maintenance" measurement focus and the accrual basis of accounting. Investment disclosures related to the Pension Trust Fund are in Note 3. Employer contributions are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Plan assets are valued at fair value for financial statement purposes.

Separate statements are not issued for the plan.

Contributions and Reserves. The District's Early Retirement Program was established by the Board on August 1, 1984. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the Plan and to amortize the unfunded actuarial accrued liability within 30 years based on an actuarial study. There are no long-term contracts to the plan. Periodic employer contributions to the Plan are determined on an actuarial

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basis using the entry age actuarial cost method. Annual pension cost is funded on a current basis. Pursuant to Section 112.64, Florida Statutes, the unfunded actuarial accrued liability is funded over a 40-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial liability are based on the level percentage-of-payroll method.

Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

Total contributions to the Plan in the 2008-09, 2009-10, and 2010-11 fiscal years amounted to $1,801,801, $2,138,875, and $1,953,117, respectively. The actuarially determined contributions for the 2008-09, 2009-10, and 2010-11 fiscal years were $2,063,437, $2,251,844, and $1,317,182, respectively, which were determined through actuarial valuations performed at July 1, 2008, July 1, 2009, and July 1, 2010, respectively. The total annual pension cost for the 2008-09, 2009-10, and 2010-11 fiscal years was $2,059,509, $2,258,572, and $1,317,817, respectively. The percentage of pension cost contributed for the 2008-09, 2009-10, and 2010-11 fiscal years was 87.49 percent, 108.84 percent, and 148.28 percent, respectively. If the District was to have a material net pension obligation, such disclosure would be provided in the future.

As of July 1, 2010, the actuarial accrued liability for benefits was $29,577,005 of which $13,841,202 was unfunded. The computation of the annual required contributions for the 2010-11 fiscal year was based on the same (a) benefit provisions, (b) actuarial funding method, and (c) other significant factors as used to determine annual required contributions in the previous year except the projected salary increase is 0. There is no longer a covered payroll due to the fact that the Plan is closed to any new participants effective July 1, 2010.

All of the assets in the District's Pension Trust Fund are legally required reserves. None of the assets have been designated by the Board for any other specific purpose. Costs of administering the Plan are financed through the Plan's resources (employer contributions and investment earnings).

Concentrations. The Plan's investments at June 30, 2011, consisted of the following:

	Balance June 30, 2011	Percentage of Plan Net Assets
U.S. Treasury Securities	$ 8,999,034.10	58.4%
U.S. Instrumentality Obligations	6,325,462.12	41.1%
Wells Fargo Treasury Plus Money Market Fund	80,971.65	0.5%
Total	$ 15,405,467.87	100.0%

Funded Status and Funding Progress. The required schedule of funding progress, immediately following the notes to financial statements, presents multiyear trend information about whether the actual value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Information about the funding status of the Plan as of the most recent actuarial valuation date is as follows:

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Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
7/1/2010	$15,735,803	$29,577,005	$13,841,202	53.20%	(1)	(1)

Note: (1) The covered payroll and actuarial accrued liability as a percentage of covered payroll columns are not presented because all participants in the Plan are retired.

Actuarial Information. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	7-1-2010
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll - Closed
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	3.5%
Projected Salary Increases	0%
Rate of Inflation Adjustments	None

19. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. The District via the Board can establish and amend funding requirements. The District has not advanced-funded the annual other postemployment benefit (OPEB) costs or the net OPEB obligation. For the 2011 fiscal year, retirees and eligible dependents received postemployment healthcare benefits, which are funded by the District on a pay-as-you-go basis. The District provided required contributions of $6,583,222 toward annual OPEB costs, comprised of benefit payments made on behalf of the retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums and net of retiree contributions totaling $10,569,350, which is approximately 1 percent of covered payroll.

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Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	$ 10,772,141
Amortization of Unfunded Actuarial Accrued Liability	5,876,560
Interest on Normal Cost and Amortization	749,192
Annual Required Contribution (ARC)	17,397,893
Interest on Net OPEB Obligation (NOO)	1,308,686
Amortization of Net OPEB Obligation	(1,186,186)
Total Expense or Annual OPEB Cost (AOC)	17,520,393
Annual Contribution Toward OPEB Cost	(6,583,222)
Increase in Net OPEB Obligation	10,937,171
Net OPEB Obligation, Beginning of Year	29,081,907
Net OPEB Obligation, End of Year	$ 40,019,078

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, 2011, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Annual Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2007-08	$ 15,132,083	$ 4,737,598	31.3%	$ 10,394,485
2008-09	15,059,095	4,502,984	29.9%	20,950,596
2009-10	13,993,184	5,861,873	41.9%	29,081,907
2010-11	17,520,393	6,583,222	37.6%	40,019,078

Funded Status and Funding Progress. As of June 30, 2011, the actuarial accrued liability for benefits was $144,887,062, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was $991,177,970 for the 2011 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.6 percent.

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The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Actuarial methods and assumptions used for the OPEB calculations are as follows:

- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.
- Calculations are based on the benefits provided uner the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
- Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.
- The actuarial methods and significant assumptions used in the actuarial valuation as of July 1, 2011, are:
  - Entry age actuarial cost method,
  - Actuarial value of assets are fair value,
  - Discount rate is 4.5 percent,
  - Salary scale is 4.0 percent
  - Healthcare cost trend is 10.5 percent for fiscal year ended June 30, 2011, declining to 5.5 percent for fiscal year ending June 30, 2018, and
  - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 3 percent per year.

20. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

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The following is a schedule of encumbrances at June 30, 2011:

Major Funds							
General	Special Revenue - Other	Special Revenue-Federal Economic Stimulus	Capital Projects-Other	Capital Projects - Local Capital Improvement	Capital Projects - ARRA Economic Stimulus	Nonmajor Governmental Funds	Total Governmental Funds
$11,454,312	$ 4,795,596	$ 940,755	$ 30,409,745	$27,761,635	$6,013,749	$ 6,000,002	$ 87,375,794

Construction Contracts. Encumbrances include the following construction contract commitments at fiscal year-end:

DETAIL LISTING OF CONSTRUCTION IN PROGRESS

Description	Project Authorization	Completed to Date	Balance Committed
Additions	$ 2,481,408.55	$ 707,421.86	$ 1,773,986.69
Elementary Schools	245,061.25	37,223.78	207,837.47
Middle Schools	21,779.00	19,800.00	1,979.00
Senior High Schools	1,393,134.68	354,424.52	1,038,710.16
Other	18,816,959.33	6,562,125.90	12,254,833.43
Renovations	44,118,836.11	10,815,783.14	33,303,052.97
Improvements	2,610,395.77	1,351,741.67	1,258,654.10
Total	$ 69,687,574.69	$ 19,848,520.87	$ 49,839,053.82

21. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. Prior to July 18, 2007, the District entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. Effective July 18, 2007, the District chose not to purchase excess coverage but chose to set aside $500,000 per year to accumulate to a total of $5,000,000 to cover excess claims. As of June 30, 2011, $2,000,000 has been set aside. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

A liability in the amount of $16,283,058 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2011. It is estimated that $7,078,865.00 of the liability is current and due within one year. The remaining $9,204,193.00 will be due in future years.

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JUNE 30, 2011

The following schedule represents the changes in workers' compensation, automobile, and general claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2009-10	$ 15,178,515.00	$ 10,440,341.30	$ (9,622,128.30)	$ 15,996,728.00
2010-11	15,996,728.00	10,187,303.14	(9,900,973.14)	16,283,058.00

Claims and judgments are generally liquidated by the internal service funds that are funded by the General Fund and special revenue funds.

22. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2010-11 fiscal year:

	Total	Worker's Compensation	General Liability Insurance	Group Health Insurance
Total Assets	$ 150,296,915.90	$ 117,197,577.99	$ 9,939,067.33	$ 23,160,270.58
Liabilities and Net Assets:				
Accounts Payable	$ 13,672,269.84	$	$ 2,124.34	$ 13,670,145.50
Estimated Insurance Claims Payable	16,283,058.00	13,224,234.00	3,058,824.00	
Deferred Revenue	9,490,125.08			9,490,125.08
Net Assets, Unrestricted	110,851,462.98	103,973,343.99	6,878,118.99	
Total Liabilities and Net Assets	$ 150,296,915.90	$ 117,197,577.99	$ 9,939,067.33	$ 23,160,270.58
Revenues:				
Premium Contributions	$ 178,403,531.51	$ 22,041,287.59	$	$ 156,362,243.92
Interest Revenue	509,852.64	485,852.94	23,999.70	
Other	1,421,624.05	1,317,084.04	104,540.01	
Total Revenues	180,335,008.20	23,844,224.57	128,539.71	156,362,243.92
Total Expenses	(167,418,530.07)	(9,222,880.42)	(1,833,405.73)	(156,362,243.92)
Transfers In (Out)	(10,000,000.00)	(12,570,000.00)	2,570,000.00	
Change in Net Assets	$ 2,916,478.13	$ 2,051,344.15	$ 865,133.98	$ 0.00

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

23. LITIGATION

The District is involved in several pending and threatened legal actions. In the opinion of District management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District.

24. GRANTS AND CONTRACTS

The District participates in various Federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the District.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 1,160,000.00	$ 2,139,399.37	$ 2,139,399.37	$
Federal Through State and Local	4,150,000.00	9,426,623.82	9,426,623.82	
State	885,235,744.29	893,698,910.15	893,523,607.18	(175,302.97)
Local:				
Property Taxes	412,117,637.00	415,406,257.47	410,958,534.96	(4,447,722.51)
Miscellaneous	29,903,076.71	78,707,336.83	71,671,164.83	(7,036,172.00)
Total Revenues	1,332,566,458.00	1,399,378,527.64	1,387,719,330.16	(11,659,197.48)
Expenditures				
Current - Education:				
Instruction	873,754,470.06	981,825,028.16	841,929,990.64	139,895,037.52
Pupil Personnel Services	47,983,750.46	56,775,169.81	56,563,354.87	211,814.94
Instructional Media Services	19,204,778.04	19,305,085.82	18,723,813.63	581,272.19
Instruction and Curriculum Development Services	19,863,167.51	22,468,668.75	20,699,847.11	1,768,821.64
Instructional Staff Training Services	27,033,866.42	43,991,304.90	32,069,065.79	11,922,239.11
Instruction Related Technology	26,553,190.96	35,254,520.09	25,924,316.41	9,330,203.68
School Board	1,554,658.43	1,723,395.91	1,443,370.23	280,025.68
General Administration	3,767,426.23	4,123,411.49	3,694,582.82	428,828.67
School Administration	90,770,110.50	94,110,666.18	88,683,545.08	5,427,121.10
Facilities Acquisition and Construction	1,663,807.62	10,034,284.58	3,977,991.23	6,056,293.35
Fiscal Services	6,909,380.06	35,300,013.76	6,925,950.79	28,374,062.97
Food Services		367,906.49	367,906.49	
Central Services	23,214,825.41	32,273,331.34	25,262,060.51	7,011,270.83
Pupil Transportation Services	64,938,040.51	86,816,764.36	69,053,144.18	17,763,620.18
Operation of Plant	113,781,244.18	138,481,700.97	107,280,700.99	31,200,999.98
Maintenance of Plant	28,564,619.40	34,919,277.60	28,979,979.83	5,939,297.77
Administrative Technology Services	526,159.24	617,376.87	583,302.75	34,074.12
Community Services	33,808,128.71	41,989,891.15	33,754,170.63	8,235,720.52
Fixed Capital Outlay:				
Facilities Acquisition and Construction		8,943,962.47	8,943,962.47	
Other Capital Outlay		6,913,909.05	6,913,909.05	
Total Expenditures	1,383,891,623.74	1,656,235,669.75	1,381,774,965.50	274,460,704.25
Excess (Deficiency) of Revenues Over Expenditures	(51,325,165.74)	(256,857,142.11)	5,944,364.66	262,801,506.77
Other Financing Sources (Uses)				
Transfers In	2,486,141.00	12,022,186.00	12,022,186.00	
Transfers Out	(2,636,558.89)	(102,525.03)	(75,632.01)	26,893.02
Total Other Financing Sources (Uses)	(150,417.89)	11,919,660.97	11,946,553.99	26,893.02
Net Change in Fund Balances	(51,475,583.63)	(244,937,481.14)	17,890,918.65	262,828,399.79
Fund Balances, Beginning	343,170,557.55	343,170,557.55	343,170,557.55	
Fund Balances, Ending	$ 291,694,973.92	$ 98,233,076.41	$ 361,061,476.20	$ 262,828,399.79

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 17,648,881.01	$ 28,581,484.50	$ 15,758,018.96	$ (12,823,465.54)	$	$	$	$
178,949,017.85	207,874,180.83	179,803,996.67	(28,070,184.16)	117,553,165.03	168,792,580.35	158,605,439.42	(10,187,140.93)
910,099.43	1,132,458.38	926,814.16	(205,644.22)				
417,606.95	655,458.65	356,307.62	(299,151.03)				
197,925,605.24	238,243,582.36	196,845,137.41	(41,398,444.95)	117,553,165.03	168,792,580.35	158,605,439.42	(10,187,140.93)
80,671,452.08	89,963,270.98	73,046,830.95	16,916,440.03	106,021,487.02	134,221,963.37	128,947,586.77	5,274,376.60
15,981,337.34	17,736,223.93	16,738,201.07	998,022.86	1,831,196.08	4,128,612.89	4,089,255.29	39,357.60
2,369,797.77	3,273,403.99	2,721,988.70	551,415.29	69,047.62	1,111,246.54	1,109,763.26	1,483.28
26,248,778.71	37,053,046.58	31,810,028.83	5,243,017.75	379,030.51	2,215,851.50	1,307,061.84	908,789.66
11,643,618.84	18,201,681.41	10,647,013.36	7,554,668.05	5,111,305.13	11,659,003.48	9,586,026.73	2,072,976.75
466,862.94	1,926,135.73	876,122.99	1,050,012.74	74,563.66	376,852.31	349,588.81	27,263.50
4,826,423.14	5,166,112.21	3,743,592.48	1,422,519.73	3,302,193.32	4,365,049.71	3,945,071.10	419,978.61
1,441,210.01	1,378,499.48	1,369,804.07	8,695.41	204,745.63	4,191,591.74	3,723,312.78	468,278.96
345,778.86	1,450,178.26	190,685.46	1,259,492.80	210,124.61			
629,521.17	624,248.71	620,596.52	3,652.19				
				209,716.00			
989,399.60	4,764,310.96	1,128,383.83	3,635,927.13	109,949.00	1,087,989.80	113,353.83	974,635.97
1,331,925.80	1,553,250.16	760,221.26	793,028.90	29,806.45	49,745.03	49,745.03	
189,177.77	360,931.96	284,309.83	76,622.13		1,777,988.63	1,777,988.63	
					50,902.92	50,902.92	
50,856,780.10	52,254,105.99	50,351,735.78	1,902,370.21		102,500.00	102,500.00	
	19,394.95	19,394.95					
	2,611,759.34	2,611,759.34			3,453,282.43	3,453,282.43	
197,992,064.13	238,336,554.64	196,920,669.42	41,415,885.22	117,553,165.03	168,792,580.35	158,605,439.42	10,187,140.93
(66,458.89)	(92,972.28)	(75,532.01)	17,440.27				
66,558.89	93,072.28	75,632.01	(17,440.27)				
	(100.00)	(100.00)					
66,558.89	92,972.28	75,532.01	(17,440.27)				
100.00							
$ 100.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2008	$ 0	$ 142,851,161	$ 142,851,161	0.0%	$ 984,347,938	14.5%
June 30, 2009	0	139,930,959	139,930,959	0.0%	990,757,415	14.1%
June 30, 2010	0	122,763,693	122,763,693	0.0%	964,984,023	12.7%
June 30, 2011	0	144,887,062	144,887,062	0.0%	991,177,970	14.6%

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
EARLY RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)		Unfunded AAL (UAAL) (2) (B-A)	Funded Ratio (3) (A/B)	Covered Payroll (C)		UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2005	$ 8,833,753	$ 33,461,470	(4)	$ 24,627,717	26.40%	$ 186,742,083	(4)	13.2%
July 1, 2006	9,384,033	49,388,744	(5)	40,004,711	19.00%	187,094,809	(5)	21.4%
July 1, 2007	11,892,575	32,682,751	(6)	20,790,176	36.39%	40,602,385	(6)	51.2%
July 1, 2008	14,570,542	31,609,928	(7)	17,039,386	46.09%	31,812,283	(7)	53.6%
July 1, 2009	15,024,428	38,190,854	(8)	23,166,426	39.34%	22,676,884	(8)	102.2%
July 1, 2010	15,735,803	29,577,005	(9)	13,841,202	53.20%	N/A	(9)	N/A

Note:
(1) The Entry Age Actuarial Cost Method is used to determine the Plan's funding requirements.
(2) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.
(3) The percentage funded is derived by dividing the actuarial value of plan assets by the actuarial accrued liability.
(4) Based on data from an actuarial valuation as of July 1, 2005, dated May 9, 2006.
(5) Based on data from an actuarial valuation as of July 1, 2006, dated April 26, 2007.
(6) Based on data from an actuarial valuation as of July 1, 2007, dated June 30, 2008.
(7) Based on data from an actuarial valuation as of July 1, 2008, dated July 10, 2009.
(8) Based on data from an actuarial valuation as of July 1, 2009, dated September 24, 2010.
(9) Based on data from an actuarial valuation as of July 1, 2010, dated August 18, 2011.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER CONTRIBUTIONS - EARLY RETIREMENT PLAN

Year Ended June 30	Annual Required Contribution	Percentage Contribution
2006	$ 2,283,533	87.08%
2007	3,640,027	105.60%
2008	3,690,335	101.78%
2009	2,063,437	87.49%
2010	2,251,844	108.84%
2011	1,317,182	148.28%

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The June 30, 2011, unfunded actuarial accrued liability of $144,887,062 was significantly higher than the June 30, 2010, liability of $122,763,693 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- Changes in Actuarial Assumptions – Future trend has been changed to reflect current conditions. Future medical plan elections were changed due to the addition of the Coverage First Local plan. Mortality improvements were made to comply with Actuarial Standard of Practice 35. Other demographic assumptions were changed based on the 2009 analysis performed by FRS.
- Change in Plan Provisions – Coverage First Local plan was added along with design changes to other medical plans.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 16,459,412.50	$
National School Lunch Program	10.555	300, 350	44,229,796.44	
Summer Food Service Program for Children	10.559	323	1,397,323.68	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	4,294,863.40	
Total Child Nutrition Cluster			66,381,396.02	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	19,930.71	
Total United States Department of Agriculture			66,401,326.73	
United States Department of Labor:				
Indirect:				
Florida Crown Workforce Development Board:				
National Farmworker Jobs Program	17.264	None	335,472.15	
Disability Employment Policy Development	17.720	None	14,249.67	
Total United States Department of Labor			349,721.82	
United States Department of Education:				
Direct:				
Student Financial Aid Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	94,435.50	
Federal Work Study Program	84.033	N/A	69,525.43	
Federal Pell Grant Program	84.063	N/A	3,737,353.06	
Total Student Financial Aid Cluster			3,901,313.99	
Impact Aid	84.041	N/A	315,394.19	
Civil Rights Training and Advisory Services	84.004	N/A	123,029.19	
Magnet Schools Assistance	84.165	N/A	1,497,862.92	
Fund for the Improvement of Education	84.215	N/A	2,890,152.58	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	830,863.20	
Transition to Teaching	84.350	N/A	374,933.78	
Arts in Education	84.351	N/A	2,683.11	
Voluntary Public School Choice	84.361	N/A	2,585,740.37	
Teacher Incentive Fund	84.374	N/A	3,551,439.82	
Total Direct			16,073,413.15	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	38,571,708.90	
Special Education - Preschool Grants	84.173	266, 267	834,726.10	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	23,740,800.66	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	576,255.01	
Total Special Education Cluster			63,723,490.67	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	52,135,976.92	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	19,658,753.81	
Total Title I, Part A Cluster			71,794,730.73	
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	127,942.14	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	20,010.62	
Total Education for Homeless Children and Youth Cluster			147,952.76	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	540,380.39	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	715,610.43	
Total Educational Technology State Grants Cluster			1,255,990.82	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	313,403.24	
ARRA - School Improvement Grants, Recovery Act	84.388	126	987,331.90	
Total School Improvement Grants Cluster			1,300,735.14	

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect (Continued):				
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	$ 66,521,808.00	$
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	524,918.32	
Hillsborough County School Readiness Coalition:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	5,247,102.00	117,500.00
Total State Fiscal Stabilization Fund Cluster			72,293,828.32	117,500.00
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 192, 193, 194, 195, 590	1,640,013.83	
Migrant Education - State Grant Program	84.011	217	3,231,952.26	
Career and Technical Education - Basic Grants to States	84.048	151	3,223,219.17	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	24,731.81	
Charter Schools	84.282	298	1,275,000.00	1,275,000.00
Reading First State Grants	84.357	110	202,809.03	
Voluntary Public School Choice	84.361	299	327,760.23	
English Language Acquisition Grants	84.365	102	4,058,661.21	
Improving Teacher Quality State Grants	84.367	224	8,467,321.96	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	R111	4,630,103.22	
Education Jobs Fund	84.410	541	41,211,016.00	
University of South Florida:				
Javits Gifted and Talented Students Education	84.206	None	42,291.37	
Education Research, Development and Dissemination	84.305	None	150,141.33	
Mathematics and Science Partnerships	84.366	None	27,508.20	
Total Indirect			279,029,258.06	1,392,500.00
Total United States Department of Education			295,102,671.21	1,392,500.00
United States Department of Health and Human Services:				
Indirect:				
CCDF Cluster:				
Florida Department of Children and Families:				
Child Care and Development Block Grant	93.575	#LC814/#LC914	160,891.95	
ARRA - Child Care and Development Block Grant	93.713	SR 01-11	3,564,483.00	
Hillsborough County School Readiness Coalition:				
Child Care and Development Block Grant	93.575	SR 01-11	13,348,823.70	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	LCCF 01-10/ LCCF 01-11/SR 01-11	13,778,596.22	
Total CCDF Cluster			30,852,794.87	
Head Start Cluster:				
Hillsborough County:				
Head Start	93.600 (3)	None	10,528,853.71	
ARRA - Head Start	93.708 (3)	None	442,430.53	
Total Head Start Cluster			10,971,284.24	
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	#LK111/#LK920/#LK963	2,936,652.73	
Refugee and Entrant Assistance - Discretionary Grants	93.576	#LK963	368,058.52	
Hillsborough County School Readiness Coalition:				
Temporary Assistance for Needy Families	93.558	SR 01-11	14,050,367.72	
Social Services Block Grant	93.667	SR 01-11	26,686.60	
Tampa Bay Workforce Alliance:				
Temporary Assistance for Needy Families	93.558	None	3,896.43	
Total United States Department of Health and Human Services			59,209,741.11	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	11,522.64	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Homeland Security Grant	97.067	None	139,288.00	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	455,016.63	
Army Junior Reserve Officers Training Corps	None	N/A	665,141.18	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	62,810.75	
Navy Junior Reserve Officers Training Corps	None	N/A	456,494.99	
Total United States Department of Defense			1,639,463.55	
Total Expenditures of Federal Awards			$ 422,853,735.06	$ 1,392,500.00

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 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 fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include $2,638,123.88 for grant number/program year BOCC-04CH3035/44 FY 09-10 and $7,890,729.83 for grant number/program year BOCC-04CH3035/45 FY 10-11. For ARRA - Head Start, expenditures include $186,922.08 for grant number/program year BOCC-04SE3035/01 and $255,508.45 for grant number/program year BOCC-04SE3035/02.

AUDITOR GENERAL
STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Hillsborough 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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*.

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
March 29, 2012

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Hillsborough County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. 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 its 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 OMB 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3.

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 to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 and 3. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the response.

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
March 29, 2012

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Career and Technical Education (CFDA No. 84.048); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); State Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 - ARRA); Race-to-the-Top (CFDA No. 84.395 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	Yes

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2011

ADDITIONAL MATTERS

Finding No. 1: Overtime Payments

Pursuant to the Fair Labor Standards Act, Board Policy 6700 provides that non-exempt employees who work more than 40 hours in a given work week will receive one and one-half times the employee's regular hourly rate of pay for all hours worked in excess of 40. In addition, Board Policy 6480 requires preauthorization of overtime work before the work is performed. During the 2010-11 fiscal year, the District paid approximately $4.5 million to employees for overtime work, including $2.5 million (or approximately 56 percent) paid to Transportation Department employees. District records indicated that, during the 2010-11 fiscal year, 49 District employees were paid $10,000 or more for overtime work. For example, one employee was paid for 1,076 overtime hours at one and one-half times the regular hourly rate, or $24,812, representing 53 percent and 79 percent of the employee's base hours and wages, respectively.

Since most overtime is paid at a one and one-half time basis, its continued use may have a negative effect on District operations since overall salary costs typically increase without a corresponding increase in the number of hours actually spent on operations. In response to our inquiry, District personnel provided explanations for certain employees of what tasks were performed, why overtime was needed, and the process by which overtime was approved. However, no Board policies or District procedures required analysis of overtime reports and District records did not evidence that management performed such analyses to determine reasons for deviations from typical overtime trends or identify possible alternatives to overtime payments, such as hiring additional full-time or part-time staff, reassigning duties, or adjusting workloads. While we recognize the need for overtime during peak periods for certain positions, when overtime is not effectively monitored there is an increased risk that errors, waste, or fraud may occur and not be timely detected. Further, reducing or eliminating the need for substantial amounts of overtime throughout the year may free some of the District's limited resources to be more efficiently utilized.

Recommendation: The District should enhance controls to require overtime and staffing analyses to ensure the most cost effective use of human resources.

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),[1] required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student

[1] Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established separate performance assessment procedures for in-classroom instructional personnel, non-classroom instructional personnel, school principals, and assistant principals that were generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except the performance assessments did not evidence that the employees were evaluated based primarily on student performance. Performance assessments for certain in-classroom instructional personnel and all school principals included student performance categories that represented only 40 percent of the assessment, while assessments for other in-classroom instructional personnel, non-classroom instructional personnel, and assistant principals only included student performance categories that represented 7, 7, and 35 percent, respectively. Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings.

For the 2011-12 fiscal year, District personnel indicated that the Florida Department of Education approved the District's merit award program and a memorandum of understanding for the Federal Race-to-the-Top grant award, and each included the District's performance assessment methodology for certain in-classroom instructional personnel and school principals.

Recommendation: The District should continue its efforts to ensure that performance assessments of instructional and school administrators consider student performance as required by law.

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),[2] provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

The Board approved the merit award program, Federal teacher incentive grant, and pay for performance plan, and each provided, in part, for eligible instructional personnel to receive supplemental pay for exemplary performance

[2] Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

based on various criteria. For the 2010-11 fiscal year, the District provided additional pay of approximately $23 million to 9,000 instructional personnel who met the eligibility criteria. However, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel**. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic and drama coaches and department chairpersons. Also, the salary schedule evidenced consideration of school demographics for instructors in schools that have a large percentage of students eligible for free or reduced price meals (i.e., Renaissance schools) and of level of job performance difficulties for eligible instructional personnel based on performance pay, as discussed above. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

  District personnel indicated that salary differentials based on critical shortage areas are provided for instructional personnel at higher poverty level schools because those schools experience critical shortages of instructional personnel; however, District records did not evidence that any criteria had been established for determining critical shortage areas of instructional personnel. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining instructional personnel.

- **School-based Administrators**. The school-based administrators' salary schedule evidenced consideration of differentiated pay for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. District personnel indicated that school-based administrators were also eligible for salary supplements for working in Renaissance schools. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010). As similarly noted for instructional personnel, District personnel indicated that salary differentials are provided for school-based administrators at higher poverty level schools as those schools experience critical shortages of school-based administrators; however, District records did not evidence the criteria established to support this assertion.

Without Board-adopted policies and procedures for sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate the various differentiated pay factors are consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Follow-up to Management's Response

The District indicates in its response that the Board has no authority to promulgate policies and procedures relating to critical shortage area differentiated pay of instructional personnel and school-based

administrators; that the State Board of Education (SBE) prepared a list of critical teacher shortage areas pursuant to Section 1012.07, Florida Statutes, and SBE Rule 6A-20.0131, Florida Administrative Code (FAC); that State law provides all criteria that may be used to identify critical shortage areas; and that the Board does not have the authority to define a critical shortage area or establish criteria different from that established by SBE. The District's response also indicates that we have recommended that the Board adopt policies and procedures that would usurp the role of FDOE to identify critical shortage areas.

Contrary to the District's response, the Board was required by Section 1012.22(1)(c)4., Florida Statutes (2010), to adopt a salary schedule with differentiated pay based upon certain specified factors, including critical shortage areas. Section 1012.07, Florida Statutes (2010), is not relevant to this requirement because it only required identification of critical teacher shortage areas for purposes of the Florida Teacher Scholarship and Forgivable Loan Program, the Critical Teacher Shortage Tuition Reimbursement Program, and the Critical Teacher Shortage Student Loan Forgiveness Program. Further, as required by Section 1012.22(1)(c)4.b., Florida Statutes (2011), the Board must provide differentiated pay for instructional personnel and school-based administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. As such, we believe that the Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with law. In addition, Section 1012.22(1)(c)5.c.(III), Florida Statutes (2011), currently requires that Statewide critical teacher shortage areas be identified by the State Board of Education under Section 1012.07, Florida Statutes, but district school boards may identify other areas of critical shortage within the school district and may remove areas identified by the State Board which do not apply.

Finding No. 4: Construction Management Services

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. A GMP contract requires District personnel to closely monitor construction costs and the award of bids to subcontractors.

Section 1013.45(1)(c), Florida Statutes, requires the District to select the CME pursuant to the process provided by Section 287.055, Florida Statutes. Section 287.055(3), Florida Statutes, requires that the District publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project in which the basic construction cost is estimated by the agency to exceed $325,000. Sections 287.055(4) and (5), Florida Statutes, require the District to select in order of preference no fewer than three firms deemed to be the most highly qualified to perform the required services for each proposed project and then negotiate a contract with the most qualified CME. Should the District be unable to negotiate a satisfactory contract with the firm considered to be the most qualified, the District must then undertake negotiations with the remaining selected CMEs, in the order they were ranked, until a satisfactory contract is negotiated.

Our review of District construction activities during the 2010-11 fiscal year disclosed that the District used CMEs for the following projects:

- Armwood High School Phase 2 Renovation Project, beginning in September 2008 and ongoing as of June 30, 2011. Project expenditures totaled approximately $5.67 million for the 2010-11 fiscal year.
- Bloomingdale Renovation Project, beginning in December 2010 and ongoing as of June 30, 2011. Project expenditures totaled approximately $3.26 million for the 2010-11 fiscal year.
- Plant Classroom Addition Project, beginning in February 2010 and completed in August 2010. Project expenditures totaled approximately $1.68 million for the 2010-11 fiscal year.

Our audit disclosed that the District could enhance its controls over CME contracts, as discussed below.

Selection of Armwood High School Phase 2 Renovation Project CME. In May 2006, the District solicited a request for qualifications for construction management at risk services for a number of projects including an addition and remodeling project at Armwood High School. The CME was selected for the initial Armwood High School project in November 2006 with a GMP contract of approximately $4.6 million, and this project was substantially completed in July 2008. Subsequently, the Board approved a $19.9 million GMP amendment to the initial contract for Phase 2 of further addition and remodeling projects at Armwood High School.

Contrary to Section 287.055(3), Florida Statutes, the District did not select a CME for the Armwood High School Phase 2 Renovation Project using the required competitive selection process. District personnel indicated that the District used the same CME for the Phase 2 project that was used on the initial project to minimize disruption to the school and to facilitate an earlier completion date. District personnel further indicated that they believed the best qualified firm was selected. However, considering the significant increase in size and scope of the additional project in comparison to the initial project, without following the statutorily-required competitive selection process for the CME, District records did not evidence that the most highly qualified firm was selected for this project.

Direct Salary Costs – General Conditions. For the Armwood High School Phase 2 Renovation, Bloomingdale Renovation, and Plant Classroom Addition projects, general conditions scheduled costs totaled approximately $1.47 million; $937,000; and $243,000, respectively. These costs included direct and indirect labor costs for CME personnel, such as project managers and superintendents, and other costs such as vehicle expense, communications, and office supplies. District personnel indicated that it was the District's procedure to request supporting documentation for general conditions scheduled charges at the completion of each project. As the Plant Classroom Addition project was the only project tested that was completed during the 2010-11 fiscal year, we requested the District provide support for the CME direct salary charges for this project. The District provided an accounting report that summarized these various charges; however, District records did not evidence support to identify the individuals compensated, compensation amounts per employee, or other records to confirm that the charges were appropriate or the labor burden rate that was applied. District personnel indicated that they performed a review of supporting information with CME management, but the review was not documented because the District considered the CME salary information as sensitive information to exclude from public records. However, absent a documented review, District records did not evidence that the amounts paid for general conditions scheduled costs were appropriate and reasonable expenditures of the District.

Indirect Salary Costs – Labor Burden. Contracts for each of the above three projects contained provisions for the District to compensate the CME for personnel costs, including an indirect salary cost element commonly referred to as the labor burden. Components of the labor burden typically include social security and Medicare taxes, unemployment taxes, medical insurance, workers' compensation, and may additionally include various company paid benefits, such as vacation and sick leave pay, depending on the method chosen to recover those benefits.

The United States Department of Labor, Bureau of Labor Statistics (BLS) periodically publishes employer rates for employee compensation for various occupational or industry groups, including private industry construction employers. The BLS labor rates at the time the District negotiated the Bloomingdale Renovation and Plant Classroom Addition CME contracts were approximately 29 percent each. However, labor burden rates that the CMEs indicated they would charge the District for these two projects were 49 percent and 43 percent, or approximately $119,000 and $23,000, respectively, more than the labor burden costs would have been based on BLS labor burden rates. Also, the labor burden rate information provided to the District for the Bloomingdale Renovation Project included line items for general liability/umbrella, safety, education/training, incentive compensation, and inflation factors, which made up over 15 percent of the 49 percent labor burden rate charged to the District; however, District records did not evidence the reasonableness of these charges or the basis upon which they were established.

In addition, the Armwood High School Phase 2 Renovation Project CME contract did not establish a labor burden rate but, as mentioned above, contained general condition cost provisions that totaled approximately $1.47 million. District personnel indicated that they never obtained a detail of the labor burden rate being charged, but evaluated the reasonableness of the total labor costs included within the general conditions. District personnel further indicated that the labor burden charges could not currently be quantified because, as of January 2012, the project was not completed, and the general conditions costs will not be summarized until the project is closed out. However, without proper consideration of the labor burden costs during the GMP contracting process, the District may pay for CME indirect salary costs that exceed the actual costs incurred by the CMEs.

Recommendation: The District should enhance procedures to competitively select the most highly qualified firm for each project as required by Section 287.055, Florida Statutes. In addition, the District should enhance its procedures to ensure that construction contracts document the reasonableness of general conditions and labor burden charges.

Follow-up to Management's Response

The District describes in its response procedures that were reportedly performed by District personnel to verify the appropriateness and reasonableness of amounts paid for general conditions scheduled costs, and indicates that such procedures are believed prudent and sufficient to adequately determine the appropriate total general conditions expenses due the construction manager. However, the point of our finding is that absent a documented review, District records did not evidence that the amounts paid for general conditions scheduled costs were appropriate and reasonable.

The District further indicates in its response that it is a misrepresentation to suggest or conclude that the District overpaid labor burden charges because the CME's general conditions expenses exceeded the general conditions allowance and the District only paid the general conditions allowance. However, the point of our finding is that District records did not evidence appropriate consideration of potential labor burden costs during the GMP contracting process, increasing the risk that the general conditions allowance was excessive.

Finding No. 5: Facilities Management

The facilities planning department is responsible for managing construction and renovation projects. During the 2010-11 fiscal year, the facilities planning department employed 33 full-time employees, including construction and capital energy personnel, and the department's operating cost was approximately $2.5 million. Also, during this fiscal year, the District had expenditures totaling approximately $59.9 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 21, 2010, the District planned to spend an additional $169.9 million on these projects over the next four years. At June 30, 2011, the historical cost of the District's educational and ancillary facilities was approximately $2.8 billion and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of approximately 39 years.

The facilities maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The facilities maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, other maintenance-related jobs. During the 2010-11 fiscal year, this department employed 395 employees, including grounds and maintenance personnel, and the department's operating cost was approximately $50.8 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establishes procedures to evaluate the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks. Such procedures could include written policies and procedures documenting processes for evaluating facilities construction methods and maintenance techniques before commitment of significant resources to the most cost effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review of facilities management procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using guaranteed maximum price and construction management at risk construction methods, although it has occasionally used design-bid-build methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, considering the effectiveness and efficiency of their current process, they do not see the value to be gained by adding a written assessment for each individual project. However without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability.** The District's facilities planning and maintenance departments have established short-term and long-term goals; however our review disclosed that these goals did not address accountability for these departments. For example, the goals for the facilities planning department included focusing on employee and post occupancy customer satisfaction, providing personnel with adequate training opportunities, increasing new revenue sources, and expanding the number of small, women, and minority-owned businesses registered with the District's Office of Supplier Diversity. Examples of facilities maintenance department goals include focusing on employee satisfaction, reducing the number of maintenance related deficiencies on the District's School Safety Report, and providing safe working conditions for maintenance projects. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work.

Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities planning and maintenance departments are operating as effectively and as cost-efficiently as possible.

Recommendation: The District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and techniques for performing significant maintenance-related jobs, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities planning and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 6: Annual Facility Inspections

Section 1013.12, Florida Statutes, requires that the District provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. Also, fire safety inspections are required to be made annually by persons certified by the Division of State Fire Marshall to conduct fire safety inspections in public educational and ancillary plants. In addition, the Board-approved District Safety Handbook establishes a priority for correction of all hazards or deficiencies noted during facility inspections. Each priority level (P-1 through P-5) includes a maximum deadline for correction of such deficiency, as follows:

P-1: Immediate dangerous condition, correct immediately;
P-2: Major risk-to-life, 1-15 days as noted as correction time;
P-3: Serious safety hazard, 30-day correction time;
P-4: Minor violation with low risk, 60-day correction time; and
P-5: Minor hazard/violation, correct during next renovation, remodeling, or major repair.

Our review of District records disclosed that controls to ensure compliance with certain safety standards could be enhanced, as discussed below:

- During the 2010-11 fiscal year, the District provided for required inspections of its facilities, and the inspector completed a comprehensive fire safety, casualty safety, and sanitation report for each facility identifying information such as deficiencies by type and severity, building and room number, prior number of years the deficiency was cited, timeline for correction, and an expected correction date. While the Safety Handbook identified five categories of safety deficiencies (listed above), the inspection reports identified only three deficiency types and corrective action planned and schedule codes (i.e., "O" for correction by the school within 7 days of receipt of the inspection; "M" for correction by the Maintenance Department within 90 days of receipt of the inspection; and "C" for correction during the next renovation). District personnel confirmed the inconsistencies in these records and that the District Safety Handbook served as a guide for the Maintenance Department for the expected time frame for repair. However, under these conditions, there is an increased risk that facility deficiencies may not be corrected within the intended timeframes established by the Board.
- The District Safety Handbook requires the safety manager to develop and provide a monthly safety violation status report to the Division of Operations and Administration no later than the 15th day of each month. This report is to include end-of-month status for all open, repeated, and corrected deficiencies; however, District records did not evidence any monthly safety violation status reports prepared during the 2010-11 fiscal year. District personnel indicated that monthly reports could not be produced with the current electronic inspection program and were no longer used, but that an annual report was prepared and presented to the Board. However, without documented monitoring of open, repeated, and corrected deficiencies, there is an increased risk that facility deficiencies may not be timely corrected.
- We tested inspection reports for 10 of 270 facilities inspected during the 2010-11 fiscal year and noted that 213, or 31 percent, of 679 deficiencies cited in the reports remained uncorrected from previous years. These

deficiencies included such items as fire detectors and emergency lights not installed, lack of secondary means of egress for student-occupied room, obstructed exits, walls not fired rated, mechanical/electrical equipment not fenced, and lack of fire extinguishers. In addition, our review of the Districtwide Comprehensive Safety Inspections Annual Report presented to the Board disclosed that the District had only corrected 3,980 of the 11,340 total deficiencies cited in the reports. District personnel indicated that the District Safety Office inspects buildings for deficiencies and works with sites and maintenance units to prioritize repairs so that the most imminently dangerous repairs are corrected first, but all repairs cannot be corrected during the year due to lack of funding. Notwithstanding, failure to timely correct facility deficiencies results in an increased risk of unsafe conditions and could result in additional costs in the future due to further deterioration. In response to our inquiries, District personnel indicated that enhancements to the District's building safety inspection and correction process are being implemented.

Recommendation: The District should enhance its procedures to ensure that facility inspection reports identify deficiencies and safety status as required by Board policy. The District should also continue its efforts to ensure that deficiencies noted in inspection reports are timely corrected.

Finding No. 7: Workers' Compensation Self-Insurance – Net Assets

The District has established an Internal Service Fund to account for the activities of its worker's compensation self-insurance program. Pursuant to generally accepted accounting principles, internal service funds are used to account for activities that provide goods and services to other funds, departments, or agencies on a cost reimbursement, or break even, basis. Thus, the objective of an internal service fund is not to make a profit but rather to recover over a period of time the total cost of providing the goods or services. A long-term, significant surplus is evidence of overcharges to the participants. In addition, Federal regulations require that all directly billed service charges to Federal programs be treated consistently with similar charges to non-Federal departments and programs.

Over the last five fiscal years, the Workers' Compensation Self-Insurance Internal Service Fund has accumulated net assets as follows:

Fiscal Year Ended June 30	Net Assets
2007	$ 50,940,000
2008	70,495,000
2009	87,815,000
2010	101,922,000
2011	103,973,000

District administrative personnel periodically monitor workers' compensation self-insurance program activities, and provide monthly financial reports to the Board. At June 30, 2006, the program's net asset balance was approximately $32 million and, as of June 30, 2011, the net asset balance had increased approximately $72 million or 225 percent over the last five fiscal years. Also, during that period, operating revenues exceeded operating expenditures by an average of $15 million each fiscal year. District personnel indicated that the District's intent was to maintain a targeted net asset balance of the program's average expenditures over the past 10 years, which calculates to approximately $88 million; however, District records did not evidence that the Board approved a targeted net assets balance. Establishing a targeted net asset balance for the workers' compensation self-insurance program would provide the District a measure to ensure the program was adequately funded and a basis for determining future premium rates.

Recommendation: The Board should adopt a policy that establishes its desired net assets target for the workers' compensation self-insurance program.

Follow-up to Management's Response

The District indicates in its response that it met the informal target for a ten year Workers' Compensation Self-Insurance Fund. The District further indicates that it has only funded approximately one and one-half years of claims and ignoring the potential liability may put the District at risk for a financial crisis. However, we are not suggesting that the District ignore potential workers' compensation liabilities. The point of our finding is that the Board had not approved a targeted net assets balance. With a Board-approved targeted net asset balance for the workers' compensation self-insurance program, the Board could use the measure to ensure the program was adequately funded and determine future premium rates.

Finding No. 8: Board Meetings

Section 286.011(2), Florida Statutes, requires the District to promptly record the minutes of all Board meetings for public inspection. In addition, Section 1001.42(1), Florida Statutes, requires the Board to review and approve minutes for each Board meeting at the next regular meeting, and to keep minutes as a public record in a permanent location to set forth clearly all Board actions and proceedings.

During the 2010-11 fiscal year, minutes of 11 of 19 regular Board meetings were not approved until 14 to 42 days, or an average of 23 days, after the next regular meeting. In addition, the Board did not approve the minutes of 16 of 18 workshop and special meetings until 21 to 147 days, or an average of 70 days, after the next regular meeting. District personnel indicated that the delayed approvals occurred, in part, because of the frequency of the meetings. Without timely approval, public access to official actions taken at such meetings may be limited. A similar finding was noted in our report No. 2009-191.

Recommendation: The Board should take necessary action to ensure that its minutes are timely approved.

Finding No. 9: Journal Entries

Accounting (journal) entries are used as necessary to make adjustments to the general ledger balances for asset, liability, revenue, expenditure, and expense accounts, and occasionally entries are necessary to correct beginning fund balance for prior fiscal year errors. Certain accounting, budget, and facilities department office personnel prepared journal entries to make adjustments to the accounting records throughout the fiscal year. To determine the propriety and accuracy of journal entries, we tested 25 journal entries and noted that entries were appropriate and accurate; however, for 20 entries tested, District records did not evidence independent review and approval.

Although our tests did not disclose any journal entries for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. While independent bank reconciliations were performed and department supervisors routinely monitor their department expenditures and related budgets to mitigate the lack of journal entry approval, without appropriate controls over journal entries, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should establish procedures to ensure that journal entries are independently reviewed and approved.

Finding No. 10: Information Technology - Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Clear division of roles and responsibilities between IT staff and functional end users and within the established overall IT function helps preclude the possibility of a single employee subverting a critical process. For example, restrictions that are generally addressed in separation of duties policies and achieved through organizational divisions and access controls include only application end-users being responsible for transaction origination or correction and for initiating changes to data files and IT personnel, such as computer operators, only having the access required to perform their job responsibilities.

Our tests of selected access privileges to the enterprise application system, including the finance, payroll, and human resources applications, disclosed that six computer operators and one supervisor from computer operations had the ability to add or update payroll adjustments, set-up direct deposits, and add or update journal entries, although these privileges should generally be limited to finance or payroll department employees. In response to our inquiry, District management indicated that the computer operators have access to the entire enterprise application system and use this access at the direction of the functional owners and system administrators. District management further indicated that, because of the complexity of the nightly job scheduling and the increased risk of error experienced when jobs are not centrally coordinated, end-user staff preferred to have the computer operators submit production jobs thereby requiring them to have update access to production data.

We noted that various controls compensate, in part, for the deficiencies noted above. For example, District procedures include supervisory review and approval of employee work activities; supervisory monitoring of department budget and actual expenditures; timely, independent bank reconciliations; and restricted access to unused checks. Although the computer operators needed update access privileges to some data fields to submit production jobs and our tests did not disclose any errors or fraud resulting from the unnecessary access privileges, complete update access privileges to the enterprise application system were not necessary for the operators' assigned responsibilities related to job submission and were contrary to an appropriate separation of computer operator and end-user duties. A similar finding was noted in our report No. 2008-183.

Recommendation: The District should limit operator access privileges to only those data fields needed to submit production jobs.

Finding No. 11: Information Technology - Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Changes to Critical Data

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication, data loss prevention, and monitoring of changes to critical data needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, data loss prevention, and monitoring of changes to critical data, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction. A similar finding with regard to user authentication was noted in our report No. 2008-183.

Recommendation: The District should improve security controls related to user authentication, data loss prevention, and monitoring of changes to critical data to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 12: Information Technology - Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District hired an outside company to complete an assessment related to operations, the assessment was limited to the backup and storage of enterprise application software for continuity planning, and the District had not developed a written, comprehensive IT risk assessment. In response to our inquiry, District management indicated that additional research was needed to ensure that all elements of a comprehensive risk assessment will be addressed. The absence of a written, comprehensive IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls. A similar finding was noted in our report No. 2008-183.

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 13: Information Technology - Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification of affected parties.

Although the District's responses to security incidents were coordinated through the Professional Standards Department, the Customer Services and Support Department, and the Florida Department of Law Enforcement, the District had not developed a written IT security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate and timely manner to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

Finding No. 14: Information Technology – Security Awareness Training Program

A comprehensive security awareness training program apprises new users of, and reemphasizes to current users, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems. Although Title 20, Section 1232g, United States Code, the Family Educational Rights and Privacy Act, was covered in the teacher training programs, the District had not developed a comprehensive security awareness training program to facilitate all employees' ongoing education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information. A comprehensive security awareness training program would decrease the risk that the District's IT resources could be unintentionally compromised by users while performing their assigned duties. A similar finding was noted in our report No. 2008-183.

Recommendation: The District should promote IT security awareness through a comprehensive training program to ensure that applicable employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.

Finding No. 15: Information Technology - Program Change Controls

Effective controls over changes to application programs are intended to ensure that only authorized and properly functioning changes are implemented. Program change controls that are typically employed to ensure the continued integrity of application systems include testing and approval of changes by a person or group independent of the individuals making the changes. Our audit disclosed that District program change controls needed improvement. Specifically:

- Although the District had a software provider manual for application maintenance and held weekly meetings between functional owners and IT staff regarding software patches, the District did not have written procedures for performing periodic application updates or managing software patches.
- District programming personnel or consultants tested their own changes but there was no independent review of program changes by other IT personnel prior to user testing.
- Security administrators and operators had access to utility software defined in the enterprise application production environment that allowed changes to the application and database, contrary to an appropriate separation of duties.

Under these conditions, the risk was increased that unauthorized or erroneous programs may be moved into the production environment without timely detection. A similar finding was noted in our report No. 2008-183.

Recommendation: The District should document the District's application update and patch management procedures and establish an independent review of program changes. Additionally, the District should periodically review the appropriateness of access privileges granted to utility software and timely remove or adjust any inappropriate or unnecessary access detected to ensure that an appropriate separation of duties is enforced.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agencies: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); Title I Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386-ARRA); School Improvement Grant (CFDA Nos. 84.377 and 84.388-ARRA); State Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); Career and Technical Education (CFDA No. 84.048); Race-to-the-Top (CFDA No. 84.395); and Education Jobs Fund (CFDA No. 84.410)
Finding Type: Noncompliance
Questioned Costs: Unknown

Allowable Costs/Cost Principles – Transfer of Insurance Program Assets. Attachments A and B of United States Office of Management and Budget (OMB) Circular A-87 establish cost principles to be applied and guidance for determining allowable costs and applicable credits to Federal awards. Section 22.d.5. of Attachment B provides that whenever funds are transferred from a self-insurance reserve to other accounts (e.g., General Fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer. Section C of Attachment A specifies that, to be allowable costs under a grant program, the costs must be net of all applicable credits, and defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, including insurance refunds or rebates.

The District provides workers' compensation insurance for its employees on a self-insured basis and accounts for the activities of this program within an internal service fund. The costs of claims and other expenses incurred are allocated to the various District funds (Federal and non-Federal) by premiums charges based on the number of employees being funded by each fund. During the 2010-11 fiscal year, most District payroll expenditures were paid from the General Fund and Special Revenue Funds, and the workers' compensation self-insurance program revenues exceeded expenses by $14 million. Also, during the fiscal year, the District transferred from the workers' compensation self-insurance program approximately $10 million and $2.57 million to the General Fund and the Liability Self-Insurance Fund, respectively. However, District personnel did not make a determination of the portion attributable to Federal programs for premium costs previously charged to Federal programs. Without such determination, District records did not evidence that applicable refunds were made to the Federal Government for its share of the funds transferred, contrary to OMB Circular A-87.

Recommendation: The District should make a determination as to what portion of the transferred funds should be credited to Federal programs and consult with the Florida Department of Education for resolution of this matter.

District Contact Person: Gretchen Saunders, Chief Business Officer

Federal Awards Finding No. 2:
Federal Agencies: United States Department of Education
Pass-Through Entities: Florida Department of Education
Programs: Title I Grants to Local Educational Entities (CFDA Nos. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles. OMB Circular A-87, Appendix A, Section C.1, provides in part that, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be authorized or not prohibited under State or local laws or regulations, and be adequately documented. The District contracted with a company (provider) to provide supplementary instruction in reading or math to eligible students, and staff development and parental involvement activities at various private schools throughout the District. The contract specified that the provider would be compensated at an hourly rate for each hour of instructional service provided and the provider would be responsible for ensuring that services were delivered by qualified staff hired and compensated by the provider.

During the 2010-11 fiscal year, the District paid the provider a total of approximately $1.2 million for contracted services that were generally in compliance with Federal requirements; however, the District paid $98,076 in excess of the provider's contracted amount. District personnel indicated that the District had historically provided salary supplements for teachers at high need public schools to enhance recruitment and retention, and that the amounts paid over the provider contract amount were intended to boost the amount the provider paid its employees and help ensure that the provider had less instructional personnel turnover. However, payments in excess of contract amounts to boost contractor employee salaries would not represent a necessary and reasonable cost of the program. Subsequent to our inquiry, the District restored the $98,076 to the Title I program. In addition, District personnel indicated that, effective December 31, 2011, the District is no longer supplementing the salaries of the provider's employees.

Recommendation: The District should continue its efforts to ensure that Federal program payments are consistent with contract terms.

District Contact Person: Jeffrey Eakins, General Director of Federal Programs

Federal Awards Finding No. 3:
Federal Agencies: United States Department of Education
Pass-Through Entities: Florida Department of Education
Programs: Title I Grants to Local Educational Entities (CFDA Nos. 84.010 and 84.389 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Special Tests and Provisions – Charter Schools. Pursuant to Title 34, Section 76.789, Code of Federal Regulations, the District must allocate Title I, Part A Cluster (Title I) program funds to any eligible charter school that opens for the first time or significantly expands its enrollment during an academic year for which the District awards these funds. To meet this requirement, the District may allocate funds to, or reserve funds for, an eligible charter school based on reasonable estimates of projected enrollment at the charter school. If the charter school opens or significantly expands its enrollment by November 1 of an academic year, the District must allocate the funds within five months of the date the charter school opens or significantly expands.

During the 2010-11 fiscal year, the District sponsored two new charter schools, the New Springs Charter Schools and Seminole Heights Charter High, and the terms of the charter school contracts require the District to allocate funds to the charter schools the same as would be done for other District schools based on the services provided. However, District records did not evidence that eligible Title I program students at the charter schools were funded for Title I program services. Based on eligible students and enrollment at the two charter schools, the District was responsible for funding costs totaling approximately $93,600 for program services at the schools; however, District personnel indicated that funding was not provided since the District allocates funding based on prior-year student enrollment, and the schools did not have prior-year data. Subsequent to our inquiry, the District allocated Title I program resources of $93,600 to the two new charter schools and implemented procedures to provide Title I program allocations to new and significantly expanded charter schools in the future.

Recommendation: The District should continue to its efforts to ensure that students at new charter schools receive Title I program services on an equitable basis with other students at District schools.

District Contact Person: Jeffrey Eakins, General Director of Federal Programs

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A. The response was accompanied by numerous attachments, which are referenced in the response as being available on the District's Web site. Due to the number and size of these attachments, they are not reproduced in this report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Listed below is the District's summary of the status of prior audit findings on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
KPMG, LLP 2010-01	Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, and 84.063) - Special Tests and Provisions	Refunds associated with student withdrawals were not always timely remitted to the United States Department of Education.	Corrected.	Procedures have been implemented to expedite refunds.

EXHIBIT A

MANAGEMENT'S RESPONSE

Hillsborough County
PUBLIC SCHOOLS
Excellence in Education

Superintendent of Schools
MaryEllen Elia

March 29, 2012

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

Dear Mr. Martin:

Attached are our responses to the preliminary and tentative audit findings and recommendations of the Financial, Federal and Operational Audit of the Hillsborough County District School Board for the fiscal year ended June 30, 2011.

We appreciate the input and opportunity to work with your audit staff over the last eleven months. The exchange of information, data, and knowledge regarding the recommendations for improvement and efficiencies of our operations was and will continue to be valuable.

Our written responses to the preliminary and tentative audit findings and recommendations are included here. The exhibits and backup documents, as noted, will be posted on the School District's web page to allow further transparency, availability and details for our community and other school districts review and utilization.

My staff and I appreciate your audit team's work and the suggestions given to improve the Hillsborough County School system.

Should you have any questions please contact Gretchen Saunders, Chief Business Officer, at 813-272-4383 or my office at 813-272-4047. Again, we thank you in advance for your consideration, flexibility and opportunity to respond to your draft report.

Sincerely,

MaryEllen Elia

MaryEllen Elia, Superintendent

Cc: The Hillsborough County School Board
Tom Gonzalez, School Board Attorney
Manuel Ippolito, Internal Auditing
Gretchen Saunders, Chief Business Officer

Raymond O. Shelton School Administrative Center • 901 East Kennedy Blvd. • Tampa, FL 33602 • Website: www.sdhc.k12.fl.us
School District Main Office: 813-272-4000 • P.O. Box 3408 • Tampa, FL 33601-3408

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 1: The District could enhance its monitoring of overtime payments.

HCPS Response:

District procedures provide for certain monitoring reviews in the area of overtime. For each pay period, a Lawson edit report is run on Monday and Tuesday of payroll week. This report details employees with more than 25 hours of overtime for a bi-weekly pay period. The Payroll Specialists are responsible for contacting the payroll clerk at the identified work location to verify the accuracy of the overtime. This verification is documented for each employee listed in the edit report.

Starting in April 2012 the Payroll team will produce a Lawson report by employee and work location for those instances where the overtime exceeds 150 hours for the quarter. Payroll personnel will submit this report to the work location administrator. The work location administrator will review the report for problems such as conflicting work schedules and/or overpayments.

A copy of this report, along with a related summary listing of locations with excess overtime, will be provided to the Deputy Superintendents for review, follow-up and accuracy.

Attachment A: XF232 PRT01 - This report details employees with more than 25 hours of overtime for a bi-weekly pay period;

Attachment B (School Board of Hillsborough County - Blue Collar Contract 2011-2014);

Attachment C ((School Board of Hillsborough County – ESP (Educational Support Personnel) Contract 2009-2012)).

Overtime must be authorized in advance by the appropriate supervisor and shall be limited to instances involving the safety of students, staff, and others.

Overtime for an individual employee shall be limited to a maximum of 20 hours per work week, unless authorized in advance by one of the Deputy Superintendents. The request must also include the period for which the overtime is being requested.

Attachment D provides a district overview for the percentage of employees paid $10,000 or more in overtime and the percentage of overtime vs. total salary paid.

Further clarification and attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 2: District records did not evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

HCPS Response:

HCPS performance assessments have been state approved. We have contacted the Florida Department of Education (FDOE), Kathy Hebda's Office, and are waiting for further clarification.

The intent of the November 15, 2010 letter from FDOE, in Attachment E, was the approval of our Merit Award Program (MAP) plan for the 2010-2011 school year (with payments to be made in 2011-2012). The plan submitted and approved included the 40% student performance component. Attachment E also includes Phase 2 of the Memorandum of Understanding for Florida's Race To The Top grant.

Additionally, included in the attachment are statements concerning a Local Education Agency (LEA) who had completed renegotiation of its collective bargaining agreement between July 1, 2009 and December 1, 2009, for the purpose of determining a weight for student growth as the primary component of its teacher and principal evaluations, is eligible for this grant as long as the student growth component is at least 40% and is greater than any other single component of the evaluation.

The next three pages of Attachment E highlight Hillsborough County Public Schools as a recent example where districts have the ability to implement difficult issues through negotiation and collective bargaining.

Attachment F highlights Florida Statute 1012.341 which contains a provision to allow our district to continue with the 40% student performance evaluation percentage going forward. It should be noted that the 40% student performance category represents the largest single piece of the evaluation for almost all instructional personnel this year. For example, teacher evaluation includes 30 points from the principal's written score, 30 points from a peer's written score and 40 points based on student performance. A principal's evaluation includes 40 points from student performance as well as six other categories none of which contribute more than 15 points toward the total.

Attachment G is an email from Kathy Hebda, Deputy Chancellor for Educator Quality, Florida Department of Education, confirming our evaluation requirements.

We will continue to work with FDOE for explanation of this item.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 3: The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

HCPS Response:

The Office of the Auditor General (AG) finds that the Board's instructional personnel and school-based administrators' salary schedules appropriately "evidenced consideration of school demographics . . ., free or reduced meals . . . and level of job performance difficulties . . .," but did not demonstrate "consideration of differentiated pay based on critical shortage areas." The AG refers to Section 1012.22(1)(c)(4), which requires the school board, when establishing a salary schedule, to consider certain enumerated factors, and such other factors as the school board deems relevant. Specifically, the AG concludes that the pay schedules do not reflect consideration of critical shortage areas.

There is neither legal requirement of, nor need for, such policies and procedures. The Board has no authority to promulgate such policies and procedures. The Board is required, by law, to consider certain factors when establishing salary schedules. The requirement is imposed by general statute, not by Board rule. The term "critical shortage area," the only factor addressed by the AG, is expressly defined by Florida law. Section 1012.07, Florida Statutes 2010, defines the term "critical shortage area" applies to mathematics, science, career education, and high priority location areas *identified by the State Board of Education*." (emphasis added). FDOE, not the school board, is required by law to adopt rules necessary to annually identify these areas. FDOE has done so and annually publishes a list of such areas. Section 1012.07 also provides that individual district school boards "*may* identify and submit other critical shortage areas." (emphasis added). But the law does not grant the school boards the power to define a critical shortage area or establish criteria different than that of law, and so the AG's recommendation to establish formal policies and procedures is not well taken.

Section 1012.07 defines "high priority location areas" (which as noted above are defined as critical shortage areas) to be "in high-density, low-economic urban schools and low-density, low-economic rural schools and shall include schools which meet criteria which include, but are not limited to, the percentage of free lunches, the percentage of students under Chapter I of the Education Consolidation and Improvement Act of 1981, and the faculty attrition rate. In other words, state law provides all of the criteria which may be used for the identification of critical shortage areas. The School Board is neither required, nor allowed, to establish them.

The AG's suggestion that the Board adopt "formal policies and procedures" that identify criteria including numbers of applications, turnover rates and other factors travels in areas that are within the province of the FDOE and not the School Board, advises the School Board to use factors that are similar but not identical to those committed to use by FDOE Fla. Admin. Code Rule 6A-20.0131 (the rule was recently amended) and counsels the School Board to usurp the role of FDOE which is alone given the authority to identify critical shortage areas.

Moreover, with regard to the proper definition of a high-priority location, as the term is expressly defined by Florida law, is based on factors such as density, economic and performance, the School Board's salary schedules *do* reflect differential treatment based on critical shortage areas. The School Board's Renaissance schools are in fact high-priority school locations which qualify as critical shortage areas. The schedules clearly reflect a pay differential for those schools.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Pay plans are a term and condition of employment and consequently, must be collectively bargained and cannot be established unilaterally by School Board action. However, the Board approves the settlement with the Classroom Teachers Association (CTA) annually, and approved the written contract which is currently in effect (July 1, 2010 - June 30, 2013). The date of this approval was August 31, 2010.

Attachment UU - Item number 21.4.7 specifically addresses a differentiated pay supplement as established by CTA and the Board. This was based on district determined factors utilizing critical shortage areas, school demographics, and level of job performance difficulties. The Board also established the differential for the administration at these same schools.

Attachment VV - The Salary Differential Program was presented and approved by the School Board March 8, 2005 and was approved in contract negotiations for the 2005-2006 school year.

Attachment WW – a sample to illustrate the "critical shortage" of instructors in Renaissance schools vs. Non-Renaissance schools. The Renaissance School program was created to address our critical shortage of teachers willing to teach at our highest needs schools.

In addition to the above attachments, we wanted to provide:

Attachment H – Overview of HCPS Differential Compensation Program

Attachments I - J are the approved School Board Agenda Items regarding the Salary Differential at our Renaissance Schools for teachers and teacher aides.

Attachment K – Teacher Performance Pay Handbook (For personnel evaluated using evaluation instruments prior to 2010-2011);

Attachment L – Teacher Performance Pay Handbook (For personnel evaluated using NEW instruments beginning 2010-2011);

Attachment M – 2010-2012 Merit Award Program Handbook (Teacher Performance Assessment Evaluation Information);

Attachment N – 2010-2011 Administrative Performance Pay Handbook

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 4: Improvements could be made in the administration of construction management contracts.

HCPS Response:

Selection of Armwood High School Phase 2 Renovation Project CME:

The audit states that "Contrary to Section 287.055(3), the District did not select a CME for the Armwood High School Phase 2 Renovation Project using the required competitive selection process."

The district's position is different from that of the Auditor General. The Auditor General's opinion relies on a determination that phase 2 of the renovation work at Armwood High School constituted a separate project as defined by Section 287.055(3), Florida Statutes. The school board attorney has opined that a project subject to the CCNA (Consultants Competitive Negotiation Act) as outlined in FS 287.055, includes amendments to the scope of that project and the CCNA specifically allows the Board to combine related activities into a project. Based on the added work being of a similar nature and at the same site as the then ongoing remodeling, District staff determined with Board approval (Attachment P) that the work constituted a modification to the existing project (Attachment Q - for which selection of the construction manager was accomplished pursuant to Section 287, Florida Statutes).

All phases of the work at Armwood High School were included in the District's Five Year Capital Outlay Work Plan. As funding for phase 2 was identified, the amendment to the agreement for the previously funded addition and remodeling work was completed. All statutory and Board requirements were followed to execute this work as an amendment to the existing project.

An independent performance audit conducted as a formative review by King & Walker, CPAs, PL included an examination of this issue and found no fault with the District's execution of the added work as a change to the existing project. (Attachment R), but we acknowledge that the Armwood project presented a unique situation. We have not similarly made a modification to an existing project even approaching the size of the original scope since the Armwood modification. In light of the Auditor General's concerns about the approach used to contract for the Armwood Phase 2 renovation, we would conduct a separate selection, pursuant to FS 287.055, should we face a similar set of circumstances.

Direct Salary Costs – General Conditions:

The District has made significant improvements in the management processes associated with general conditions expenses since the prior AG audit. These improvements include the collection of documentation for general conditions expenses, and the withholding of retainage from general conditions payments. The improved procedures have resulted in a credit to the District of general conditions allowances on several projects.

We note that your review uncovered no evidence of overpayment by the District. Additionally, while we acknowledge that the records maintained by the District do not include the specific documents cited, the available records also support the determination that no overpayment occurred.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Short of a complete audit of the construction manager's records (which contract documents make provisions for), the procedures currently employed are believed prudent and sufficient to adequately determine the appropriate total general conditions expenses due the construction manager. In reviewing the labor charges included in the general conditions categories, District staff relied mainly on the information from the construction manager's accounting system. However, District staff reviewed actual payroll documents of individuals assigned to the project to confirm that the accounting records accurately reflected actual payments made. We do not have records of that review process but the review established that the rates charged as indicated by the attachment reflect actual payments to individuals assigned to the project, and resulted in a labor burden less than the maximum. As a result of the review, District staff executed the change order reconciling these expenses. (Attachment S)

In addition to the documentation retained or reviewed by the District, each pay application submitted by the construction manager includes an affidavit attesting to the appropriateness of the charges for which payment is requested.

In summary:

- Available records indicate no overpayment occurred, and that payments were appropriate.
- The District employs sampling of summarized data provided by the construction manager in lieu of the time consuming collection and review of voluminous payroll and time records. (We acknowledge the need to obtain and retain records of these reviews.)
- The District also relies on affidavits submitted by the construction manager with each pay application, attesting to the appropriateness of the charges for which payment is requested.
- The District retains the right to audit the construction manager's records, should circumstances suggest an audit is warranted.

<u>Indirect Salary Costs – Labor Burden</u>

As noted previously, the District has made significant improvements in the management processes associated with general conditions expenses since the most recent AG audit. These improvements include consideration of the labor burden rate applicable to the direct labor expenses of the construction manager. As your review indicates, allowable burden rates have been identified for the two most recent projects of the three that were reviewed by the audit. District staff has included consideration of labor burden rates in all construction management agreements executed since review of a revised contract form by the Board in October 2009; the agreement for the Armwood project was executed in 2006.

We note that your review uncovered no evidence substantiating overpayment by the District. Based on the available records, no overpayment occurred.

We agree that continued scrutiny and documentation of the consideration and establishment of labor burden rates is always best practice. Currently, the reasonableness of the burden rate established in the contracts is evaluated at the time the contract is drafted, using the range of burden rates established for other contracts as a benchmark. Burden rates that seem unusually high relative to other firms receive additional scrutiny. The actual amounts charged for burden are again reviewed during the reconciliation of general conditions expenses at the conclusion of the project. We agree with the need

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

to review the elements comprising the burden rate at the time the contract is established in every case (and to document that review), regardless of the apparent reasonableness of the proposed aggregate rate.

While we acknowledge the continuing appropriateness of scrutiny and documentation of labor burden rates, our opinion differs with several points in your review. First, the rates identified in the contract are established as maximum labor burden rates and not the rates actually paid. The amounts charged for labor burden are still required by the contract to only include allowable, actual costs, up to the maximum. In fact, for the one project for which final data was reviewed, the actual rates paid varied and were in every case less than the maximum specified in the agreement. (The fact that burden rates weren't considered in 2006 when the Armwood agreement was executed doesn't preclude a review of the burden during the yet to be concluded reconciliation of the Armwood general conditions expenses to establish that the items included are allowable expenses.)

Second, while the industry averages published by the Bureau of Labor Statistics provide interesting information, they do not provide evidence that any amounts paid for labor burden for the specific projects under review aren't appropriate, and we believe it is a misrepresentation to suggest or conclude that the District overpaid by any specified amount because the maximum rate established in the agreement (and not the rate actually paid) exceeded an industry average. We would also note that industry averages are not representative of the employee classification used to establish the maximum rate. In the construction industry (and, we suspect most industries), management and supervisory personnel typically receive more valuable compensation and benefit plans. While the industry averages incorporate labor burden components for both tradesworkers and management, the maximum rate established in the contract must be sufficient for the employee assigned to the project with the highest burden rate for allowable components.

Finally, because of the approach to establishing, paying and reconciling general conditions payments, the use of a higher than appropriate burden rate would only result in overpayment if the total amount of general conditions expenses including the appropriate burden is less than the general conditions amount established in the guaranteed maximum price. The Plant project illustrates this. In this case, the actual general conditions expenses using the burden rates applied by the construction manager exceeded the general conditions allowance. However, the District only paid the general conditions allowance. So, even if the burden rate applied by the construction manager was higher than it should have been, no overpayment would result unless the appropriate burden rate was sufficiently below that charged such that the total general conditions expenses should have been less than the allowance. In short, since the construction manager's general conditions expenses exceeded the general conditions allowance on the Plant project, the amount cited as a potential overpayment wouldn't be correct even if the construction manager charged the maximum rate in the contract when he should have charged the industry average.

In summary, District staff agrees and complies with the recommendation that labor burden ought to be scrutinized to ensure that the District does not pay more than it should. We believe the District's practices provide for that scrutiny and staff will continue to apply them with an ongoing commitment to attention to detail by conducting a thorough review of proposed labor burden items at the time the contract is executed (in addition to the review presently conducted at the end of the project), and to fully document that review. Our opinion differs with that of the Auditor General with regard to the statement that the District may have overpaid by the amounts indicated in the report because:

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

- The maximum rate established in the agreement isn't the actual rate charged.
- We feel it is inappropriate to compare an industry average to a maximum rate designed to satisfy requirements for more senior management and supervisory employees that command more lucrative benefits.
- The calculated potential overpayments do not take into consideration the fact that general conditions payments are capped. This fact alone would alter the analysis for the Plant project, and would likewise impact the analysis for any project where total general conditions expenses exceeded the allowance.

The District will work closely with the Florida Department of Education to resolve these issues.

Further clarification and referenced attachments can be found on the District's
website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 5: Controls over facilities construction and maintenance activities could be enhanced.

HCPS Response:

In response to the recommendation that additional processes be developed to evaluate alternative construction methods and that additional goals and objectives should be developed to identify efficiency or cost effectiveness outcomes, consider the following:

- The District conducts both annual and project-specific evaluations of construction projects and maintenance practices, through three primary mechanisms:
- HCPS Strategic Plan; (Attachment U)
- Council of Great City School's annual review of Key Performance Indicators (KPIs); (Attachment V)
- Florida Department of Education's "Comparison of New Facility Costs to the Allowable Student Station Costs." (Attachment W)

The following outlines key indicators that are used to directly assess efficiency and cost-effectiveness:

MEASURE	SOURCE
Construction cost per student station	DOE; District Strategic Plan (see note)
Construction cost per square foot	DOE
% contract amount competitively acquired	District Strategic Plan
% change orders	District Strategic Plan
% projects completed as scheduled	District Strategic Plan
Custodial workload (square foot per custodian)	CGCS KPI
Custodial cost per square foot	CGCS KPI
Maintenance cost per square foot	CGCS KPI; DOE
Work order completion time	CGCS KPI
Utility usage per square foot	CGCS KPI; DOE

Note: Each new construction project is evaluated against allowable student station costs at the completion of each project. Review of performance against state averages occurs as FDOE publishes the annual reports. This measure was also included in previous versions of the District Strategic Plan, but was not in the most recent version because the District did not have any new schools under construction.

We believe that the use of the objective cost and schedule measures identified above, in conjunction with the various measures of customer satisfaction included in our Strategic Plan, provide a comprehensive view of the effectiveness of the Department's programs.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The District's performance against the measures cited above and particularly the District's low student station construction costs that are typically 70% to 90% of the state allowable and establish the District as a leader in the state, provide strong proof that the approaches employed are highly successful. All of these factors and the previously noted independent performance audit (Attachment Z) attest to a fair and cost-effective construction program implementation by the District, resulting from existing policies established by the Board.

The Board has established policies authorizing a variety of construction contracting methods, while delegating responsibility for the procurement of construction services to the Superintendent. Those policies include procedures for selection of design professionals, managers and contractors. The Board appropriately focuses on the success and effective management of the program, as demonstrated by the District's superior cost track record, satisfactory audits and positive customer satisfaction ratings. However, Board approval of construction contracts and professional services agreements includes an acknowledgement of the procurement method applicable to the individual approvals. And, although there isn't a Board policy regarding the selection of an appropriate procurement method, the typical approaches employed by District staff have recently been communicated via both Board workshops and reports from the Superintendent, and are available on the Facilities Division website.

Attachment X – Construction, Renovation & Repair Contracts Flow Chart

Attachment Y – Construction Project Execution

With limited requirements for new facilities, the Department's current efforts are almost exclusively focused on maintenance and renovation. As individual school renovation requirements are extremely variable, benchmarking renovation costs on an individual project basis is not possible. Our approach to cost control on renovations relies heavily on competition to insure that the work being accomplished is acquired for the lowest possible cost. With regards to project completion times, our approach is to complete the maximum amount of work during summer periods when schools are vacant. This avoids disruptions to students and staff, and in the case of major renovations eliminates or significantly reduces costs of temporary portable classrooms. (This highlights a significant, recent improvement in our project management approach that resulted from our periodic assessment of program effectiveness. Recent renovations have been accomplished with either limited or no portable classrooms, through either significantly reduced construction periods or by restricting construction activities to summer months. To insure that the cost trade-offs were fully considered, the District included the requirements for portable classrooms within the renovation project scope, forcing an evaluation by the project team of various schedule and temporary classroom combinations. The result is a significant reduction in portable classroom expenses associated with renovations, with minimal impact on general conditions or other expenses.)

The typical construction methods currently employed by the District were selected after careful consideration by the District's construction professionals of the pro's and con's of each approach, and their applicability to the various project requirements. As noted previously, the District's overall focus is the use of competition (either via direct bid or through contractual requirements placed on construction managers) to insure low cost, while delivering a quality project. Since projects tend to be similar in nature, selection of an approach for an individual project should be routine, and in most cases it should be readily apparent as to the basis for the approach selected.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

However, to comply with the recommendation, we will develop a method of documenting the decision for determining the project approach that is consistent with our published guidelines (Attachment Y), for major projects over $300,000.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 6: The District could improve procedures to ensure compliance with certain facility safety standards.

HCPS Response:

The District is in the final stages of establishing the interface between the Safety Database and the WebTMA Work Order system. All open maintenance items contained in the Safety Database will be imported into the WebTMA database on a daily basis. This will be accomplished using a web service. TMA will use this information to create Work Orders, schedule the work, capture actual cost, and capture correction date information for each deficiency item. The web service will update the Safety Database from WebTMA on completed maintenance items with WO Number, completion date and cost information. Solid Rock Software (Safety Database) and TMA Systems (WebTMA) is currently working on this process and we expect a completion date by July 1, 2012. Once this system is in place and operational, reports can be generated for any time period requested.

The five categories P1 through P5 are being used by some schools/sites when inspecting their facilities to identify safety issues. These codes are used so that the schools/sites are aware of the expected time frame for repair and when another work order should be issued for an item identified on the monthly self- inspection form. Many schools still use some form of this code, however, others have developed their own report. These codes also provide guidance so that the repairing units have an expected time frame for repair. Each school has a designated safety coordinator (onsite) who conducts monthly safety inspections and submits issues/concerns to the appropriate department for correction.

Attachment XX and XXa- reports from Mitchell Elementary and Rampello K-8 School. District Safety Specialists utilize letter codes in conjunction with current software. Priority Code A is considered a high priority and the affected area would be removed from service with a Safety Specialist remaining at the site until a correction is made. Priority codes B thru G are identifiers for types of hazards and are considered routine hazards. The District Safety Handbook referred to in this audit (School Board approved in 2006) under 5.5 – Completing Correction Action (#3) states *each violation shall be listed on the inspection report as O, M, or C, which indicates the type of violations Operational, Maintenance, or Capital Outlay, and shall be corrected by the manager/principal or site administrator having administrative control of function. Where the violations are shown as "M: indicating a maintenance type violation, the manager of the appropriate repair unit shall complete the repair/corrective action. The Principal or Site Administrator of the inspected site will normally correct the "O" type violation. The "C" type violations will be corrected by actions implemented by General Manager of new construction.* The "O", "M" and "C" codes in the report serve to identify who or which Division is responsible to complete the repair. Currently, all inspection reports are sent in a PDF file format that requires the data to be downloaded to a spreadsheet and then entered into the automated work order system manually. Current development of an interface program will automatically generate a work order when the safety deficiency is noted. This interface is expected to be completed and implemented by July 1, 2012.

Attachment YY - Safety Inspections Annual Report submitted to the School Board. Reports are sent to the various units when they are completed (about 15 per week), and sent to the local fire department at the same time. In addition, a second inspection is conducted by District Safety Specialist to validate that corrective action has been taken. As a result, two complete inspections are conducted for each school/site, one between the start of school and winter break and the second between January 1 and April 30 each year and each report is reviewed by the local fire department. (Attachment ZZ)

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The other deficiencies noted occur routinely because of the amount of time between inspections. For example, when a burnt out exit light is noted during an inspection as a deficiency, it is repaired – then by the next annual inspection if it has burnt out again, it generates a repeat violation. With the proposed interface of the Inspection Program and Maintenance Work Order Program this should not happen because the correction would be noted with a traceable work order number and the inspector would then be able to verify the deficiency as a new violation and not a repeat. In April of 2009, the District made a commitment to purchase WebTMA, a CMMS (Computerized Maintenance Management System). The implementation and training followed with the District going live on October 1, 2010. WebTMA has the capability to provide facility, equipment, inventory, asset and entity repair cost and history. The district schools and facilities submit requests directly into WebTMA which are converted to Work Orders for assignment to appropriate technicians for action.

In August of 2011, we started the process of exploring an interface between WebTMA and the database used for the reporting of safety deficiencies. Our existing process was labor intensive and the information collected about the correction of deficiencies could be incomplete.

Currently, the District Safety Office (DSO) conducts safety inspections beginning around the first day of school. The maintenance type deficiencies are assigned to the appropriate shop for correction. Approximately 65 percent of the deficiencies reported are items that are corrected by Maintenance. The other deficiencies are reported to the schools for correction by the school principal or to the Construction Department as a capital outlay request for immediate action or for inclusion in an upcoming project.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 7: The Board had not adopted a policy for monitoring the workers' compensation self-insurance program accumulated net assets.

HCPS Response:

In FY 2010-2011 Hillsborough County Public Schools met the informal target for a ten year Workers' Compensation Self Insurance Fund (Fund 711). We will continue to provide monthly financials to the board regarding the Self Insurance fund.

HCPS is self-insured and assumes risk of loss for the workers' compensation self-insurance fund. During fiscal years 1996 through 2003 claims were made in excess of the self-insured amounts. Currently, there are ongoing pending workers' compensation claims involving HCPS which have arisen out of the ordinary conduct of business.

For the Fiscal Year Ended June 30, 1998 the State of Florida Auditor General filed Report No. 13376. (Attachment AA). The recommendation to our school district in that audit year was to consider available options for funding the deficit in future years.

For the Fiscal Year Ended June 30, 1999 the State of Florida Auditor General filed Report No. 13590. (Attachment BB) The recommendation to our school district in that audit year was to consider available options for funding the deficit in future years. The development of a plan for funding the deficit over a period of years would provide additional assurance that the District is able to meet the fiscal demands of the plan and reduce the impact on the District's operations in any one fiscal year in the event of significantly higher claims experience.

Attachment CC - the Best Financial Management Practices Review completed by Gibson Consulting Group and reported by the Office of Program Policy Analysis and Government Accountability (OPPAGA). Workers' Compensation Self-Insured Fund reports the wide variance over the last four years between the amount of premiums contributed and the claims paid. The claims paid may be somewhat skewed by the district settling older claims in a given year.
In 1998, the district put in place a ten-year plan to eliminate the deficit in the workers' compensation fund.

The plan included the following assumptions:

- 5% annual increase in the contribution rate;
- 4% annual increase in claims paid;
- 10% annual increase in limited duty personnel;
- 2% annual increase in miscellaneous expenses; and
- 5 % annual increase in reserve

When determining the annual funding level, the district must consider the impact on the ten-year plan. Historically, workers' compensation claims increase during times of economic recession. The district has only funded approximately one and one-half years of claims. By ignoring the potential liability, the district is putting itself at risk for a financial crisis.

Attachment DD - Page 54 of the Comprehensive Annual Financial Report (CAFR) states "The District management has embarked on a long range plan to fund the self-insurance programs at a pace

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

necessary to provide for current claims and begin to accumulate funds adequate to reduce the deficit retained earnings."

Attachment EE - By establishing the Excess Workers' Compensation fund it has provided great savings to the HCPS. By tracking the ongoing claims expense and managing the fund, the district will be saving a significant amount of dollars. Currently, the majority of Florida school districts purchase excess workers' compensation insurance.

Over a nine year period HCPS purchased the excess workers' compensation insurance at a cost to the district of $5,516,642. We will be saving $613,000 annually by not having to purchase the excess insurance. The ten year plan will have afforded us the opportunity to be ready for any catastrophic claim and will not affect or cost any additional dollars from the general fund.

Attachment FF - AON Actuarial Study of the Self-Insured Workers' Compensation, Automobile Liability and General Liability Programs as of June 30, 2011.

The Business Division presents monthly reports to the School Board with information regarding Monthly Financial by Fund and Monthly Budget Amendments.

The long term maintenance of the self insurance fund will include the following strategy:

1) Zero contributions will set aside from February 1, 2012 - June 30, 2012 for any workers' compensation benefit contribution.

2) The dollars currently being held in Fund 711 for the month of January 2012 will be transferred back to each respective fund and project pending communication from the Florida Department of Education.

3) In July 2012 Fund 711 (Workers' Compensation Self Insurance Fund) will be reviewed every other month to monitor claim usage and expense variations.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 8: District procedures could be enhanced to ensure that the minutes of Board meetings are promptly approved.

HCPS Response:

The District currently is in compliance with controlling law. Previous delays were caused by the Board's desires for detailed minutes which included discussions of agenda items. The Board has now directed that minutes will contain only those elements required by law, thereby allowing timely preparation of minutes. At all times, before and after adoption of the new form of minutes, all Board meetings were recorded on compact discs which were available for inspection within 48 (forty-eight) hours of the meetings. Additionally, the agenda of Board meetings, which are posted on the District Web Site seven days before each meeting and include the supporting documentation, considered by the Board, are notated and available for inspection on the day following the meeting to show actions taken on each agenda item.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 9: Controls over journal entries needed improvement.

HCPS Response:

In addition to bank reconciliations, other compensating controls are performed to decrease the risk of errors, fraud or unauthorized ledger adjustments.

We are currently working with the Business Division System Procedure Analyst to prepare a detailed report covering posted journal entries completed during July 1, 2011 through March 31, 2012. Supervisory staff will review, approve and electronically image these reports. Starting April 30, 2012 this detailed report will be produced monthly and follow the same process as above.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 10: Some computer operators and a computer operations supervisor had excessive information technology (IT) access privileges within the District's enterprise application system.

HCPS Response:

As written in the Preliminary and Tentative Audit Findings a similar item was noted in report No. 2008-183. We acknowledge the auditor's position related to the best business practice regarding separation of duties; however the Lawson ERP system requires all related jobs be run from the same user sign-on. As noted, this practice has not resulted in any errors or fraud; nevertheless we will review and look for ways to limit operator access privileges as recommended.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 11: The District's IT security controls related to user authentication, data loss prevention, and monitoring of changes to critical data needed improvement.

HCPS Response:

Based on the 2010-2011 fiscal year audit recommendation we are increasing the password length and password expiration frequency as well as addressing the other recommended improvements.

We request the Florida Department of Education provide all school districts an annual Technical Assistance Note (TAN) addressing the required changes to IT security control recommendations.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 12: The District had not developed a written, comprehensive IT risk assessment.

HCPS Response:

Based on a similar finding and recommendation in report No. 2008-183 the district hired an outside company to complete an IT assessment related to operations. The assessment included backup and restore of district data for testing and verifying the continuity of our Lawson ERP system.

In order to meet the current recommendation by the Auditor General HCPS will use the State of Florida Agency for Enterprise Information Technology (AEIT), 2011 Florida Risk Assessment Baseline as a guide for developing a written IT risk assessment.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 13: The District did not have a written IT security incident plan.

HCPS Response:

We acknowledge the recommendation and will formalize our incident response process in writing.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 14: The District had not implemented a comprehensive IT security awareness training program.

HCPS Response:

We acknowledge the recommendation and will incorporate a comprehensive IT security awareness training program to provide all employees' ongoing education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Additional Matters

Finding No. 15: The District's IT program change control procedures needed improvement.

HCPS Response:

In addition to our existing best practice procedures of holding weekly meetings between functional data owners and IT staff and utilizing the software provider manual for application maintenance we will formalize the process of implementing Lawson ERP application software changes in writing.

We agree that best business practice includes having a quality assurance section to review software changes prior to user testing. We will continue to track the limited number of errors.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Findings:

Federal Awards Finding No. 1: The District transferred funds totaling $12.57 million from the workers' compensation internal service fund to the General Fund and General Liability internal service fund, and no determination was made of the portion that should be credited to Federal programs.

HCPS Response:

The amount transferred covered two items:

1) The amount transferred into the general fund from the internal service fund will be used to cover the salary and benefit expenses associated with our Risk Management department starting in Fiscal Year 2011-2012. The Risk Management department works with all school district employees regardless of payroll funding source (i.e. federal grants, student nutrition services and general fund).

2) The amount of $2,570,000 was transferred into the general liability account. The expenses for this fund are generated throughout the district regardless of funding source.

With this one time transfer it was not deemed appropriate to credit any dollars from the internal service fund to the federal grants or SNS program as the expenses are not being charged into those areas for the use of these district services.

The Business Division presents monthly reports to the School Board with information regarding Monthly Financials by Fund (Attachment GG) and Monthly Budget Amendments. (Attachment HH)

Per the Auditor General recommendation in the preliminary and tentative audit finding report, we contacted the Florida Department of Education. A conference call was held on Monday, March 19, 2012 at 9:30 am with Martha Asbury, Florida Department of Education, Assistant Deputy Commissioner for Finance and Operations, to discuss and review this auditor concern. We are waiting for further information.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Findings:

Federal Awards Finding No. 2: The District paid $98,076 in excess of the contract amount for supplementary instruction services provided to private school students.

HCPS Response:

As part of the Title I Program, school districts are permitted to take dollars off of the top of the Title I grant for providing additional services to Title I Public Schools. In some cases, it is required to set aside an equitable share of dollars for Private Schools.

HCPS has historically provided salary supplements and/or differentials for teachers at high need public schools to enhance recruitment and retention.

The FDOE and the US Department of Education conducted a monitoring visit in the fall of 2009.

During the monitoring visit the contracts and subsequent invoices submitted by Catapult were reviewed, tested and approved. We concluded everything about our processes and actions were approved. Included in the invoices Catapult identified the Salary Differential Supplement separately as they were going to pay the supplement up front and be reimbursed the following month. This provided HCPS the time needed to review the payroll records and verify fiscal compliance. State officials and federal monitors reviewed the invoices thoroughly. HCPS received zero findings in the area of Private Schools or Contract Management as a result of this monitoring visit.

When the AG brought this to our attention we immediately stopped the salary supplements. We will review our practices and payments going forward for award compliance.

Attachment II – Background Information

Attachment JJ – Walt Barlett Memo

Attachment KK – USDOE Monitoring Protocols

Attachment LL – Documents Monitored by USDOE

Attachment MM – Findings from the Federal Monitoring in 2009 for Duval County Public Schools and their private school services.

Attachment NN – Catapult Learning Invoice for April 2011 and backup documents.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Findings:

Federal Awards Finding No. 3: The District did not allocate a total of $93,600 of Title I funds to two new charter schools, contrary to Federal regulations.

HCPS Response:

As required by the FDOE and federal law, school districts must select a date certain for determining what schools will be eligible to receive Title I funds for the following year. The date certain for HCPS is the 100th day of the school year (late January/early February).

For public schools that are new, the school goes through a one-year qualification/planning period as allowed by federal law in order to qualify for Title I funds in year two of the school opening. This has been a best business practice we have used to qualify our own public schools in Hillsborough County. The only exception would be for a new school that is opening and we have evidence that all feeder pattern schools are high poverty, therefore the new school would be high poverty and be eligible for Title I funding. In this instance the state does allow districts to project enrollment calculations and then update in the fall for accuracy.

In July 2011, the FDOE's Charter Office notified HCPS Charter personnel that there were new Charter Schools throughout the state of Florida that should have been served in FY 2010-2011 with Title I funds in their first year. There is federal law that was established requiring districts to expend their Title I funds to new Charter Schools and the one year planning period waived.

Immediately the HCPS Title I office reviewed the eligibility list from the prior year and identified two schools that should have received funding in FY 2010-2011. The two schools were Seminole Heights Charter and New Springs Middle. HCPS did not receive any notification or documentation from FDOE regarding which schools were deemed eligible.

Going forward we will provide new approved charter schools the appropriate dollars as stated in the Federal Guidelines.

We will continue to work with the FDOE to review this information.

Attachment OO - The HCPS Title I office then scheduled meetings with the two charter school principals in early August 2011.

Attachment PP – Due to the state wide confusion regarding this item the FDOE Federal Programs staff conducted a training session in early September 2011 with Title I Directors. This training provided information on how to reimburse new Charter Schools and the process for doing so. This was the first formal presentation from the FDOE Federal Programs Bureau that the School District Title I Directors had received regarding this issue.

Attachment QQ - The HCPS Title I office then began the process of determining how to reimburse the Charter School expenses from the prior fiscal year with its current year funds. Our Title I office contacted the FDOE with follow-up questions. In the email communications between HCPS and FDOE, the FDOE indicated they did not formally notify HCPS of any non-compliance with allocating

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

funds to new Charter Schools, because they were aware that HCPS were already proactively taking care of the situation.

Attachment RR – Memo's between the Title I Office and Budget Office.

Attachment SS – Email correspondence with our Title I Office and the Office of the Auditor General answering questions.

Attachment TT – Timeline of events surrounding the charter schools' reimbursement.

Further clarification and referenced attachments can be found on the District's website: www.sdhc.k12.fl.us Divisions/Business/Accounting