

POLK COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Polk County District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
Frank J. O'Reilly, Chair from 11-18-2008	1
Lori Cunningham, Chair to 11-17-2008	2
Hazel Sellers, Vice Chair to 11-17-2008	3
Dr. Brenda Reddout to 11-17-2008	4
Dick Mullenax from 11-18-2008	4
Kay Fields	5
Margaret A. Lofton	6
Tim Harris, Vice Chair from 11-18-2008	7

Dr. Gail F. McKinzie, 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 Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Rebecca F. Ferrell, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards, with the exception of restricted asset balances of the Polk Education Foundation and Business Partnership, Inc., which comprise a significant portion of the aggregate discretely presented component units.

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness, as summarized below.

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.

MATERIAL WEAKNESS

Finding No. 1: The District needed to improve its financial reporting process to ensure the accuracy and completeness of its financial statements and the timely submission of the annual financial report to Florida Department of Education.

ADDITIONAL MATTERS

Finding No. 2: The District had not developed comprehensive procedures manuals pertaining to the District's financial operations and related activities.

Finding No. 3: Improvements are needed to ensure the District's monthly cash and investment reconciliations are completed, reviewed, and approved timely.

Finding No. 4: Improvements are needed to ensure that monthly financial reports are properly prepared and presented to the Board in a timely manner.

Finding No. 5: Improvements are needed in establishing controls over interfund loans to ensure that temporary transfers between funds are properly repaid prior to 13 months, as required.

Finding No. 6: Controls over capital outlay millage levy proceeds could be enhanced.

Finding No. 7: Procedures needed to be enhanced to ensure that the estimated arbitrage rebate liability is properly calculated and reported.

Finding No. 8: Improvements are needed to ensure that conflicting employment or contractual relationships of Board members are prohibited.

Finding No. 9: Improvements are needed to enhance the reporting on investments to comply with Board policy.

Finding No. 10: District records did not evidence that the District reviewed and evaluated the reasons for collection of SSNs or provided written statements notifying individuals of the purpose for collection.

Finding No. 11: Improvements are needed in the District's controls over issuing student diplomas.

Finding No. 12: The District's review of access privileges within the finance and human resource applications needed improvement. Additionally, inappropriate or unnecessary access privileges existed within the applications.

Finding No. 13: The District had not implemented a formal ongoing security awareness training program.

Finding No. 14: The District's security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: Improvements are needed to comply with program income requirements and demonstrate that the income from an exclusive beverage contract is properly calculated and allocated to the food service program.

Federal Awards Finding No. 2: The District had not established procedures to perform an annual self-assessment required by the Head Start Program.

Audit Objectives and Scope

Our audit objectives were to determine whether the Polk 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 audits.

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, 2009. 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 in 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*.



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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 Polk County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 7 percent of the assets and 12 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 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Polk Education Foundation and Business Partnership, Inc. (Foundation), reported as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

Audits of the Foundation are performed by other auditors pursuant to Section 1001.453(4), Florida Statutes. The auditors of the Foundation indicated that it was not practical to determine the effects of misclassifications of restricted assets and issued a qualified opinion on the Foundation's financial statements. The financial activities of the

Foundation are included in the District's government-wide financial statements as part of the aggregate discretely presented component units and represent 13, 19, and 3 percent of the assets, net assets, and revenues, respectively.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to properly account for restricted assets of the Foundation, the aggregate discretely presented component units reported in the District's financial statements referred to above, present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the District as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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, each major fund, and the aggregate remaining fund information for the Polk County District School Board as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Polk County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 11) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 56 and 57) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
March 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Polk County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2009. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 12 through 55.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$884.4 million (net assets). Of this amount, \$23.1 million (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- In total, net assets increased \$25.4 million, which represents a 3 percent increase from the 2007-08 fiscal year. This increase is primarily attributable to an increase in capital assets related to new buildings.
- General revenues total \$791 million, or 89 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$94.7 million, or 11 percent.
- Expenses total \$860.4 million. Only \$94.7 million of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$25.4 million.
- The District's governmental funds reported combined ending fund balances of \$327.9 million, which represents a decrease of \$67.6 million in comparison to the prior year. Approximately 85 percent of the total ending fund balances are unreserved.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$46.1 million at June 30, 2009, or 6.8 percent of total General Fund expenditures.
- The District's total capital assets, net of accumulated depreciation, increased by \$80.1 million (8.3 percent). The increase was mainly due to the completion of new school buildings, and remodeling and renovations projects.
- The District's total long-term debt decreased by \$26.2 million (5.4 percent) during the current fiscal year. The key factor in this decrease was principal repayments on bonds and certificates of participation.

OVERVIEW OF FINANCIAL STATEMENTS

The management's 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.
- Notes to financial statements.

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents 15 separate legal entities in this report, including 14 charter schools and the Polk Education Foundation and Business Partnership, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the District.

The Financing Corporation for the School Board of Polk County, Florida (Financing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Financing Corporation, the Financing Corporation has been included as an integral part of the District.

Fund Financial Statements

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

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

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

governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Capital Projects - Local Capital Improvement Fund, and the Capital Projects - Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains one proprietary fund type, which is an internal service fund. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for its self-insurance services. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements combine each self-insurance fund into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the notes to the financial statements.

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

The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

Net Assets, End of Year

	Governmental Activities	
	June 30, 2009	June 30, 2008
Current and Other Assets	\$ 502,078,742	\$ 588,736,001
Capital Assets	1,042,936,020	962,788,140
Total Assets	1,545,014,762	1,551,524,141
Long-Term Liabilities	549,952,450	570,995,721
Other Liabilities	110,705,125	121,530,506
Total Liabilities	660,657,575	692,526,227
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	589,452,399	484,018,751
Restricted	271,820,004	342,777,313
Unrestricted	23,084,784	32,201,850
Total Net Assets	\$ 884,357,187	\$ 858,997,914

At June 30, 2009, the District reported positive unrestricted net assets. The same situation held true for the prior fiscal year. Compared to the prior fiscal year ending balances, invested in capital assets, net of related debt, increased by \$105.4 million (21.8 percent), restricted net assets decreased by \$71 million (20.7 percent), and unrestricted net assets decreased by \$9.1 million (28.3 percent). These changes primarily related to the funding of facilities acquisition and construction.

The largest portion of the District's net assets (66.7 percent) reflects its \$589.5 million investment in capital assets (e.g., land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets, \$271.8 million, or 30.7 percent, represents resources that are subject to external restrictions on how they may be used, and are primarily for the acquisition and construction of facilities. The unrestricted net assets, \$23.1 million (2.6 percent), may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

Operating Results for the Year

	Governmental Activities	
	June 30, 2009	June 30, 2008
Program Revenues:		
Charges for Services	\$ 12,346,613	\$ 12,319,317
Operating Grants and Contributions	53,177,516	52,532,973
Capital Grants and Contributions	29,196,129	36,579,112
General Revenues:		
Property Taxes, Levied for Operational Purposes	210,237,823	189,956,285
Property Taxes, Levied for Capital Projects	62,631,143	68,865,956
Local Sales Taxes	31,070,595	33,370,180
Grants and Contributions Not Restricted to Specific Programs	476,203,838	608,244,845
Unrestricted Investment Earnings	2,590,487	13,922,261
Impact Fees		10,307,683
Miscellaneous	8,304,879	6,862,740
Total Revenues	885,759,023	1,032,961,352
Functions/Program Expenses:		
Instruction	517,547,585	526,183,261
Pupil Personnel Services	32,552,849	31,538,032
Instructional Media Services	11,841,774	12,574,690
Instruction and Curriculum Development Services	13,170,947	14,514,101
Instructional Staff Training Services	13,448,201	14,322,098
Instruction Related Technology	4,268,034	4,050,843
Board of Education	2,564,439	2,167,983
General Administration	6,349,902	5,070,783
School Administration	42,743,472	43,572,923
Facilities Acquisition and Construction	4,413,269	9,402,594
Fiscal Services	2,774,515	2,976,698
Food Services	43,817,782	41,184,268
Central Services	19,279,713	18,681,825
Pupil Transportation Services	34,329,230	34,029,580
Operation of Plant	50,245,819	51,857,257
Maintenance of Plant	25,515,769	27,949,185
Administrative Technology Services	5,281,618	5,072,219
Community Services	1,510,732	960,543
Interest on Long-Term Debt	27,460,944	20,128,568
Unallocated Depreciation Expense	432,527	329,404
Loss on Disposal of Capital Assets	850,629	
Total Functions/Program Expenses	860,399,750	866,566,855
Increase in Net Assets	\$ 25,359,273	\$ 166,394,497

Operational property taxes, which were included in general revenues, increased by \$20.3 million (10.7 percent) during the year, while property taxes for capital improvements, which were also included in general revenues, decreased by \$6.2 million (9.1 percent) during the year. These changes were generally the result of shifting 0.25 mills of the local capital outlay levy from capital to operating purposes.

General revenues through nonspecific program grants, including the Florida Education Finance Program, decreased by \$132 million (21.7 percent) during the year. The decrease was generally attributable to the economic downturn and resulting reductions in State funding of the Florida Education Finance Program and capital outlay programs.

Program revenues through operating and capital grants decreased by \$6.7 million (7.6 percent), which reflected decreases to facilities acquisition and construction funding and transportation funding from the State, and a small increase in State food service funding.

The District reduced expenses by \$6.2 million due to the expected shortfall in revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$46.1 million (74.2 percent), while the total fund balance is \$62.1 million. The unreserved fund balance increased by \$4.5 million (10.7 percent) while the total fund balance increased by \$4.3 million (7.5 percent) during the fiscal year. Key factors in this growth are as follows:

- Local source revenues of the General Fund increased by \$19.5 million (9.6 percent) as a result of an increase in collections of property taxes for operational purposes. However, this increase was more than offset by a \$48 million (10.1 percent) reduction in State revenues due to decreased funding through the Florida Education Finance Program and other State programs.
- In anticipation of reduced State funding, expenditures in the General Fund decreased by \$34.5 million (4.8 percent). While expenditures exceeded revenues by \$28.2 million, this was more than offset by \$41 million of other financing sources; primarily due to transfers in from the capital projects funds for maintenance-related expenditures, and proceeds received from refinancing energy-related loans.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$47.7 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$4.4 million (8.4 percent) in the current year due to increased certificates of participation obligations associated with swap agreements. It should be noted that \$4.8 million of total fund balance has been encumbered for specific projects.

The Capital Projects – Other Capital Projects Fund has a total fund balance of \$190.6 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased in the current year by \$68.5 million (26.4 percent) due to the completion of a new school; various school additions, including several freshman academies; and two fuel facilities. Of the total fund balance, \$21.5 million has been encumbered for specific projects.

Proprietary Funds

Unrestricted net assets of the self-insurance funds at the end of the year are \$27.5 million, which represents a decrease of \$8.3 million (23.2 percent) from the prior year's balance of \$35.8 million. This decrease was primarily attributable to increased claims expense in the group health insurance plan, even though the District increased Board contributions on behalf of employees. Significant plan changes were initiated to enhance the financial condition of the self-insurance funds for the 2009-10 plan year and beyond. The District's workers' compensation plan experienced an increase in net assets of almost \$4.9 million (61.7 percent). The increase, however, was \$2.1 million (30 percent) less than the prior year due to a significant reduction in investment earnings and an increase in claims expense. Decreases in net assets were experienced by each of the other self-insurance funds; however, none of the decreases brought reserves below acceptable levels.

GENERAL FUND BUDGETARY HIGHLIGHTS

Significant differences between the General Fund original budget and the final amended budget included:

- \$16.8 million reduction (3.8 percent) in State revenue projections due to shortfalls at the State level, as well as less growth in student enrollment than anticipated.
- \$10.3 million increase (1.4 percent) in expenditure allocations, primarily due to carryovers, which are unspent funds from the prior year that are required to be spent pursuant to law or Board policy.

The final budget projected a net decrease in fund balance of \$32.9 million. However, due to the following actual results, actual fund balance was increased by \$4.3 million to \$62.1 million, which represents a 7.5 percent increase over the 2007-08 fiscal year:

- Revenues exceeded budgetary estimates by \$1.9 million, which was primarily due to higher than expected local source revenues offsetting State revenue shortfalls.
- Expenditures were \$46.1 million less than budgetary estimates, which was primarily due to staffing reductions and because the District limited other spending during the last few months of the fiscal year to preserve fund balance, given anticipated reduced State funding. Subsequently, the State notified the District of Federal stimulus funding that may offset the District's reductions in State funding.
- Other financing sources were less than budgetary estimates by \$10.8 million, which was primarily due to a reduction in maintenance projects and related expenditures that are typically funded by transfers to the General Fund.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, as of June 30, 2009, totaled \$1 billion. This investment in capital assets, net of accumulated depreciation, consists of 95.3 percent of fixed capital outlay, such as land, improvements other than buildings, buildings and fixed equipment, and construction in progress. The remaining 4.7 percent of the total consisted of other capital outlay, such as furniture, fixtures, equipment, and motor vehicles. The overall increase in the District's investment in capital assets, net of accumulated depreciation, was 8.3 percent compared to the prior year's balance.

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

- Various new buildings, renovations, and remodeling were completed, which resulted in \$104 million in additions to buildings and fixed equipment.
- Construction in progress for three new schools, as well as major renovations and remodeling to other schools, was \$152.2 million at fiscal year-end. Also, commitments remaining at fiscal year-end on construction contracts totaled \$126.1 million.
- New schools will be constructed on land that was acquired at a cost of \$5.2 million.

Capital Assets
(net of accumulated depreciation)

	Governmental Activities	
	June 30, 2009	June 30, 2008
Land	\$ 94,724,617	\$ 89,479,666
Construction in Progress	152,156,563	163,913,664
Improvements Other Than Buildings	15,390,555	16,054,970
Buildings and Fixed Equipment	731,573,268	648,941,500
Furniture, Fixtures, and Equipment	20,990,921	19,990,577
Motor Vehicles	21,918,344	20,355,382
Audio Visual Materials and Computer Software	6,181,752	4,052,381
Total	<u>\$ 1,042,936,020</u>	<u>\$ 962,788,140</u>

Additional information on the District's capital assets can be found in Notes 5 and 21 to the financial statements.

Long-Term Debt

At June 30, 2009, the District has total long-term debt outstanding of \$462.6 million. This included \$18.3 million of State school bonds issued on behalf of the District by the Florida Board of Education and backed by the full faith and credit of the State; \$219.3 million of sales tax bonds secured by a local option half-cent sales tax; \$217.4 million in certificates of participation, and \$7.6 million of notes payable. The District's total debt decreased by \$26.2 million (5.4 percent) during the current fiscal year. The key factor in this decrease was principal repayments.

During the current fiscal year, the District refinanced some of its existing debt to take advantage of favorable interest rates. These included:

- The District refinanced previously outstanding energy related notes payable on July 15, 2008. The net present value of the savings from this refinancing is \$332,133.
- The District also refinanced the Series 1998, Certificates of Participation on July 24, 2008, through the issuance of the Series 2008A, Certificates of Participation. The refinancing resulted in an increase in future debt service payments of \$419,643, and an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$1,077,220.

**Outstanding
Long-Term Debt**

	Governmental Activities	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Sales Tax Revenue Bonds	\$ 219,332,913	\$ 236,767,205
Certificates of Participation	217,445,901	223,700,142
State School Bonds	18,267,265	20,041,781
Notes Payable	<u>7,562,621</u>	<u>8,328,389</u>
Total	<u>\$ 462,608,700</u>	<u>\$ 488,837,517</u>

State statutes limit the amount of debt service on the certificates of participation to 75 percent of the local capital improvement tax receipts. The annual debt service limitation for the District is \$47 million, which provides a debt service margin of \$29 million when compared to the District's \$18 million debt service obligation and related costs and fees on the certificates of participation during the 2008-09 fiscal year.

On July 30, 2009, the District advance-refunded the Series 2003A, Certificates of Participation through the issuance of Series 2009A, Certificates of Participation, and the Series 2008A, Certificates of Participation through the issuance of Series 2009B, Certificates of Participation.

Additional information on the District's long-term debt can be found in Notes 6 through 13 and 25 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Economic Factors and Next Year's Budgets

- The unemployment rate for Polk County as of June 2009 is 11.6 percent, which is an increase from the 6.4 percent reported for June 2008. Therefore, sales tax revenues are expected to decline.
- During the 2009-10 fiscal year, the District expects to receive \$31.1 million of Federal stabilization funding resulting from the passage of the American Recovery and Reinvestment Act stimulus package.

Such factors, which reflect a downturn in the local economy, were considered in preparing the District's budget for the 2009-10 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Assistant Superintendent for Business Services, the School Board of Polk County, Florida, P.O. Box 391, Bartow, Florida 33831.

BASIC FINANCIAL STATEMENTS

POLK COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2009

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 368,347,240.69	\$ 9,373,481.00
Cash with Fiscal Agent	319,429.79	
Investments	56,062,679.57	5,678,854.00
Accounts Receivable	5,489,008.64	1,237,893.00
Interest Receivable	105,649.61	
Prepaid Items	9,209,888.81	1,302,824.00
Due from Other Agencies	56,079,461.05	4,137,094.00
Inventories	6,465,383.75	
Other Current Assets		61,002.00
Capital Assets:		
Nondepreciable Capital Assets	246,881,180.25	1,461,142.00
Depreciable Capital Assets, Net	796,054,840.13	8,967,237.00
TOTAL ASSETS	\$ 1,545,014,762.29	\$ 32,219,527.00
LIABILITIES		
Salaries and Benefits Payable	\$ 34,240,110.36	\$ 218,018.00
Payroll Deductions and Withholdings	6,005,057.38	
Accounts Payable	16,117,907.46	2,537,908.00
Construction Contracts Payable	7,272,075.58	
Construction Contracts Payable - Retainage	3,986,452.15	
Due to Other Agencies	22,053,566.48	1,189,071.00
Matured Interest Payable	4,814,053.27	
Accrued Interest Payable	2,962,338.98	
Estimated Liability for Arbitrage Rebate	618,700.00	
Deferred Revenue	12,634,862.99	261,212.00
Long-Term Liabilities:		
Portion Due Within One Year	48,488,687.29	777,016.00
Portion Due After One Year	501,463,762.83	6,484,994.00
Total Liabilities	660,657,574.77	11,468,219.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	589,452,399.35	4,330,506.00
Restricted for:		
State Categorical Programs	5,945,506.22	
Debt Service	3,075,782.29	
Capital Projects	255,437,039.98	164,689.00
Food Service	7,361,675.06	2,075,966.00
Permanently Restricted for Other Purposes		2,058,120.00
Unrestricted	23,084,784.62	12,122,027.00
Total Net Assets	884,357,187.52	20,751,308.00
TOTAL LIABILITIES AND NET ASSETS	\$ 1,545,014,762.29	\$ 32,219,527.00

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

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**POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 517,547,584.81	\$ 1,376,466.81	\$	\$
Pupil Personnel Services	32,552,849.22			
Instructional Media Services	11,841,773.81			
Instruction and Curriculum Development Services	13,170,946.76			
Instructional Staff Training Services	13,448,200.68			
Instruction Related Technology	4,268,033.68			
Board of Education	2,564,439.22			
General Administration	6,349,901.64			
School Administration	42,743,472.05			
Facilities Acquisition and Construction	4,413,268.76			21,257,025.07
Fiscal Services	2,774,515.55			
Food Services	43,817,782.27	10,488,465.30	30,956,619.08	
Central Services	19,279,713.47			
Pupil Transportation Services	34,329,230.09	481,680.67	22,220,897.00	
Operation of Plant	50,245,818.99			
Maintenance of Plant	25,515,769.12			5,364,856.00
Administrative Technology Services	5,281,618.32			
Community Services	1,510,731.83			
Interest on Long-Term Debt	27,460,944.06			2,574,247.97
Unallocated Depreciation Expense	432,526.90			
Loss on Disposal of Capital Assets	850,629.08			
Total Primary Government	\$ 860,399,750.31	\$ 12,346,612.78	\$ 53,177,516.08	\$ 29,196,129.04

Component Units:

Charter Schools/Educational Foundation	\$ 68,882,162.00	\$ 1,308,332.00	\$ 4,482,856.00	\$ 288,868.00
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General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings/(Loss)

Miscellaneous

Total General Revenues**Change in Net Assets**

Net Assets - Beginning

Net Assets - Ending

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	Units
Activities	
\$ (516,171,118.00)	\$
(32,552,849.22)	
(11,841,773.81)	
(13,170,946.76)	
(13,448,200.68)	
(4,268,033.68)	
(2,564,439.22)	
(6,349,901.64)	
(42,743,472.05)	
16,843,756.31	
(2,774,515.55)	
(2,372,697.89)	
(19,279,713.47)	
(11,626,652.42)	
(50,245,818.99)	
(20,150,913.12)	
(5,281,618.32)	
(1,510,731.83)	
(24,886,696.09)	
(432,526.90)	
(850,629.08)	
(765,679,492.41)	
	(62,802,106.00)
210,237,823.11	
62,631,143.46	
31,070,595.29	
476,203,837.69	66,636,690.00
2,590,486.73	(208,433.00)
8,304,878.89	25,876.00
791,038,765.17	66,454,133.00
25,359,272.76	3,652,027.00
858,997,914.76	17,099,281.00
\$ 884,357,187.52	\$ 20,751,308.00

**POLK COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	General Fund	Capital Projects - Local Capital Improvement Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 87,287,432.17	\$ 38,216,993.37
Cash with Fiscal Agent		
Investments	25,599,282.81	2,022,908.81
Accounts Receivable	2,291,242.39	529,573.10
Interest Receivable	9,372.58	21,552.96
Prepaid Items	2,119,265.12	2,243.72
Due from Other Funds		9,195,148.98
Due from Other Agencies	991,177.00	45,452.79
Inventories	5,228,967.88	
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 123,526,739.95</u></u>	<u><u>\$ 50,033,873.73</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 30,297,850.29	\$
Payroll Deductions and Withholdings	5,553,039.35	
Accounts Payable	5,152,632.23	323,945.65
Construction Contracts Payable	165,723.40	1,109,245.40
Construction Contracts Payable - Retainage	45,432.37	890,695.08
Matured Interest Payable		
Due to Other Funds		
Due to Other Agencies	20,086,906.44	
Estimated Liability for Arbitrage Rebate		
Deferred Revenue	163,200.00	
	<u> </u>	<u> </u>
Total Liabilities	<u>61,464,784.08</u>	<u>2,323,886.13</u>
Fund Balances:		
Reserved for State Categorical Programs	5,945,506.22	
Reserved for Encumbrances	2,223,069.07	4,827,666.16
Reserved for Prepaid Items	2,119,265.12	2,243.72
Reserved for Inventories	5,228,967.88	
Reserved for Debt Service		
Reserved for SBA Fund B Investments	474,306.91	483,651.01
Unreserved:		
General Fund	46,070,840.67	
Special Revenue Funds		
Capital Projects Funds		42,396,426.71
	<u> </u>	<u> </u>
Total Fund Balances	<u>62,061,955.87</u>	<u>47,709,987.60</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 123,526,739.95</u></u>	<u><u>\$ 50,033,873.73</u></u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 179,892,819.43	\$ 22,656,517.77	\$ 328,053,762.74
	319,429.79	319,429.79
1,746,718.38	538,484.20	29,907,394.20
1,544.00	134,395.74	2,956,755.23
	74,724.07	105,649.61
	2,146,912.23	4,268,421.07
		9,195,148.98
28,943,034.10	26,099,797.16	56,079,461.05
	1,236,415.87	6,465,383.75
<u>\$ 210,584,115.91</u>	<u>\$ 53,206,676.83</u>	<u>\$ 437,351,406.42</u>
\$	\$ 3,942,260.07	\$ 34,240,110.36
	452,018.03	6,005,057.38
1,130,515.36	1,987,832.79	8,594,926.03
5,960,149.15	36,957.63	7,272,075.58
3,050,324.70		3,986,452.15
	4,814,053.27	4,814,053.27
9,195,148.98		9,195,148.98
10,830.00	1,955,830.04	22,053,566.48
618,700.00		618,700.00
	12,471,662.99	12,634,862.99
<u>19,965,668.19</u>	<u>25,660,614.82</u>	<u>109,414,953.22</u>
21,490,080.87	210,540.99	5,945,506.22
		28,751,357.09
		2,121,508.84
	1,236,415.87	6,465,383.75
	3,072,472.02	3,072,472.02
1,746,718.38	66,104.73	2,770,781.03
		46,070,840.67
	5,995,897.78	5,995,897.78
167,381,648.47	16,964,630.62	226,742,705.80
<u>190,618,447.72</u>	<u>27,546,062.01</u>	<u>327,936,453.20</u>
<u>\$ 210,584,115.91</u>	<u>\$ 53,206,676.83</u>	<u>\$ 437,351,406.42</u>

**POLK COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances - Governmental Funds	\$	327,936,453.20
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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.		1,042,936,020.38
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Debt issuance costs are not expensed in the government-wide statements, but are amortized over the life of the debt.		4,941,467.10
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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.		27,506,339.94
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Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due.		(2,962,338.98)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Notes Payable	\$	7,562,621.03	
Bonds Payable		237,600,178.06	
Certificates of Participation Payable		217,445,901.30	
Other Postemployment Benefits Payable		10,620,584.00	
Compensated Absences Payable		42,771,469.73	
			(516,000,754.12)

Total Net Assets - Governmental Activities	\$	<u>884,357,187.52</u>
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The accompanying notes to financial statements are an integral part of this statement.

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POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	General Fund	Capital Projects - Local Capital Improvement Fund
Revenues		
Intergovernmental:		
Federal Direct	\$ 687,104.33	\$
Federal Through State and Local State	1,351,346.25	
	429,125,912.38	
Local:		
Property Taxes	210,237,823.11	62,631,143.46
Local Sales Taxes		
Impact Fees		
Charges for Services - Food Service		
Miscellaneous	11,345,714.35	(30,564.67)
Total Revenues	<u>652,747,900.42</u>	<u>62,600,578.79</u>
Expenditures		
Current - Education:		
Instruction	451,061,372.05	2,442,553.15
Pupil Personnel Services	27,233,215.60	1,418.64
Instructional Media Services	10,387,890.09	122,350.55
Instruction and Curriculum Development Services	3,440,267.49	
Instructional Staff Training Services	3,877,624.56	
Instruction Related Technology	4,053,696.56	
Board of Education	2,449,825.70	
General Administration	3,318,060.17	
School Administration	40,305,225.35	3,267.30
Facilities Acquisition and Construction	5,879,019.25	174,908.62
Fiscal Services	2,523,799.62	67,756.12
Food Services		
Central Services	12,955,445.21	
Pupil Transportation Services	30,939,582.91	16,961.88
Operation of Plant	47,547,015.34	109,109.70
Maintenance of Plant	24,280,166.80	
Administrative Technology Services	4,931,072.45	
Community Services	139,711.24	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	1,709,735.98	5,802,659.97
Other Capital Outlay	2,419,193.88	12,002,184.72
Debt Service:		
Principal	937,178.97	
Interest and Fiscal Charges	584,188.02	
Total Expenditures	<u>680,973,287.24</u>	<u>20,743,170.65</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(28,225,386.82)</u>	<u>41,857,408.14</u>
Other Financing Sources (Uses)		
Transfers In	32,447,782.16	
Proceeds from Loans	8,499,800.00	
Proceeds of Refunding Certificates		
Premium on Refunding Certificates		
Payments to Escrow Agent for Refunded Certificates		
Refunded Loan Payments	(8,328,389.20)	
Insurance Loss Recoveries	17,908.30	
Transfers Out	(91,551.11)	(46,253,168.16)
Total Other Financing Sources (Uses)	<u>32,545,550.15</u>	<u>(46,253,168.16)</u>
Net Change in Fund Balances	4,320,163.33	(4,395,760.02)
Fund Balances, Beginning	57,741,792.54	52,105,747.62
Fund Balances, Ending	<u>\$ 62,061,955.87</u>	<u>\$ 47,709,987.60</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	7,507,112.90	8,194,217.23
	87,966,824.24	89,318,170.49
1,324,128.00	23,654,530.86	454,104,571.24
		272,868,966.57
31,070,595.29		31,070,595.29
6,436,669.05		6,436,669.05
	10,488,465.30	10,488,465.30
986,244.35	138,743.72	12,440,137.75
39,817,636.69	129,755,677.02	884,921,792.92
	35,061,229.57	488,565,154.77
	3,477,872.89	30,712,507.13
	616,115.40	11,126,356.04
	9,060,951.67	12,501,219.16
	8,887,674.71	12,765,299.27
		4,053,696.56
		2,449,825.70
	1,800,630.81	5,118,690.98
	1,822.24	40,310,314.89
2,674,215.15	291,023.15	9,019,166.17
	122,869.73	2,714,425.47
	41,356,415.63	41,356,415.63
51,767.19	1,475,251.15	14,482,463.55
	1,552,113.21	32,508,658.00
	113,839.43	47,769,964.47
	42,659.22	24,322,826.02
		4,931,072.45
	1,301,268.22	1,440,979.46
74,260,611.92	12,090,979.65	93,863,987.52
3,468,486.31	1,664,284.12	19,554,149.03
	25,295,000.00	26,232,178.97
	27,516,923.27	28,101,111.29
80,455,080.57	171,728,924.07	953,900,462.53
(40,637,443.88)	(41,973,247.05)	(68,978,669.61)
	50,229,743.55	82,677,525.71
		8,499,800.00
	36,690,000.00	36,690,000.00
	113,973.78	113,973.78
	(36,388,123.78)	(36,388,123.78)
		(8,328,389.20)
		17,908.30
(27,902,018.58)	(7,633,770.80)	(81,880,508.65)
(27,902,018.58)	43,011,822.75	1,402,186.16
(68,539,462.46)	1,038,575.70	(67,576,483.45)
259,157,910.18	26,507,486.31	395,512,936.65
\$ 190,618,447.72	\$ 27,546,062.01	\$ 327,936,453.20

**POLK 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, 2009**

Net Change in Fund Balances - Governmental Funds **\$ (67,576,483.45)**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. 80,998,509.51

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (850,629.08)

Proceeds of refunding certificates are reported as other financing sources in the governmental funds, while payments to the escrow agent for advance refunding of outstanding certificates are shown as other financing uses. Government-wide statements are affected only to the extent these amounts differ. Other long-term debt proceeds provide current financial resources to 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 net effect of these transactions.

Proceeds from Refunding Certificates of Participation	\$	(36,690,000.00)	
Proceeds from Loans		(8,499,800.02)	
Notes Payable Principal Payments		9,265,568.19	
Bonds Payable Principal Payments		19,208,807.63	
Certificates of Participation Principal Repayments		42,944,240.46	26,228,816.26

Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as an expense when interest accrues in the statement of activities. This is the net change in accrued interest. 236,532.55

Debt issuance costs are reported in the governmental funds, in the year debt is issued, but are deferred and amortized over the life of the debt in the statement of activities. This is the amount amortized in the current year. (180,263.41)

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 paid in excess of the amount earned in the current period. 175,915.54

Other postemployment benefits costs are reported 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. (5,345,765.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (8,327,360.16)

Change in Net Assets - Governmental Activities **\$ 25,359,272.76**

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2009**

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 40,293,478.59
Investments	26,155,285.37
Accounts receivable	2,532,253.41
TOTAL ASSETS	\$ 68,981,017.37
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 7,522,981.43
Estimated Insurance Claims Payable	15,929,363.40
Total Current Liabilities	23,452,344.83
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	18,022,332.60
Total Liabilities	41,474,677.43
NET ASSETS	
Unrestricted	27,506,339.94
TOTAL LIABILITIES AND NET ASSETS	\$ 68,981,017.37

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	\$ 91,298,563.93
Other Operating Revenues	3,840,816.98
Total Operating Revenues	<u>95,139,380.91</u>
OPERATING EXPENSES	
Purchased Services	7,596,893.64
Insurance Claims	95,672,303.74
Total Operating Expenses	<u>103,269,197.38</u>
Operating Loss	<u>(8,129,816.47)</u>
NONOPERATING REVENUES	
Interest	599,473.37
Loss Before Transfers	(7,530,343.10)
Transfers Out	<u>(797,017.06)</u>
Change in Net Assets	(8,327,360.16)
Total Net Assets - Beginning	<u>35,833,700.10</u>
Total Net Assets - Ending	<u><u>\$ 27,506,339.94</u></u>

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	\$ 90,174,450.27
Cash Received from Other Operating Revenues	3,840,816.98
Cash Payments to Suppliers for Goods and Services	(12,459,990.02)
Cash Payments for Insurance Claims	(95,037,907.74)
Net Cash Used by Operating Activities	<u>(13,482,630.51)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	<u>(797,017.06)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds on Sale of Investments	5,558,231.70
Interest	<u>599,497.17</u>
Net Cash Provided by Investing Activities	<u>6,157,728.87</u>
Net Decrease in Cash and Cash Equivalents	(8,121,918.70)
Cash and Cash Equivalents, Beginning	8,939,624.68
Adjustment to Beginning Cash and Cash Equivalents	<u>39,475,772.61</u>
Cash and Cash Equivalents, Beginning, restated, see Note 24 of the basic financial statements	<u>48,415,397.29</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 40,293,478.59</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (8,129,816.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,124,113.66)
Decrease in Accounts Payable	(4,863,096.38)
Increase in Estimated Insurance Claims Payable	<u>634,396.00</u>
Total Adjustments	<u>(5,352,814.04)</u>
Net Cash Used by Operating Activities	<u><u>\$ (13,482,630.51)</u></u>

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 6,058,986.45
Investments	2,339,979.57
Accounts Receivable	141,995.82
Interest Receivable on Investments	120.74
Inventory	657,918.04
Due from Other Agencies	<u>190.00</u>
TOTAL ASSETS	<u><u>\$ 9,199,190.62</u></u>
LIABILITIES	
Accounts Payable	\$ 26,539.12
Internal Accounts Payable	<u>9,172,651.50</u>
TOTAL LIABILITIES	<u><u>\$ 9,199,190.62</u></u>

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Financing Corporation for the School Board of Polk County, Florida (Financing 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 Polk County District School Board and the Financing Corporation, the financial activities of the Financing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Financing Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include financial data for the District's other component units as follows:

The Polk Education Foundation and Business Partnership, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures for the benefit of the District. An audit of the organization's financial statements is conducted by an independent certified public accountant. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the organization for the fiscal year ended June 30, 2009, which are on file at the District's administrative offices.

Berkley Accelerated Middle School, Inc.; Berkley Charter School, Inc.; Compass Charter Middle School, Inc.; Discovery Academy of Lake Alfred, Inc.; Hartridge Academy Inc.; Lake Wales Charter Schools, Inc., which includes: Dale R. Fair Babson Park Elementary School, Edward W. Bok Academy, Hillcrest Elementary School, Janie Howard Wilson Elementary School, Lake

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Wales High School, and Polk Avenue Elementary School; Lakeland Montessori Schoolhouse, Inc.; Life Skills Center Polk County East, Inc.; McKeel Academy of Technology, Inc.; McKeel Elementary Academy, Inc.; South McKeel Academy, Inc.; Memorial Academy, Inc. (f/k/a Life Skills Center Polk County, Inc.); Our Children's Academy, Inc.; and Ridgeview Global Studies Academy, Inc., are separate, not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under a charter approved by its sponsor, the Polk County District School Board. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the charter schools for the fiscal year ended June 30, 2009. The audit reports are on file at the District's administrative offices. Effective July 1, 2009, the Memorial Academy Inc., ceased operations.

The Achievement Academy, Inc.; Central Florida Speech & Hearing, d/b/a The A.C.E. Charter School; Central Florida Human Services (Formerly the Program To Aid Drug-Abuse, Inc.), d/b/a The Foundation School; Chain of Lakes Collegiate High School; and Collegiate High School (Lakeland), are not required to be included as discretely presented component units as these charter schools are part of a larger entity that will continue to be in existence in the event the charters are terminated.

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is allocated to the various functions by the District's accounting software based on an assigned function for each individual asset at the time of acquisition, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements, except for interfund services provided and used.

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on certificates of participation.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources restricted for capital outlay purposes.

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

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds’ principal ongoing operations. The principal operating revenues of the District’s internal service

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

funds are charges for employee health insurance premiums. Operating expenses include insurance claims and purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

The Polk Education Foundation and Business Partnership, Inc., shown as a discretely presented component unit, uses the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows FASB standards of accounting and financial reporting for not-for-profit organizations.

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash and cash equivalents include United States Treasury Bills, two money market mutual funds, and amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in the SBA Debt Service accounts for investment of debt service moneys, amounts placed with the SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. 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 LGIP, 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 LGIP.

Investments made locally consist of two money market mutual funds: The Core Fund-Class Y and Ridgeworth US Securities Ultra Fund, United States Treasury Bills, and United States Small Business Administration loans. The U.S. Government money market funds are stated at cost, which approximates fair value, while securities owned directly by the District are reflected at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

➤ **Inventories**

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750 and having an estimated useful life of one year or more. Such assets, except land acquired prior to 1977 and buildings and fixed equipment acquired prior to 1976, are recorded at historical cost or estimated historical cost if purchased or constructed. The value of land acquired prior to 1977 is reported at the assessed value recorded as of March 10, 1977, by the Polk County Property Appraiser. Buildings and fixed equipment acquired prior to 1976 are reported at the replacement cost at June 30, 1976, as determined for insurance purposes at that time. Donated assets are recorded at fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Building Improvements	40 years
Improvements Other than Buildings	20 years
Motor Vehicles	10 years
Equipment	7 years
Furniture & Fixtures	5 years
Software	5 years
Computers	3 years
Audio Visual Materials	3 years

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

➤ **Long-Term Liabilities**

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 debt issuance costs, during the current period. The face amount of debt issued, and premiums on debt issues are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability 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 Revenues Sources**

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

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

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

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

➤ **District Property Taxes**

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

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

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The School Board adopted the 2008 tax levy on September 9, 2008. 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. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Polk County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Educational Impact Fees**

Polk County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2003. This ordinance was most recently amended in August 2007 when Ordinance 2007-040 established, in part, revised rates to be collected. The educational impact fee is collected by the County for most new residential construction based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition, facility design and construction costs, furniture and equipment, and payment of principal, interest, and related costs of indebtedness necessitated by new residential development. Because the educational impact fee is similar to a capital-type special assessment, it is reported as program revenue in the government-wide financial statements.

➤ **Federal Revenues Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1) (2)	46 Day Average	\$ 106,232,802.44
Fund B Surplus Funds Trust Fund (Fund B) (3)	6.87 Year Average	3,674,620.55
Debt Service Accounts	6 months	472,379.47
The Core Fund - Class Y	1.08 Years	51,285,951.55
United States Treasury Bills (1)	July - August 2009	9,403,867.35
UBS Resource Management Account Money Market Portfolio (1)	48 Day Average	139,454.93
Ridgeworth Fund (TRUSCO) United States Government		
Securities Money Market Funds (1)	52 Day Average	53,950,250.53
Ridgeworth United States Government Securities Ultra Fund	2.98 Year Average	2,899,547.86
Obligations of United States Government		
Agencies and Instrumentalities -		
United States Small Business Administration Loans	360 days	70,159.71
Total Investments		<u>\$ 228,129,034.39</u>

Notes:

(1) Investments classified as cash equivalents.

(2) Includes \$21,150,680.71, which is being held under a trust agreement in connection with the Certificates of Participation, Series 1995, 1998, 1999A & B, 2001A and 2003A.

(3) Includes \$334,489.32, which is being held under a trust agreement in connection with the Certificates of Participation, Series 1995, 1998, 1999A & B, 2001A and 2003A.

Interest Rate Risk

- The District's investment policy limits the length of investments as follows: (1) the average maturity of the portfolio should generally not exceed one year but may exceed one year when the risk reward perspective looks attractive and (2) the maturity of any individual holding should generally not exceed five years but may exceed five years when there is opportunity to achieve greater return or the average life is expected to be less.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. 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. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However,

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District is an involuntary participant in Fund B.

Credit Risk

- The District's investment policy limits investments to LGIP, direct obligations of the United States Government, time deposits and savings accounts, obligations guaranteed by the United States Government, obligations of the Federal Farm Credit Banks, Obligations of the Federal National Mortgage Association, securities fully collateralized by United States Government Obligations, certain repurchase agreements, certain bankers' acceptances, certain prime commercial paper, certain State or revenue bonds, and certain fixed income mutual funds.
- The District's investments in the SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.
- As of June 30, 2009, the District's investment in the Core Fund – Class Y was rated AAA/S1 by Standard & Poor's.
- As of June 30, 2009, the District's investment in the Ridgeworth United States Government Securities Money Market Fund was rated AAA by Standard & Poor's. Funds held in the Ridgeworth United States Government Securities Ultra-Short Bond Fund are unrated.
- As of June 30, 2009, the District's investment in the UBS Resource Management Account – Money Market Portfolio is unrated.

Custodial Credit Risk

- Of the District's investments, \$9,403,867.35 in United States Treasury Bills are held by the counterparty's trust department in the name of the District.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

4. RECEIVABLES

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

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 89,479,666.58	\$ 5,244,950.35	\$	\$ 94,724,616.93
Construction in Progress	163,913,664.34	101,923,455.01	113,680,556.03	152,156,563.32
Total Capital Assets Not Being Depreciated	253,393,330.92	107,168,405.36	113,680,556.03	246,881,180.25
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	40,065,411.43	1,417,673.15	73,233.33	41,409,851.25
Buildings and Fixed Equipment	986,004,943.57	104,016,111.15	491,058.10	1,089,529,996.62
Furniture, Fixtures, and Equipment	68,451,084.99	9,433,634.33	5,801,960.20	72,082,759.12
Motor Vehicles	55,313,849.60	5,611,695.00	256,291.22	60,669,253.38
Audio Visual Materials and Computer Software	19,818,690.52	4,309,760.21	4,413,891.27	19,714,559.46
Total Capital Assets Being Depreciated	1,169,653,980.11	124,788,873.84	11,036,434.12	1,283,406,419.83
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	24,010,441.60	2,052,621.23	43,766.21	26,019,296.62
Buildings and Fixed Equipment	337,063,443.87	20,980,188.85	86,904.11	357,956,728.61
Furniture, Fixtures, and Equipment	48,460,507.71	8,154,697.32	5,523,366.95	51,091,838.08
Motor Vehicles	34,958,467.90	4,007,235.60	214,794.26	38,750,909.24
Audio Visual Materials and Computer Software	15,766,310.00	2,083,470.66	4,316,973.51	13,532,807.15
Total Accumulated Depreciation	460,259,171.08	37,278,213.66	10,185,805.04	487,351,579.70
Total Capital Assets Being Depreciated, Net	709,394,809.03	87,510,660.18	850,629.08	796,054,840.13
Governmental Activities Capital Assets, Net	\$ 962,788,139.95	\$ 194,679,065.54	\$ 114,531,185.11	\$ 1,042,936,020.38

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 20,453,259.05
Pupil Personnel Services	1,284,705.18
Instructional Media Services	465,415.84
Instruction and Curriculum Development Services	522,910.72
Instructional Staff Training Services	533,972.89
Instruction Related Technology	169,567.22
Board of Education	98,503.05
General Administration	185,690.86
School Administration	1,686,181.79
Facilities Acquisition and Construction	386,459.03
Fiscal Services	110,441.25
Food Services	1,730,462.95
Central Services	4,615,155.09
Pupil Transportation Services	1,332,442.57
Operation of Plant	1,994,690.94
Maintenance of Plant	1,009,285.16
Administrative Technology Services	206,266.92
Community Services	60,276.25
Unallocated	432,526.90
Total Depreciation Expense - Governmental Activities	<u>\$ 37,278,213.66</u>

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

6. NOTES PAYABLE

Notes payable are comprised of the following:

<u>SunTrust</u>	Balance at 6-30-2009
\$4,005,232, Borrowed 3-07-2000, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.99 Percent. Proceeds used for Equipment necessary for the Energy Conversion Project with Johnson Controls. Refinanced \$2,542,500, 7-15-08, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 4.157 Percent. Matures 1-15-16. The Board's Intent is to Repay the Balance in 7 Annual Payments of Various Amounts According to the Payment Schedule.	<u>\$ 2,146,497.90</u>
<u>Capital One</u>	
\$2,306,612, Borrowed 7-10-2000, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 6.35 Percent. Proceeds used for Retrofit Lighting Countywide necessary for the Energy Conservation Project with Johnson Controls. Refinanced \$1,621,100, 7-15-08, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 4.267 Percent. Matures 6-30-15. The Board's Intent is to Repay the Balance in 14 Semiannual Payments of Various Amounts According to the Payment Schedule.	<u>1,453,078.22</u>
<u>SunTrust</u>	
\$3,613,133, Borrowed 1-15-2001, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.98 Percent. Proceeds Used for Retrofit Lighting Countywide necessary for the Energy Conservation Project with Johnson Controls. Refinanced \$2,592,900, 7-15-08, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 4.267 Percent. Matures 1-15-16. The Board's Intent is to Repay the Balance in 15 Semiannual Payments at Various Amounts According to the Payment Schedule.	<u>2,459,600.00</u>
<u>Capital One</u>	
\$2,715,000, Borrowed 6-12-2001, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 5.45 Percent. Proceeds Used for Retrofit Lighting Countywide necessary for the Energy Conservation Project with Johnson Controls. Refinanced \$1,743,300, 7-15-08, Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 4.267 Percent. Matures 6-30-15. The Board's Intent is to Repay the Balance in 13 Semiannual Payments of Various Amounts According to the Payment Schedule.	<u>1,503,444.91</u>
Total Notes Payable	<u><u>\$ 7,562,621.03</u></u>

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Amounts payable for the planned extended repayment of the Section 1013.23, Florida Statutes, bank loans are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 1,353,607.83	\$ 1,040,565.65	\$ 313,042.18
2011	1,377,767.96	1,109,284.21	268,483.75
2012	1,402,590.12	1,181,605.07	220,985.05
2013	1,427,928.41	1,257,528.42	170,399.99
2014	1,437,026.03	1,320,454.44	116,571.59
2015-2016	1,725,346.55	1,653,183.24	72,163.31
Total	<u>\$ 8,724,266.90</u>	<u>\$ 7,562,621.03</u>	<u>\$ 1,161,645.87</u>

On July 15, 2008, the District refinanced the notes to secure a lower interest rate and to achieve a net present value savings of \$332,133.30.

7. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2009, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 1999A & B	\$ 56,650,000.00	4.2 - 5.0	2024	\$ 63,760,000
Series 2001A	48,415,000.00	4.3 - 5.5	2026	54,615,000
Series 2002, Refunding	12,985,000.00	3.6 - 4.0	2013	30,270,000
Series 2003A	46,360,000.00	3.87	2028	50,355,000
Series 2003B, Refunding	13,355,000.00	2.875 - 4.000	2018	19,700,000
Series 2004 QZAB	3,561,000.00	N/A	2020	3,561,000
Series 2008A, Refunding	36,625,000.00	3.457 - 4.480	2023	36,690,000
Subtotal	<u>217,951,000.00</u>			
Less: Deferred Amount on Refunding Debt (1)	<u>(505,098.70)</u>			
Total Certificates of Participation	<u>\$ 217,445,901.30</u>			

Note (1): The deferred amount on the refunding debt represents the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.

The District entered into financing arrangements that were characterized as lease-purchase agreements, with the Financing Corporation for the School Board of Polk County, Florida (Financing Corporation) whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of certificates of participation to be repaid from the proceeds of rents paid by the District.

**POLK COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

As a condition of the financing arrangements, the District gave ground leases on District property to the Financing 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 for the benefit of the securers of the certificates for the remaining term of the ground leases.

A summary of the various lease terms are as follows:

<u>Certificates</u>	<u>Lease Term</u>
Series 1999A&B	Earlier of date paid in full or January 1, 2024
Series 2001A	Earlier of date paid in full or January 1, 2026
Series 2002, Refunding	Earlier of date paid in full or January 1, 2013
Series 2003A	Earlier of date paid in full or January 1, 2028
Series 2003B, Refunding	Earlier of date paid in full or January 1, 2018
Series 2008A, Refunding	Earlier of date paid in full or January 5, 2023

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

<u>Certificates</u>	<u>Description of Properties</u>
Series 1999A & B	Blake Elementary School, an auditorium constructed at Auburndale High School, Lake Alfred Middle School, expansion of Lakeland Senior High School, and the construction of Berkley, Pinewood, Sandhill and Ridgeview Elementary Schools.
Series 2001A	Construction of R. Bruce Wagner and Dr. N.E. Roberts Elementary Schools, Lake Alfred Career Development Academy, Lake Gibson High School Auditorium, Jewett Elementary Classroom Wing, Auburndale Senior High Agri Science Center and Gym, Bartow Senior and Haines City High New Cafeteria/Remodel, Kathleen Elementary Administration Building, and Lewis Elementary Quad Classroom.
Series 2002, Refunding	Valleyview Elementary School, Socrum Elementary School, Watson Elementary School, a portion of Loughman Oaks Elementary School, and George W. Jenkins Senior High School.
Series 2003A	Construction of Ridge Community High School, Chain of Lakes Elementary School, Sandhill Elementary Classroom Addition, Ridgeview Elementary Classroom Addition, and Haines City High School Administrative Suite.
Series 2003B, Refunding	Land on which Lake Region High School is located.
Series 2008A, Refunding	Land on which Sleepy Hill Middle School and Dundee Ridge Middle School are located.

The lease payments are payable by the District, semiannually, on July 1 and January 1, and must be remitted by the District as of the 15th day of the month preceding the payment dates.

2004 QZAB COPs

The Series 2004-Qualified Zone Academy Bonds (QZAB) were issued under a special program whereby the certificates, bearing an original issue date of June 8, 2004, will mature on June 7, 2020, for the original \$3,561,000 issue amount. There is no interest cost for borrowing moneys under this program. The

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

financing proceeds were used to acquire technology-related equipment at 86 schools, which are leased by the District from the Financing Corporation for the School Board of Polk County, Florida. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$403,616.85 are made for five consecutive years beginning on June 8, 2005. The forward delivery agreement provides a guaranteed investment return of 4.45 percent, whereby the required deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement until the certificates mature.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 16,770,611.00	\$ 7,305,000.00	\$ 9,465,611.00
2011	16,826,368.00	7,575,000.00	9,251,368.00
2012	16,798,162.00	7,920,000.00	8,878,162.00
2013	16,805,864.00	8,240,000.00	8,565,864.00
2014	16,806,960.00	8,590,000.00	8,216,960.00
2015-2019	84,205,485.00	49,295,000.00	34,910,485.00
2020-2024	88,216,239.00	66,376,000.00	21,840,239.00
2025-2028	67,979,251.00	62,650,000.00	5,329,251.00
Total Minimum Lease Payments	\$ 324,408,940.00	\$ 217,951,000.00	\$ 106,457,940.00
Total COPS/QZABS Payable		\$ 217,951,000.00	
Less: Unamortized Net Discount		(505,098.70)	
Total COPS/QZABS Payable		\$ 217,445,901.30	

8. INTEREST RATE SWAPTION AGREEMENT

On October 5, 2005, the District entered into a swaption whereby the counterparty has the right to enter into an interest rate swap agreement associated with the Series 2001A Certificates of Participation. As an alternative to advance refunding these certificates, the Board approved the future current refunding of all or a portion of the outstanding prior certificates and the execution of the swaption agreement for an up front premium associated with each prior certificate. The District entered into the swaption primarily to modify its risk of interest rate changes with respect to the outstanding certificates, and to lock in and receive on a current basis, an amount equal to or greater than the present value savings achievable if the prior certificates were refunded.

In exchange for an upfront premium of \$2,041,000 received by the District, the counterparty has the right to exercise the swaption on any of the swaption exercise dates of January 1 or July 1 beginning January 1, 2011 and ending January 1, 2013. The underlying swap will become effective on such date and will expire on January 1, 2026.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Upon the exercise of the swaption, on any swaption exercise date under the terms of the swap agreement, the District will make semiannual payments to the counterparty based on the notional amount (currently \$48,415,000) at a fixed rate of 4.72 percent. The counterparty will make semiannual payments to the District based on an amortized notional amount and a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA), formerly the Bond Market Association (BMA), Municipal Swap Index minus 0.02 percent. The underlying swap, if entered into, will be for the remaining duration of the outstanding certificates, subject to certain events of default or termination events. The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the agreement. If the District terminates the swap and the swap has a negative value, the District would be liable to the counterparty for a payment equal to the swap's fair value. As of June 30, 2009, the swaption has a negative fair value of \$5,310,610, as calculated by the counterparty, estimated using the mid-market level method.

9. FLOATING-TO-FIXED CANCELABLE INTEREST RATE SWAP AGREEMENTS

In connection with the issuance of the Certificates of Participation (COPS) Series 2003A, the District entered into an interest rate swap agreement with a counterparty, whereby the District agreed to pay the counterparty fixed amounts calculated on the notional amount (outstanding principal amount of the Series 2003A Certificates) at a fixed rate of 3.87 percent. In exchange, the District will receive payments calculated on the notional amount of the 2003A Certificates. The swap also provides, under certain circumstances, that the counterparty can elect to convert the rate to 69.5 percent of one-month London Interbank Offer Rate (LIBOR). As of June 30, 2009, the notional amount was \$46,360,000, with a negative fair value of \$6,739,334. The counterparty is a major municipal swap dealer and was rated A+ by Standard & Poor's.

In connection with the issuance of the COPS Series 2008A, the District entered into two different interest rate swap agreements with a counterparty, whereby the District agreed to pay the counterparty fixed amounts calculated on the notional amount of various portions of the Series 2008A Certificates as follows:

- The District will receive payments at a fixed rate of 4.48 percent, calculated on the notional amount of a portion of the 2008A Certificates. The swap also provides, under certain circumstances, that the counterparty can elect to convert the rate to the SIFMA rate minus 0.02 percent. As of June 30, 2009, the notional amount was \$31,815,000, with a negative fair value of \$3,818,295.
- The District will receive payments at a fixed rate of 3.457 percent, calculated on the notional amount of a portion of the Series 2008A Certificates. The swap also provides, under certain circumstances, that the counterparty can elect to convert the rate to the SIFMA rate minus 0.02 percent. As of June 30, 2009, the notional amount was \$4,810,000, with a negative fair value of \$283,455. The counterparty is a major municipal swap dealer and was rated A+ by Standard & Poor's.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

10. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 690,000.00	4.125 - 4.750	2019
Series 2001A	465,000.00	4.25 - 5.00	2021
Series 2002B	530,000.00	4.000 - 5.375	2015
Series 2003A	345,000.00	3.00 - 4.25	2023
Series 2004A	340,000.00	3.350 - 4.625	2024
Series 2005A	1,040,000.00	4.0 - 5.0	2025
Series 2005A, Refunding	10,930,000.00	5.0	2016
Series 2005B, Refunding	2,345,000.00	5.0	2018
Series 2006A	945,000.00	4.000 - 4.625	2026
District Revenue Bonds:			
Series 2004	39,030,000.00	3.00 - 5.25	2019
Series 2005	69,680,000.00	3.0 - 5.0	2019
Series 2007	101,630,000.00	3.375 - 5.000	2018
Total Bonds	227,970,000.00		
Plus: Unamortized Premium	9,630,178.06		
Total Bonds Payable	\$ 237,600,178.06		

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**

The School Board issued Sales Tax Revenue Bonds, Series 2004, in the amount of \$54,240,000 on May 20, 2004; Sales Tax Revenue Bonds, Series 2005 in the amount of \$92,245,000 on July 26, 2005; and Sales Tax Revenue Bonds, Series 2007 in the amount of \$109,445,000 on November 30, 2007. These bonds are authorized by Chapter 1001, Florida Statutes, and Chapter 212, Florida Statutes. These bonds are secured 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 Statutes. Proceeds of the bonds were used to finance construction of new school facilities and renovations of existing school facilities.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The District has pledged a combined total of \$264,927,223.82 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2004, 2005, and 2007 Sales Tax Revenue Bond issues described above. During the 2008-09 fiscal year, the District recognized sales tax revenues totaling \$31,070,595.29 and expended \$26,493,613.26 (85.3 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 1, 2019. Assuming a nominal growth rate in the collection of sales tax revenues, which are levied through December 31, 2019, approximately 72 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 2,644,753.75	\$ 1,785,000.00	\$ 859,753.75
2011	2,656,791.25	1,885,000.00	771,791.25
2012	2,668,795.00	1,990,000.00	678,795.00
2013	2,676,782.50	2,095,000.00	581,782.50
2014	2,682,882.50	2,205,000.00	477,882.50
2015-2019	7,208,133.75	6,270,000.00	938,133.75
2020-2024	1,329,571.25	1,125,000.00	204,571.25
2025-2026	291,775.00	275,000.00	16,775.00
Total State School Bonds	22,159,485.00	17,630,000.00	4,529,485.00
District Revenue Bonds:			
2010	26,495,352.52	17,115,000.00	9,380,352.52
2011	26,493,008.14	17,765,000.00	8,728,008.14
2012	26,494,710.63	18,525,000.00	7,969,710.63
2013	26,491,365.63	19,340,000.00	7,151,365.63
2014	26,491,790.01	20,235,000.00	6,256,790.01
2015-2019	132,460,996.89	117,360,000.00	15,100,996.89
Total District Revenue Bonds	264,927,223.82	210,340,000.00	54,587,223.82
Plus: Unamortized Premium	9,630,178.06	9,630,178.06	
Total	\$ 296,716,886.88	\$ 237,600,178.06	\$ 59,116,708.82

11. DEFEASED DEBT

On June 24, 2008, the Board issued \$36,690,000 in Certificates of Participation (COPs), Series 2008A, with an average interest rate of 4.385 percent, to advance-refund a portion of the District's Certificates of Participation, Series 1998A which were defeased. Accordingly, the trust account assets and the liability for the defeased certificates were not included in the District's financial statements. On July 24, 2008, COPs Series 1998A, totaling \$35,915,000 were considered to be defeased.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

As a result of this refunding, the District increased its total debt service payments over the next 15 years by approximately \$419,643 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,077,220.

12. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Notes Payable	\$ 8,328,389.20	\$ 8,499,800.02	\$ 9,265,568.19	\$ 7,562,621.03	\$ 1,040,565.66
Bonds Payable	256,808,985.69		19,208,807.63	237,600,178.06	19,883,807.67
Certificates of Participation Payable	223,700,141.76	36,690,000.00	42,944,240.46	217,445,901.30	7,264,240.47
Estimated Insurance Claims Payable	33,317,300.00	95,672,303.74	95,037,907.74	33,951,696.00	15,929,363.40
Compensated Absences Payable	42,947,385.27	3,995,432.04	4,171,347.58	42,771,469.73	4,370,710.09
Other Postemployment Benefits Payable	5,274,819.00	8,739,757.00	3,393,992.00	10,620,584.00	
Total Governmental Activities	<u>\$ 570,377,020.92</u>	<u>\$ 153,597,292.80</u>	<u>\$ 174,021,863.60</u>	<u>\$ 549,952,450.12</u>	<u>\$ 48,488,687.29</u>

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as discussed in Note 22.

13. ESTIMATED ARBITRAGE REBATE

The amount of \$618,700 reported as estimated arbitrage rebate payable is the estimated amount due to the United States Treasury for the arbitrage earnings from the investment of proceeds from the \$63,760,000 Series 1999A&B Certificates of Participation for the period of March 11, 1999, through March 11, 2004. The estimated liability was calculated by an independent CPA firm under regulations issued by the United States Treasury Department in 2005.

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
Capital Projects:		
Local Capital Improvement	\$ 9,195,148.98	\$
Other		9,195,148.98
Total	<u>\$ 9,195,148.98</u>	<u>\$ 9,195,148.98</u>

The interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 32,447,782.16	\$ 91,551.11
Capital Projects:		
Local Capital Improvement		46,253,168.16
Other		27,902,018.58
Nonmajor Governmental	50,229,743.55	7,633,770.80
Internal Service		797,017.06
Total	<u>\$ 82,677,525.71</u>	<u>\$ 82,677,525.71</u>

The transfers out of the capital projects funds were primarily to provide debt service principal and interest payments, to fund property casualty premiums, and to assist in funding repairs and maintenance. The remaining transfers between funds were operational in nature.

15. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

16. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2008-09 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 277,873,996.00
Categorical Educational Programs:	
Class Size Reduction	95,074,408.00
Transportation	22,220,897.00
Instructional Materials	8,810,117.00
School Recognition	2,859,307.00
Voluntary Prekindergarten	2,477,592.40
Excellent Teaching	1,662,509.76
Florida Teachers Lead	1,315,099.00
Gross Receipts Tax (Public Education Capital Outlay)	19,385,196.00
Workforce Development Program	10,991,838.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	3,374,263.99
Discretionary Lottery Funds	2,253,312.00
Charter School Capital Outlay	1,312,596.00
Mobile Home License Tax	911,602.60
Food Service Supplement	733,473.00
Adults with Disabilities	255,165.41
Other	2,593,198.08
Total	<u><u>\$ 454,104,571.24</u></u>

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

17. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

	Millages	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.136	\$ 189,717,359.13
Basic Discretionary Local Effort	0.498	18,395,492.53
Supplementary Discretionary Local Effort	0.250	9,234,725.33
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	64,642,881.76
Total	<u><u>7.634</u></u>	<u><u>\$ 281,990,458.75</u></u>

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

18. 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 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. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in 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. There were 1,633 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$5,166,026.45.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
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 0.05 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 for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$37,307,716.14, \$38,957,535.18, and \$37,629,824.12, respectively, which were equal to the required contributions for each fiscal year.

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

19. ALTERNATIVE RETIREMENT PLAN

Effective August 1, 1995, the District established an Alternative to Social Security Plan for all part-time temporary employees. This plan is authorized under Internal Revenue Code (IRC) Section 3121(b)(7)(c) as an alternative plan to Social Security for all employees not eligible for state retirement coverage under this plan, which is administered under IRC Section 403(a). Neither the School Board nor the employees contribute the 6.2 percent Federal Insurance Contributions Act tax to Social Security. Instead, the employees contribute 7.5 percent, on a pretax basis, into the alternative plan, where it is available to the employees at retirement or termination, in accordance with the provisions of IRC Section 403(a). The plan is marketed and coordinated by Mid-America Governmental Group, Inc., and is administered by William M. Mercer, Inc., with the funds invested through Life Insurance Company of the Southwest. Employee

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

contributions to the plan during the 2008-09 fiscal year totaled \$578,299, and the related 6.2 percent FICA tax savings to the Board was \$478,061.

20. OTHER POSTEMPLOYMENT BENEFITS

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, former employees who retire from the District are eligible 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 blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The 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. Contribution requirements of the District and plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 2,050 retirees received other postemployment benefits. The District provided required contributions of \$3,393,992 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees net of retiree contributions totaling \$11,130,399, reinsurance, administrative expenses, and reinsurance premiums, which represents 3.3 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The 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 year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for other postemployment benefits:

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Amount
Normal Cost (service cost for one year)	\$ 4,337,266
Amortization of Unfunded Actuarial Accrued Liability	3,585,178
Interest on Normal Cost and Amortization	761,518
Annual Required Contribution	8,683,962
Interest on Net OPEB Obligation	250,554
Adjustment to Annual Required Contribution	(194,759)
Annual OPEB Cost (Expense)	8,739,757
Contribution Toward the OPEB Cost	(3,393,992)
Increase in Net OPEB Obligation	5,345,765
Net OPEB Obligation, Beginning of Year	5,274,819
Net OPEB Obligation, End of Year	\$ 10,620,584

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, 2009, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-07	\$		\$ 0
2007-08	8,396,667	37.2%	5,274,819
2008-09	8,739,757	38.8%	10,620,584

Funded Status and Funding Progress. As of October 1, 2006, the most recent valuation date, the actuarial accrued liability for benefits was \$97,100,525, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$97,100,525 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$337,031,939, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.8 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

The District's initial OPEB actuarial valuation as of October 1, 2006, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10 percent initially, reduced to an ultimate rate of 5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 28 years.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

21. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Auburndale Senior High	\$ 11,137,928.38	\$ 490,118.43	\$ 10,647,809.95
Babson Park Elementary	1,012,811.37	12,811.37	1,000,000.00
Berkley Elementary	3,208,574.00	240,562.51	2,968,011.49
Boone Middle	12,005,604.00	367,657.05	11,637,946.95
Caldwell Elementary	2,235,401.00	38,712.46	2,196,688.54
Countywide	6,554,163.47	2,690,722.77	3,863,440.70
Eastside Elementary	5,934,610.54	4,445,907.12	1,488,703.42
George Jenkins Senior High	7,497,148.21	4,883,687.35	2,613,460.86
Haines City Senior High	8,592,274.93	7,922,236.47	670,038.46
Harrison Center for the Performing Arts	21,995,003.84	13,092,149.32	8,902,854.52
Karen M. Siegel Academy	4,781,777.07	4,236,553.05	545,224.02
Kathleen Senior High	13,084,017.57	618,078.66	12,465,938.91
Lake Gibson Middle	1,084,026.93	136,497.33	947,529.60
Lake Region Senior High	7,374,919.05	6,016,624.98	1,358,294.07
Lake Wales Senior High	6,908,566.34	106,485.40	6,802,080.94
McKeel Academy of Applied Technology	1,059,608.48	135,406.01	924,202.47
Middle School EE Loughman	35,002,700.00	301,090.56	34,701,609.44
Oscar Pope Elementary	1,122,744.31	179,978.60	942,765.71
Palmetto Elementary	18,058,034.47	16,527,461.28	1,530,573.19
Ridge Career Center	8,277,955.34	7,465,505.52	812,449.82
Ridge Community Senior High	7,786,167.60	6,369,481.24	1,416,686.36
Socrum Elementary	2,605,794.87	2,079,729.80	526,065.07
Spessard Holland Elementary School	19,396,793.55	16,139,429.28	3,257,364.27
Tenoroc High School	42,635,815.55	37,992,026.77	4,643,788.78
Watson Elementary	2,113,712.60	1,391,648.84	722,063.76
Winter Haven Senior High	9,302,637.97	832,742.38	8,469,895.59
Total	<u>\$ 260,768,791.44</u>	<u>\$ 134,713,304.55</u>	<u>\$ 126,055,486.89</u>

22. 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. The Board has established an individual self-insurance program to provide workers' compensation insurance to its employees. The Board's liability is limited to \$1,000,000 per claim with excess insurance coverage up to the statutory maximum per occurrence. As part of the self-insured workers' compensation plan, the District authorized a letter of credit to be issued in the amount of \$2,330,000 for the benefit of United States Fidelity and Guarantee Company c/o Discovery Managers, Ltd. on behalf of the District. The letter of credit is automatically renewable until it is either replaced or no longer needed by the workers' compensation plan. The letter of credit obligation will only be used if the District cannot fund its claims responsibility for the workers' compensation plan, which is, and has been funded, from premiums. The letter of credit is not expected to be used or impact the District's financial position.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The Board has also established self-insurer programs for comprehensive general liability, fleet liability, professional (errors and omissions) liability, and boiler and machinery coverages. The Board's liability under these programs is limited by State statute to \$100,000 per claim and \$200,000 per accident. A service agent (claims adjustment service) receives and reviews claims and advises the Board of amounts to be disbursed for workers' compensation, general liability, and fleet liability. The various self-insurer plans were accounted for in the Internal Service Funds.

The Board has also established a self-insurance plan for medical coverage for its regular current employees and retirees. The Board's liability is limited to \$500,000 per individual. The District's has purchased excess loss coverage up to \$5,000,000 maximum lifetime reimbursement per individual. A service agent (claims adjustment service) receives and reviews claims and advises the Board of amounts to be disbursed for medical claims. The group medical self-insurer plan was accounted for in the Internal Service Funds.

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

Total liabilities in the amount of \$33,951,696 were actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2009. Certain liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are sometimes reported at their present value. However, the District has chosen to report all liabilities at full value to maintain a more conservative reporting practice.

The following schedule represents the changes in 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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2007-08	\$ 34,209,657.00	\$ 94,654,884.29	\$ (95,547,241.29)	\$ 33,317,300.00
2008-09	33,317,300.00	95,672,303.74	(95,037,907.74)	33,951,696.00

Property and related casualty insurance is being provided through purchased commercial insurance, with a \$100,000 deductible for each loss occurrence, or five percent of the replacement value of the building (if greater than \$100,000) for a named storm, wind, or hail damage.

**POLK COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2008-09 fiscal year:

	Total	Workers' Compensation	General Liability	Fleet Liability	Errors & Omissions Boiler & Machinery	Group Medical
Total Assets	\$ 68,981,017.37	\$32,772,512.41	\$ 3,324,335.04	\$ 2,395,942.83	\$1,924,898.31	\$ 28,563,328.78
Liabilities and Net Assets:						
Accounts Payable	\$ 7,522,981.43	\$ 26,750.00	\$ 7,200.00	\$	\$	\$ 7,489,031.43
Estimated Insurance Claims Payable	33,951,696.00	20,024,814.00	2,585,379.00	2,386,503.00		8,955,000.00
Net Assets:						
Unrestricted Net Assets	27,506,339.94	12,720,948.41	731,756.04	9,439.83	1,924,898.31	12,119,297.35
Total Liabilities and Net Assets	\$ 68,981,017.37	\$32,772,512.41	\$ 3,324,335.04	\$ 2,395,942.83	\$1,924,898.31	\$ 28,563,328.78
Revenues:						
Premium Revenues	\$ 91,298,563.93	\$10,022,847.98	\$ 674,410.03	\$ 981,794.62	\$ 11,991.94	\$ 79,607,519.36
Interest Income	599,473.37	238,338.20	(13,113.49)	(734.47)	12,497.38	362,485.75
Other Operating	3,840,816.98	1,635,056.69		660.00		2,205,100.29
Total Revenues	95,738,854.28	11,896,242.87	661,296.54	981,720.15	24,489.32	82,175,105.40
Total Expenses	(103,269,197.38)	(6,970,940.76)	(1,202,827.50)	(1,556,962.32)	(540,709.01)	(92,997,757.79)
Transfers Out	(797,017.06)	(72,245.23)	(43,328.00)			(681,443.83)
Change in Net Assets	\$ (8,327,360.16)	\$ 4,853,056.88	\$ (584,858.96)	\$ (575,242.17)	\$ (516,219.69)	\$ (11,504,096.22)

24. CHANGE IN ACCOUNTING POLICY

As a result of a change in accounting policy regarding cash equivalents, the beginning cash balance on the Statement of Cash Flows – Proprietary Funds has been restated. This change had the effect of increasing the District's cash and cash equivalents beginning balance at July 1, 2008, by \$39,475,772.61 from \$8,939,624.68 to \$48,415,397.29.

25. SUBSEQUENT EVENTS

- The District entered into a financing arrangement on July 30, 2009, whereby the District secured financing to advance refund the outstanding Certificates of Participation, Series 2003A and Series 2008A. The financing was accomplished through the issuance of Certificates of Participation, Series 2009A and B, totaling approximately \$83,740,000.
- The District entered into a financing arrangement on December 30, 2009, whereby the District issued \$20,543,000 in Qualified School Construction Tax Credit Bonds, Series 2009C, for the purpose of financing educational facilities.
- The District entered into a financing arrangement on March 23, 2010, whereby the District secured financing to advance refund the outstanding Certificates of Participation, Series 1999A and 1999B. The refinancing also provided for the payment of the arbitrage liability associated with the 1999A Certificates of Participation. The financing was accomplished through the issuance of Certificates of Participation, Series 2010A and 2010B totaling \$57,155,000.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**POLK COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2009**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 640,000.00	\$ 640,000.00	\$ 687,104.33	\$ 47,104.33
Federal Through State and Local	750,000.00	750,000.00	1,351,346.25	601,346.25
State	446,811,914.49	430,048,759.49	429,125,912.38	(922,847.11)
Local:				
Property Taxes	216,688,634.11	219,435,803.28	210,237,823.11	(9,197,980.17)
Miscellaneous			11,345,714.35	11,345,714.35
Total Revenues	664,890,548.60	650,874,562.77	652,747,900.42	1,873,337.65
Expenditures				
Current - Education:				
Instruction	474,775,978.14	473,164,922.61	451,061,372.05	22,103,550.56
Pupil Personnel Services	27,721,926.86	27,840,533.25	27,233,215.60	607,317.65
Instructional Media Services	10,207,843.00	10,387,890.09	10,387,890.09	
Instruction and Curriculum Development Services	3,507,876.45	3,545,057.17	3,440,267.49	104,789.68
Instructional Staff Training Services	4,339,311.00	4,529,692.09	3,877,624.56	652,067.53
Instruction Related Technology	4,055,225.00	4,190,476.75	4,053,696.56	136,780.19
Board of Education	2,258,999.00	2,593,759.64	2,449,825.70	143,933.94
General Administration	3,162,026.05	3,441,564.73	3,318,060.17	123,504.56
School Administration	41,586,657.15	42,183,341.77	40,305,225.35	1,878,116.42
Facilities Acquisition and Construction	7,169,380.11	7,727,689.85	5,879,019.25	1,848,670.60
Fiscal Services	3,359,770.00	3,348,208.31	2,523,799.62	824,408.69
Central Services	13,671,820.59	13,972,636.47	12,955,445.21	1,017,191.26
Pupil Transportation Services	34,827,968.00	35,352,961.93	30,939,582.91	4,413,379.02
Operation of Plant	50,526,206.46	50,898,392.21	47,547,015.34	3,351,376.87
Maintenance of Plant	25,799,455.71	29,297,459.74	24,280,166.80	5,017,292.94
Administrative Technology Services	4,956,835.00	5,101,066.97	4,931,072.45	169,994.52
Community Services	24,890.00	297,521.33	139,711.24	157,810.09
Fixed Capital Outlay:				
Facilities Acquisition and Construction	2,875,266.21	4,748,806.08	1,709,735.98	3,039,070.10
Other Capital Outlay	635,113.90	2,960,281.59	2,419,193.88	541,087.71
Debt Service:				
Principal	1,053,927.83	938,789.42	937,178.97	1,610.45
Interest and Fiscal Charges	297,638.81	584,188.02	584,188.02	
Total Expenditures	716,814,115.27	727,105,240.02	680,973,287.24	46,131,952.78
Deficiency of Revenues Under Expenditures	(51,923,566.67)	(76,230,677.25)	(28,225,386.82)	48,005,290.43
Other Financing Sources (Uses)				
Transfers In	37,275,972.32	43,272,739.14	32,447,782.16	(10,824,956.98)
Insurance Loss Recoveries			17,908.30	17,908.30
Proceeds from Loans		8,499,800.00	8,499,800.00	
Refunded Loan Payments		(8,328,389.20)	(8,328,389.20)	
Transfers Out		(91,551.11)	(91,551.11)	
Total Other Financing Sources (Uses)	37,275,972.32	43,352,598.83	32,545,550.15	(10,807,048.68)
Net Change in Fund Balances	(14,647,594.35)	(32,878,078.42)	4,320,163.33	37,198,241.75
Fund Balances, Beginning	57,741,792.54	57,741,792.54	57,741,792.54	
Fund Balances, Ending	\$ 43,094,198.19	\$ 24,863,714.12	\$ 62,061,955.87	\$ 37,198,241.75

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2006	\$ 0	\$ 97,100,525	\$ 97,100,525	0.0%	\$ 337,031,939	28.8%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**POLK COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009**

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:				
Direct:				
Secondary and Two-Year Postsecondary				
Agriculture Education Challenge Grants	10.226	N/A	\$ 17,723.73	\$
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	5,426,679.81	
National School Lunch Program	10.555	300, 350	21,643,551.31	
Summer Food Service Program for Children	10.559	323	708,008.96	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	2,716,309.68	
Total Child Nutrition Cluster			30,494,549.76	
Total United States Department of Agriculture			30,512,273.49	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	256,079.45	
United States Department of Education:				
Direct:				
Federal Pell Grant Program	84.063	N/A	1,157,140.45	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	19,654,127.12	1,868,099.84
Special Education - Preschool Grants	84.173	266, 267	437,802.30	52,999.99
Total Special Education Cluster			20,091,929.42	1,921,099.83
Adult Education - Basic Grants to States	84.002	191, 193	934,201.60	
Title I Grants to Local Educational Agencies	84.010	222, 223, 226, 228	23,336,766.24	921,760.97
Migrant Education - State Grant Program	84.011	217	988,978.67	
Career and Technical Education - Basic Grants to States	84.048	151, 161	1,504,622.03	47,238.00
Safe and Drug-Free Schools and Communities - National Programs	84.184	107	138,472.69	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	276,947.70	
Education for Homeless Children and Youth	84.196	127	65,682.66	
Fund for the Improvement of Education	84.215	143	332,704.45	
Tech-Prep Education	84.243	157	14,484.72	
Charter Schools	84.282	298	930,087.68	930,087.68
Twenty-first Century Community Learning Centers	84.287	244	952,943.70	184,181.21
State Grants for Innovative Programs	84.298	112, 113	72,395.18	
Education Technology State Grants	84.318	121	230,486.46	
Transition to Teaching	84.350	227	23.55	
Reading First State Grants	84.357	211	1,389,672.31	375,863.23
Voluntary Public School Choice	84.361	299	302,303.69	27,078.84
English Language Acquisition Grants	84.365	102	1,444,273.54	
Improving Teacher Quality State Grants	84.367	224	3,578,172.44	37,642.43
School Improvement Grants	84.377	126	775,364.37	11,517.91
Total Indirect			57,360,513.10	4,456,470.10
Total United States Department of Education			58,517,653.55	4,456,470.10

**POLK COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2009**

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 Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	\$ 6,365,159.67	\$ 383,803.25
Indirect:				
Florida Department of Health: Assistance Programs for Chronic Disease Prevention and Control	93.945 (4)	None	88,602.38	
Total United States Department of Health and Human Services			<u>6,453,762.05</u>	<u>383,803.25</u>
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	234	72,910.92	
United States Department of Homeland Security:				
Indirect:				
Florida Division of Emergency Management: Hazard Mitigation Grant	97.039 (2)(B)	FEMA 1551-23F	1,123,178.15	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	105-0559C-00	948.97	
Total United States Department of Homeland Security			<u>1,124,127.12</u>	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	546,925.42	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	36,208.30	
Air Force Junior Reserve Officers Training Corps	None	N/A	45,978.54	
Navy Junior Reserve Officers Training Corps	None	N/A	57,992.07	
Total United States Department of Defense			<u>687,104.33</u>	
Total Expenditures of Federal Awards			<u>\$ 97,623,910.91</u>	<u>\$ 4,840,273.35</u>

- 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.
- (A) National School Lunch Program - Represents the amount of donated food used during the fiscal year. Commodities are valued at fair value as determined at the time of donation.
- (B) Hazard Mitigation Grant - Represents the Federally-paid portion of two emergency shelter generators and installation with a cost of \$1,123,178.15.
- (3) Head Start. Expenditures include \$3,313,997.09 for grant number 04CH4623/01 and \$3,051,162.58 for grant number 04CH4623/02.
- (4) Assistance Programs for Chronic Disease Prevention and Control. Expenditures paid under contract FAH60.



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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 Polk County District School Board as of and for the fiscal year ended June 30, 2009, 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 financial statements was modified because of the misclassification of certain restricted assets reported in the District's aggregate discretely presented component units and 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 Polk County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Polk Education Foundation and Business Partnership, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's

ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

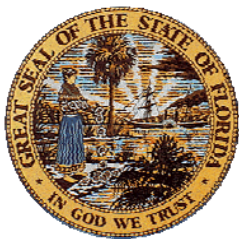
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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 25, 2010



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

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

Compliance

We have audited the Polk County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the OMB's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be a material weakness.

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

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

Respectfully submitted,



David W. Martin, CPA
March 25, 2010

**POLK COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Except for the effects of adjustments to the aggregate discretely presented component units, there were no modifications to the opinions on the financial statements.
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Internal control over financial reporting:

Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be 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 material weakness(es)?	Yes

Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
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Any audit findings disclosed that are required to be reported in accordance with Section ____ .510(a) of OMB <i>Circular A-133</i> ?	Yes
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Identification of major programs:	Child Nutrition Cluster (CFDA Nos.10.553, 10.555, and 10.559); Title I (CFDA No. 84.010); and Head Start (CFDA No.93.600)
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Dollar threshold used to distinguish between Type A and Type B programs:	\$2,928,717
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Auditee qualified as low-risk auditee?	No
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**POLK COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is its annual financial report. District personnel should ensure that the report is accurate and contains required presentations and disclosures so that the users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code, require the Superintendent to keep, or to have kept, accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR), and that the District submit its AFR to FDOE by September 11, 2009. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

The District's process for preparation and approval of the AFR needed improvement. Instead of preparing all parts of the AFR based on data in the 2008-09 fiscal year accounting records, the District initially reported the 2007-08 fiscal year audited amounts on the government-wide statements, the reconciliation statements, certain note disclosures, and information contained in the management's discussion and analysis required supplementary information. The District submitted a portion of its AFR to FDOE by September 11, 2009, and FDOE approved an extension for the District to submit the remainder of the AFR by September 22, 2009. In addition, on September 22, 2009, District personnel presented the inaccurate financial data as 2008-09 fiscal year information to the Board, the Audit Committee, and FDOE. Subsequently, the District made revisions to its AFR to replace the 2007-08 fiscal year information with corrected 2008-09 fiscal year financial data, presented the revised AFR to the Board, and submitted it to FDOE on October 27, 2009, or over a month after the extension date.

Further, the basic financial statements are required to include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. However, our review disclosed that the notes to financial statements submitted on October 27, 2009, omitted disclosures for interfund payables and receivables totaling \$9.2 million each, and interfund transfers in and out totaling \$82.7 million each. Based on our recommendations, the District accepted revisions to properly report these disclosures. Additional control deficiencies relating to interfund loans and transfers are discussed in Finding Nos. 5 and 6.

The financial balances and activities of the Polk Education Foundation and Business Partnership, Inc. (Foundation), are reported by the District in its financial statements within the aggregate discretely presented component units. In accordance with Section 1001.453(4), Florida Statutes, an annual audit of the Foundation was performed by an

independent certified public accountant for the 2008-09 fiscal year; however, the opinion on the Foundation's financial statements included a disclosure (qualification) related to the misclassification of restricted assets. The financial balances, and activities of the Foundation represent approximately 13, 19 and 3 percent of the assets, net assets, and revenues, respectively, of the aggregate discretely presented component units in the District's financial statements. Professional auditing standards require that when other auditors report on a significant portion of an entity's financial statements, and such opinion qualifications are made, similar qualifications should be made in the referring auditor's report. Therefore, our report on the District's financial statements includes a qualification to that effect.

Under these conditions discussed above, there is an increased risk that financial statement users could make misinformed decisions based on the inaccuracies reported in the District's AFR. Based on responses to our inquiries and review of District records, the Accounting Director was solely responsible for the preparation of the AFR and no one independently reviewed and approved the AFR before it was submitted to the Board and FDOE. The Accounting Director was also responsible for the duties of another accounting position, previously responsible for voucher approvals, cash management, and financial reporting, that remained vacant during the entire 2008-09 fiscal year and impacted the timely and accurate completion of the AFR. In the previous two audits of the District, similar findings over the financial reporting process were reported as material weaknesses.

Recommendation: **The District should enhance procedures to ensure the accuracy and completeness of its financial statements, and the timely submission the annual financial report to FDOE.**

ADDITIONAL MATTERS

Finding No. 2: Comprehensive Procedures Manuals

The District could enhance its internal control system with the development and maintenance of comprehensive procedures manuals pertaining to the District's financial operations. The District established a business services function and assigned and separated various business activities to promote a system of internal control; however, the District had not developed comprehensive procedures manuals pertaining to the District's financial operations and related financial activities.

Procedures manuals are necessary to ensure appropriate training of new staff, as well as to provide an aid in bridging the transition in the event of changes in key business services or finance-related personnel. Additionally, procedures manuals serve to document the duties of key business services and finance-related personnel and may also serve to communicate management's commitment to, and support of, a strong system of internal control. As of January 2010, the accounting department has undergone substantial change subsequent to June 30, 2009, with a new employee serving as the Senior Manager of Financial Accounting and an interim Director of Accounting. Based on responses to our inquiries, the District had not previously completed the comprehensive procedures manual because of the lack of knowledgeable accounting staff to complete this task. District personnel indicated that steps are being taken to develop a comprehensive procedures manual, with hopes to complete the manual during the 2009-10 fiscal year. Similar findings were noted in several of the previous audit reports.

Recommendation: **To enhance its internal control system, the District should continue its efforts to develop comprehensive procedures manuals for financial operations and related activities.**

Finding No. 3: Cash and Investment Account Reconciliations

Improvements could be made in the District's reconciliation procedures. The District maintained 28 bank and investment accounts during the 2008-09 fiscal year; however, our review of 192 reconciliations prepared for 16 bank and investment accounts disclosed that District personnel did not timely perform certain reconciliations, and we noted reconciliations that did not evidence supervisory review and approval or review and approval was untimely. Our tests disclosed that District personnel did not complete 103 of the 192 monthly reconciliations until 60 to 260 days after month end. Also, 3 of the reconciliations did not evidence timely preparation because the preparation dates were not listed. District personnel indicated that these accounts were not reconciled timely mainly because various monthly journal entries were not finalized in the accounting system and the asset balances were not available for reconciliation. In addition, no one independently reviewed and approved 93 of 192 monthly reconciliations, and 35 of the remaining 99 reconciliations were not approved until 65 to 241 days after the reconciliations were prepared. District personnel indicated that the lack of proper supervisory review of the reconciliations occurred mainly because personnel responsible for the review had other priorities.

Effective internal control procedures require that account reconciliations be performed on a routine basis and reviewed by supervisory personnel. This provides reasonable assurance that cash and investment assets agree with recorded accountability and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions. A similar finding was noted in the District's 2007-08 fiscal year audit.

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

Finding No. 4: Monthly Financial Reports

State Board of Education (SBE) Rule 6A-1.008, Florida Administrative Code, requires that the Superintendent submit financial statements, at least monthly, to the Board, and Board Policy 6Gx53-5.001, *Financial Statements*, provides that the monthly financial statements reflect expenditures, encumbrances, and budget balances of all budget accounts. However, District personnel did not submit monthly financial reports timely to the Board, contrary to SBE Rule and Board policy. Also, as of December 2009, District personnel had not prepared monthly financial reports for March 2009 through June 2009, and District personnel presented to the Board the financial reports for July 2008 through February 2009 from three to seven months subsequent to the month's end. Further, while a narrative summarizing fund equity accompanied the monthly financial reports provided to the Board, the various components of fund equity, including encumbrances, were not addressed in the narrative, contrary to Board policy.

The deficiencies above mainly occurred because, according to District personnel, they were unaware of what financial reports would be beneficial for Board review, and because District personnel did not always update the accounting records timely. The District should provide sufficiently detailed and timely financial reports to enhance the Board's ability to make financial decisions and understanding of the District's financial condition. The failure to provide such information increases the risk of not identifying or remedying critical budget shortfalls in a timely manner, authorizing purchases when funds are not available, and financial mismanagement. A similar finding was noted in the District's 2007-08 fiscal year audit.

Recommendation: Procedures should be enhanced to ensure that District staff provide sufficiently detailed and accurate financial information to the Board in a timely manner, so that the Board has practical and understandable summary information for monitoring the overall financial condition of the District.

Finding No. 5: Interfund Loans

Pursuant to the provisions of Section 1011.09(2), Florida Statutes, the District may temporarily advance moneys from one fund to another fund when insufficient moneys are available to meet current obligations. The statute further requires that the temporary advancement be repaid within 13 months, appropriate accounting records be maintained, and the temporary advancement should not restrict, impede, or limit implementation or fulfillment of the original purposes for which the transferred moneys were intended.

The District reported interfund loans of approximately \$9.2 million from the Capital Projects – Local Capital Improvement (LCI) Fund to the Capital Projects – Other Fund at June 30, 2009. The District advanced these moneys to provide temporary funding for projects that will be paid from Certificates of Participation (COP) proceeds until reimbursement is obtained from the COP trustee. Although the District accounted for the interfund loans in a specific account, District staff had not performed an analysis of the various individual transactions to identify amounts outstanding in excess of 13 months. Our review disclosed that interfund loans totaled approximately \$9.1 million between the two funds at July 1, 2007, and increased to approximately \$9.2 million at June 30, 2009. While the District loaned and repaid approximately \$2.8 million in December 2007, interfund loans totaling approximately \$9.1 million remained outstanding in excess of 24 months. According to District records and responses to our inquiries, COP trustee agreements require the District to provide detailed support prior to reimbursement, delaying the timeliness of repaying the temporary loans. District personnel further indicated that new trustee agreements would allow reimbursement requests based on summary data, rather than detailed support. Similar findings were noted in the District's last three audits.

The District contracts with an independent firm to perform arbitrage calculations, based on the information contained in the statement of transactions provided by the COP trustee. The failure to timely file for reimbursement of trustee funds to repay interfund loans for COP projects may result in inaccurate or excessive arbitrage liability estimates, as also discussed in Finding No. 7, since these calculations are based on amounts on deposit with the trustee rather than the actual expenditure of such funds. The repayment of such interfund loans on a timely basis minimizes the effect of these timing differences.

Recommendation: The District should enhance controls to provide for the review of interfund loan transactions to ensure that amounts are repaid prior to 13 months, as required. The District should also enhance controls to ensure that reimbursement for COP projects are timely requested and repaid to the appropriate fund advancing project moneys.

Finding No. 6: Ad Valorem Taxation

The Board was authorized pursuant to the provisions of Section 1011.71(2), Florida Statutes, to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. The conditions precedent to the levy of such taxes have been narrowly construed by the courts (e.g., *Wilson vs. School Board of Marion County*, 424 So.2d 16 [Fla. 5th DCA 1983]), and failure to fully comply with such conditions may serve to invalidate the levies. Among the specific conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy

proceeds, the purposes for which the Board intends to spend the proceeds of each such tax levy and to specify in the required notice of tax levy the projects to be funded by such additional taxes. Such projects are to be listed in priority order within each category.

The allowable uses of ad valorem taxes and the use of those moneys is ultimately dependent upon the statutory language in place during the year in which the taxes were assessed and the purposes contained in the required tax levy advertised notice. Since restrictions governing the use of these funds may vary significantly for each year's levy, it is incumbent upon the District to maintain accurate and complete records for the budgeting, receipt, investment, expenditure, and balance of each levy by fiscal year.

As noted in Finding No. 5, the District advanced approximately \$9.2 million of local capital improvement millage levy moneys to pay expenditures related to various projects expected to be funded through the issuance of certificates of participation (COPS). However, District records did not evidence the specific fiscal year tax levy from which the moneys were advanced to finance the interfund loan. Further, the District had not established procedures to properly accrue interest earned on the balance of each specific fiscal year tax levy used in making the loan.

For the 2008-09 fiscal year, the District published the notice of intent to levy ad valorem taxes for capital outlay millage in accordance with Section 200.065(10)(a), Florida Statutes. The District's published notice listed land for a new elementary school in Winter Haven; expansion of the Harrison Arts Center facility; a 10-classroom addition at Berkley Elementary; Transportation/Maintenance Facility and land in Northeast Polk County; renovation and repair, and replacements at various existing facilities; the purchase of 52 school buses and ancillary electronic equipment, new and replacement furniture, equipment, computers and related hardware and software at several schools; debt service payments under lease-purchase agreements; and costs to lease portable classrooms at various schools. Our review of ad valorem transfers totaling approximately \$46.3 million and expenditures totaling approximately \$2.5 million disclosed the following:

- The District funded property and casualty insurance premium costs totaling approximately \$2.1 million from the District's Local Capital Improvement (LCI) funds used to account for ad valorem taxes; however this purpose was inadvertently not specified in the advertised notice of tax levy. Subsequent to our inquiry, on January, 19, 2010, the District transferred back these moneys to the LCI fund.
- In October 2008, the District advanced approximately \$520,000 from LCI funds to a development corporation for the purpose of constructing a lift station on the developer's property that was necessary to operate the newly constructed Spessard Holland Elementary School. However, the District's advertised notice of tax levy did not include the advance, the construction of a lift station, or the new elementary school. District records did not evidence the basis upon which the District made this advance. Subsequent to our inquiry, on January 27, 2010, the District transferred back these moneys to the LCI funds.
- Interest rate swap agreements provide for an exchange of interest payments on a specific principal amount to effectively convert a variable rate on debt to a fixed rate. The District has entered into several interest rate swap agreements associated with the various issues of COPS. Our review disclosed that the District used the General Fund to account for an unrestricted upfront premium payment of approximately \$3.5 million, net of issuance costs, received in connection with a 2005 swaption agreement on the 1999A, and 2001A COPS issues. The proceeds were initially deposited in the LCI funds and subsequently transferred to the General Fund during the 2008-09 fiscal year. The District also incurred termination fees during the 2008-09 fiscal year totaling that amount in connection with the swaption agreement. However, the District included the termination fees in the amount transferred from LCI funds for the purpose of debt service payments under lease purchase agreements (COPS debt service). Because premiums received are deposited in the General Fund while termination fees incurred are funded from LCI funds, these interest swap agreements have resulted in the unauthorized transfer of restricted LCI funds to the unrestricted General Fund and represent questioned costs totaling approximately \$3.5 million.

Recommendation: The District should enhance procedures to properly account for loans made from tax levy proceeds by fiscal year to ensure that the tax levies are timely reimbursed. Also, the District should enhance controls to ensure that expenditures of such tax levies are made only after being properly advertised, and in accordance with Section 200.065, Florida Statutes. In addition, the District should restore the approximately \$3.5 million paid as termination fees from LCI funds.

Finding No. 7: Arbitrage

Arbitrage earnings occur when a governmental entity issues tax-exempt debt and uses the proceeds to make investments, which have a higher rate of return than the interest cost paid on the debt. The Federal government has established rules and regulations that define the amount of arbitrage earnings that must be paid to the Federal government as an arbitrage rebate.

Section 148, Title 26, United States Code (USC), provides, in part, that unless specified percentages of the available construction proceeds of a debt issue are spent for the governmental purpose of the issue within the certain required periods after the debt is issued, an arbitrage rebate may be due to the Federal government. The USC also provides that the District has five years from the time that all proceeds have been spent to have the arbitrage rebate calculation performed and paid along with any penalties. Additionally, generally accepted accounting principles require that a liability for arbitrage rebate be reported in the financial statements annually.

Our review disclosed that the District lacked procedures to timely provide for current arbitrage rebate calculations. The District has presented a liability, totaling approximately \$620,000, in connection with an arbitrage calculation performed by an arbitrage specialist in 2004 for a 1999A debt issue. The District has reported this same amount as a liability in the District's financial statements for the last six years. As noted in Finding No. 5, the calculation relied on information maintained with the trustee rather than on the actual expenditure of debt proceeds. As a result, the District disputed the calculation and amount owed to the Internal Revenue Service (IRS). However, our review disclosed that, as of January 2010, the District had not taken appropriate action to resolve this matter or make the required payment for arbitrage (a similar finding was noted in our prior audit of the District). Subsequently, the District reconsidered the calculation and directed the trustee to pay \$1,303,750 to the IRS to settle the arbitrage liability, including interest and penalties through March 31, 2010, of \$375,700 and \$309,350, respectively.

Recommendation: The District should implement procedures to ensure the proper calculation of estimated arbitrage rebate liability and report the current arbitrage rebate liability in its financial statements.

Finding No. 8: Board Member Conflicting Employment/Contractual Relationship

Section 112.313(7)(a), Florida Statutes, provides that no public officer should have a contractual relationship with any business entity which is subject to the regulation of, or is doing business with, an agency of which he or she is an officer or employee, except under specific circumstances listed in Section 112.313(12), Florida Statutes. The statute also prohibits an officer of an agency to have or hold any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties or that would impede the full and faithful discharge of his or her public duties.

The Commission on Ethics (CEO) opined, in CEO 06-23, that a continuing or frequently recurring conflict of interest and an impediment to the full and faithful discharge of public duty would be created were a member of a district school board to remain employed at a charter school sponsored by the district school board due to the

responsibilities, obligations, and potentially differing interests between the district school board and the charter school.

Our review disclosed that a Board member, who works as an independent contractor, served as an academic advisor on a part-time basis, totaling approximately 12 hours per week, for a District-sponsored charter school. In response to our inquiry, the District's General Counsel indicated that the Board member was advised to abstain from voting on any matter involving the charter school; however, a legal basis for the allowance of this contractual relationship to exist was not provided. As noted by the Commission in CEO 92-53, voting abstention is appropriate only where a conflict of interest arises occasionally. For an occasional conflict, the Legislature has provided that a voting official, pursuant to Section 112.3143(3), Florida Statutes, may publicly disclose his conflict and abstain from voting. However, when the official's employment presents him with a continuing or frequently recurring conflict of interest, or impedes the full and faithful discharge of his public duties, the Legislature has provided in Section 112.313(7)(a), Florida Statutes, that the official may not continue to serve in the face of that conflict. No public officer or employee shall have any interest or professional activity which is in substantial conflict with the proper discharge of his duties in the public interest. Thus, a violation of Section 112.313(7), Florida Statutes, may not be overcome by abstention and disclosure under Section 112.3143(3), Florida Statutes, as Board Counsel suggests. Accordingly, this contractual relationship appears to create a continuing or frequently recurring conflict or impediment to the full and faithful discharge of the Board member's public duties.

Recommendation: The Board should enhance controls to ensure that conflicting employment or contractual relationships, as specified in Section 112.313, Florida Statutes, are prohibited.

Finding No. 9: Investment of Funds Policy

At June 30, 2009, District investments totaled approximately \$228 million. School Board Policy 6Gx53-5.003, *Investment of Funds*, provides that the school board shall be responsible for establishing and maintaining internal controls designed to ensure that the assets of the school board are protected from loss, theft, or misuse. The policy further provides that such controls shall include an investment review and performance reporting by the Assistant Superintendent – Business Services, or a designee, to the Board on at least an annual basis, and a review of compliance with internal controls by the Board's Internal Audit Department at least annually.

Subsequent to year end, in November 2009, the District's Internal Audit Department released a report on compliance with the District's investment policy, and noted certain control deficiencies, such as:

- The annual investment review and performance report was not prepared for the 2006-07, 2007-08, or 2008-09 fiscal years, or since the investment policy was revised to include this requirement.
- Account authorization documentation for most investment accounts had not been updated to document the current employee names, signatures, and levels of authority. This finding is a repeat of prior audits performed by the Internal Audit Department dated September 10, 2007, and October 24, 2008.
- The investment function lacked written documentation of internal control procedures.

Subsequent to the release of the internal audit report on compliance, the assistant superintendent submitted a report of investments as of October 31, 2009, at the December 8, 2009 Board meeting. Our review of this report disclosed that it was limited to a listing of investment holdings, a percentage of composition to total portfolio, and investment yield. In addition, the investment values reported did not always show current values in that some were reported as of October 31, 2009, and others as of June 30, 2009. Also, the report failed to identify performance benchmarks or

provide for the measurement against such benchmarks, for both long and short-term investments, as required by Board policy.

The failure to review performance and controls associated with investments limits the Board's assurance that investment-related activity met investment objectives and parameters set forth by the Board. In addition, the failure to timely report the status of investments limits the Board's ability to make well-informed decisions and to understand the District's financial strength or lack thereof. Similar findings were noted in prior audits of the District.

Recommendation: To enhance controls over investments, District staff should enhance the reporting on investments to ensure compliance with Board Policy.

Finding No. 10: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires the District to provide a written statement indicating the purpose for collecting the number to the individual from whom the number is obtained. Further, SSNs may not be used by the District for any purpose other than the purpose provided in the written statement.

Our review disclosed that the District collected SSNs from students, employees, prospective employees, and certain contracted vendors for various purposes; such as for student enrollment, employee insurance, withholding taxes, citizenship verification, and background checks. However, contrary to the above law, the District did not, of record, conduct a review and evaluation of the reasons for collection of SSNs or provide written statements notifying individuals of the purpose for collection. District personnel indicated that, prior to our inquiries, the District was not aware of its recordkeeping responsibilities relating to the collection of SSNs. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that collection of the SSNs is not imperative for performance of its duties and responsibilities, the District should discontinue obtaining such numbers.

Finding No. 11: Student Diplomas

Improvements could be made in controls over student diplomas. For the 2008-09 fiscal year, the District's high schools had approximately 4,850 graduates who received diplomas. Our review of student graduation and diploma processing at four District high schools graduating 953 students disclosed the following:

- There was no written agreement with the printing company specifying the procedures to be followed for diploma orders and the District employees authorized to submit orders. Written agreements may establish District expectations and staff responsible for diploma orders, and reduce potential misunderstandings related to such orders.
- There was an inadequate separation of duties over the receipt and distribution of student diplomas. At the four schools reviewed, guidance counselors compiled orders for all of their graduating candidates, received the completed diplomas from the printing company for all graduating candidates submitted, and distributed the diplomas directly to the students or to other District personnel for distribution. No employee, other than the assigned guidance counselor, verified that the diplomas were properly distributed only to eligible graduates. Our review of 20 graduates who received diplomas indicated that the graduates met the eligibility requirements for graduation; however, our tests are not a substitute for management's responsibility to establish effective controls over diplomas.
- The District lacked procedures to adequately secure, retain, and dispose of unissued diplomas maintained by each school. Unissued diplomas at each of the locations reviewed were generally maintained in a secure location; however, more than one person had access to the unissued diplomas. Our review of the four school's procedures also disclosed that unissued diplomas were retained for different periods of time ranging from one year to indefinitely. Further, the destruction of old unissued diplomas was not controlled through the use of a listing identifying diplomas destroyed and evidencing parties witnessing the disposal to ensure proper accountability. Absent procedures providing for proper security, retention and disposal of diplomas, the District is at risk that unissued diplomas may be utilized for unauthorized purposes.

The above deficiencies occurred, in part, because District personnel did not consider the importance of establishing responsibilities in written agreements, properly separating incompatible duties, and securing unissued diplomas.

Recommendation: **The District should enhance controls over high school diploma processing to ensure that diplomas are properly controlled and distributed only to those students who meet the eligibility requirements for graduation.**

Finding No. 12: Information Technology – Review of 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 an employee's demonstrated need to view, change, or delete data. Further, effective access controls provide employee access privileges that are established to restrict employees from performing incompatible functions or functions outside of their area of responsibility. Our audit disclosed certain District access controls that needed improvement, as described below:

- The District did not have written policies and procedures governing user account reviews and had not performed periodic reviews of user access privileges. Without a timely review of user access privileges, the District's ability to detect and correct inappropriate or unnecessary access privileges may be limited.
- Twenty-four employees from various departments and three consultants had the ability to add, update, and delete all Financial and Human Resource application functional transactions and most security-related transactions. These access privileges either permitted the employee or consultant to perform incompatible duties or were unnecessary for their job functions.
- Nineteen employees from various departments had the ability to add a vendor and update vendor information; create a purchase order, invoice, and payment; and post a payment. These access privileges permitted the employee to perform incompatible duties.
- Two employees from the IT department and one consultant had inappropriate administrative privileges such as the ability to maintain user authorizations and profiles. Only the Security Administrator whose responsibilities are to manage users' system access should be able to maintain user authorization and profiles.

- Five employees from various departments and one consultant had inappropriate administrative privileges such as the ability to update application tables and data elements. This access was unnecessary for their assigned job duties and should only be given to employees whose responsibilities are to update application tables and data elements.

Although the District had compensating controls in place (e.g., management review of edit reports and budgetary restrictions) to mitigate the risks of the control deficiencies noted above, the above-described instances of inappropriate or unnecessary access privileges increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to audit inquiry, District management indicated that they were in the process of reviewing and removing inappropriate or unnecessary access privileges.

Recommendation: The District should review the ongoing appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access privileges as detected to minimize the risk that the access privileges could be used to compromise District data or IT resources.

Finding No. 13: Information Technology – Security Awareness

A comprehensive security awareness training program apprises new employees of, or reemphasizes to current employees, 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 the District required new employees to sign an acknowledgement when hired that they had read and understood the *Employee Handbook and Benefits Information*, there was no formal ongoing security awareness training program to facilitate employees' education and training on security responsibilities, including password security and strengthening techniques; acceptable or prohibited methods for storage and transmission of confidential data; physical security over workstations, personal digital assistants, and laptops; malicious software; and virus threats. In addition, the District did not require all employees to sign annual acknowledgments that they have read, understood, and accepted security policies.

In response to audit inquiry, District management indicated that they had written policies regarding, among other things, password protection and the storage and transmission of confidential data and that certain security-related topics are disseminated periodically to all District staff via e-mail. However, implementing a formal security awareness training program would allow for an ongoing, structured approach to promoting security awareness in a uniform manner throughout the District. The District's failure to implement a formal ongoing security awareness training program increases the risk that the District's IT resources could be unintentionally compromised by employees while performing their assigned duties.

Recommendation: The District should promote security awareness through formal ongoing training programs to ensure that its employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. Additionally, the District should require all employees to acknowledge in writing their understanding and acceptance of security-related responsibilities on an annual basis.

Finding No. 14: Information Technology - User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to the District's IT administrative system that needed improvement, in addition to the matters discussed in Finding Nos. 12 and 13 above. 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, 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.

Recommendation: The District should improve the appropriate security controls to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$56,875

Program Income - Exclusive Beverage Contract. Contrary to Title 7, Section 3016.25, Code of Federal Regulations, the District did not correctly allocate program income from its exclusive beverage contract to the nonprofit school food service (food service program) account. The Board approved a five-year renewal of an exclusive beverage contract effective for the period October 1, 2007, through September 30, 2012, to provide noncarbonated beverage products to the District's schools and its food service program. The exclusive beverage contract provides for a guaranteed annual commission; however, this guaranteed amount is subject to a pro rata share reduction in the event that the contract-specified minimum volumes are not achieved. Our review disclosed that the contractor prepares quarterly reports, which are used to calculate commissions due the District. The District relies solely on these contractor-provided reports and has not established controls to verify reported information and related commission due the District.

Additionally, the contractor reports are not sufficiently detailed to establish proper allocation of program revenue to the food service program. Federal regulations require that if the food service program is included in a properly procured long-term beverage contract that includes incentives, the incentives, which represent program income, must be allocated properly to the food service program, and the full value of all incentives (cash and noncash) must be used to determine the amount of program income resulting from the contract. Additionally, the portion of these incentives allocable to the school food service program must be deposited into the food service account. Failure to provide the food service program with its allocated share of cash or noncash incentives circumvents proper allocation of program income to the food service program.

During the 2008-09 fiscal year, the District received \$56,875 in connection with the exclusive beverage contract and \$54,535 in connection with a snack contract. While the District received commission proceeds from the snack contract which were retained by the food service program, all commissions from the exclusive beverage contract, although initially deposited into the food service account, were allocated to the various participating schools. In response to our inquiry, District staff indicated that this allocation methodology was used because it was equitable for the participating schools and easier to maintain from an accounting standpoint; however, the allocation methodology was contrary to the requirements specified by Title 7, Section 3016.25, Code of Federal Regulations.

Absent controls that provide for the proper allocation of program revenue and for independent verification of contractor-provided commission calculations, the District's ability to demonstrate compliance with Federal regulations

is limited and could result in the loss of revenue for both the food service program and District schools in the event of inaccurate reporting.

Recommendation: The District should enhance its procedures to ensure that sufficient information is maintained to demonstrate that exclusive beverage contract commissions are properly calculated, allocated, and deposited to the food service program. The District should also document to the grantor (Florida Department of Education) that program income attributable to the exclusive beverage contract was properly allocated or restore the questioned costs of \$56,875 to the program.

District Contact Person: Lisa Hester, Interim Accounting Director,

Federal Awards Finding No. 2:
Federal Agency: United States Department of Health and Human Services
Program: Head Start (CFDA No. 93.600)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Sub-Recipient Monitoring – Program Self-Assessment. Title 45, Section 1304.51(i)(2), Code of Federal Regulations, requires Head Start grantees to establish and implement procedures for the ongoing monitoring of their Head Start operations by performing an annual self-assessment to ensure that these operations effectively implement Federal regulations. On July 1, 2008, the District began operations for the Head Start program, previously administered by a private nonprofit corporation; however, District records did not evidence that anyone performed the annual self-assessment of the Head Start program for the 2008-09 fiscal year. As of November 2009, the District was in the initial stages of developing procedures to perform this assessment. Without procedures in place to perform the self-assessment of the Head Start operation, the District has limited assurance that program operations comply with program laws, rules, and regulations.

Recommendation: The District should continue its efforts to ensure that an annual self-assessment for the Head Start program is performed.

District Contact Person: Matti Freidt, Director of Preschool Programs

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in the previous audit reports.

OTHER MATTERS

The Federal Bureau of Investigation is conducting an investigation into alleged construction contract improprieties involving several District employees, and a final resolution of the investigation was pending as of March 25, 2010.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*POLK COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009*

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
Ernst & Young LLP 2007-08 Report Finding 08-04	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Cash	The District did not calculate or remit interest on advanced funds as required.	Partially corrected	The District developed procedures in the 2009-10 fiscal year to calculate and remit interest and remitted \$703.51 of interest earned to the grantor in January 2010.
Ernst & Young LLP 2007-08 Report Finding 08-05	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Equipment and Real Property Management	The District did not have sufficient controls in place to ensure assets are properly labeled at the time of receipt.	Corrected	

EXHIBIT A
MANAGEMENT'S RESPONSE



SCHOOL BOARD OF POLK COUNTY

P.O. BOX 391
BARTOW, FLORIDA 33831

(863) 534-0500

1915 SOUTH FLORAL AVENUE
BARTOW, FLORIDA 33830

March 11, 2010

Board Members

BOARD CHAIR
KAY FIELDS
DISTRICT 5

FRANK J. O'REILLY
DISTRICT 1

LORI CUNNINGHAM
DISTRICT 2

HAZEL SELLERS
DISTRICT 3

DICK MULLENAX
DISTRICT 4

MARGARET A. LOFTON
DISTRICT 6

TIM HARRIS
DISTRICT 7

C. WESLEY BRIDGES, II
General Counsel

Administration
GAIL F. MCKINZIE, Ph.D.
Superintendent

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

Dear Mr. Martin:

The responses to the Preliminary and Tentative Findings for the audit performed on the June 30, 2009 Annual Financial Statements have been completed. Please accept this letter along with the attached response file as the submission from the Polk County Schools audit.

We understand that additional comments could be shared upon final review. If you have any questions on the responses you can contact Mark Grey, Assistant Superintendent for Business Services at (863) 534-0542.

Sincerely,

Gail F. McKinzie, Ph. D.
Superintendent

*Polk County Schools -
an equal opportunity
institution for education
and employment*

*The Mission of Polk County Public Schools is to ensure rigorous, relevant learning experiences
that result in high achievement for our students.*

FINANCIAL STATEMENT FINDINGS**MATERIAL WEAKNESS****Finding No. 1: Financial Reporting**

Management Response: Significant changes have taken place regarding the responsibilities within the Accounting and Finance Departments. Some of the duties of the Accounting Director have been reassigned to others in the Accounting and Finance departments. Activities of the departments are being reviewed by management for accuracy and completeness. The departments are negotiating with a consultant to assist with formalizing a review process and to provide written procedures of the monthly and annual close process. Management takes this finding seriously and will have corrective procedures in place prior to the production of the fiscal year 2010 annual report.

ADDITIONAL MATTERS**Finding No. 2: Comprehensive Procedures Manuals**

Management Response: The District is negotiating with a consultant to provide assistance with writing formal procedure manuals for all Accounting and Finance operations. Some procedures have been documented but more needs to be done to better detail the operations of the departments.

Finding No. 3: Cash and Investment Account Reconciliations

Management Response: The District has modified procedures to become timely with all bank and investment account reconciliations. A schedule has been developed and provided to all staff for the calendar 2010 closing dates to facilitate timeliness, and this schedule shall be updated at least annually. Management will continue to strengthen the closing process to improve the internal controls over cash and investments.

Finding No. 4: Monthly Financial Reports

Management Response: The newly developed closing schedule sets our department targets for submission of calendar year 2010 financial reports to the board in a timely manner. As of the date of this response, monthly financial reports to the board have been brought current. Management has developed a new system-generated revenue/expenditure report comparing budget to actual results that will be shared with the School Board at the February 23, 2010 meeting. A summary of financial events will be provided to the School Board on a quarterly basis to better explain key financial activities and to provide an understanding of the financial events likely to impact the district.

Finding No. 5: Interfund Loans

Management Response: Management has enhanced the controls to ensure interfund loans are repaid timely and to ensure timely reimbursement from the trustees. Staff will process, at least monthly, a requisition to the trustees for any funds expended by the district for project related expenses.

Finding No. 6: Ad Valorem Taxation

Management Response: The District will change procedures to account for loans by year of the tax levy along with procedural changes to ensure timely reimbursement from the trustees in order to repay these interfund loans. Management has restored the funds to LCI for upfront premium payments received relative to the 1999A and 2001A COPS issues (net of the issuance costs), and will ensure only advertised items are paid from these levies in the future. Management has chosen to restore the upfront payment received for the 2001A swaption and to reserve those funds until such time as the election period for the swaption has expired.

Finding No. 7: Arbitrage

Management Response: Management is having updated arbitrage rebate calculations performed on all outstanding debt issues and will have these calculations performed annually until all proceeds have been disbursed. The District is actively working on resolving the 1999A arbitrage liability issue and expects to have this concluded in March 2010. Procedures will be documented to ensure all future compliance requirements on arbitrage rebate calculations are met.

Finding No. 8: Board Member Conflicting Employment/Contractual Relationship

Management Response: The Polk County School Board Attorney has inquired of the Commission on Ethics for an opinion relating to the facts of this matter and the request is pending at this time. The School Board member is willing to honor the opinion from the Commission once it has been rendered.

Finding No. 9: Investment of Funds Policy

Management Response: Management is working to document the procedures for investment activities. Management will continue to enhance the reporting of the investments to the school board, and to develop benchmarks for each investment held by the District.

Finding No. 10: Collection of Social Security Numbers

Management Response: The District will analyze the areas where social security numbers are collected and how they are used. Notification will be provided to inform the various groups of people that social security numbers are collected, to state under what authority the District collects this information, and how the social security number will be used. A signature will be required of the person acknowledging the District's authority to collect such information.

Finding No. 11: Student Diplomas

Management Response: Management will develop a written procedure to inform the printing company of the process for ordering diplomas and the appropriate contact people.

Policy and procedures have been established and disseminated to the district's high school principals, assistant principals for curriculum and guidance counselors requiring that each school designate an additional member of the guidance or administrative staff to verify the recommendation of candidates for graduation of the assigned counselor. These procedures require both the assigned counselor and the other designated counselor or administrator to sign a statement indicating that they have reviewed and verified that all candidates for graduation have indeed met the requirements as prescribed by the Polk County School Board and the State of Florida to be awarded the appropriate diploma. The signed statements will then be forwarded by schools to the district's Information Services Department where they will be retained with other related records.

As part of the policy and procedures referenced above, each school will designate a secure location in the school's administrative office to store all diplomas that can only be accessed by authorized administrative and guidance personnel. Upon delivery of diplomas to each school, an inspection and inventory will be conducted to ensure that the correct diplomas have been received and are free of errors. Unissued diplomas will be re-inventoried within five working days of the Commencement Ceremony and retained at the school site in a secure location accessible only by the principal or their designee for one calendar year from the issuance date, at which time the Purchasing Department will request all unissued diplomas be returned to that department for disposal.

Finding No. 12: Information Technology – Review of Access Privileges

Management Response: The District will create a written procedure regarding the periodic review of user access privileges; however, we believe the risk associated with inappropriate user access to be small. Because SAP security is tied to an employee's position in the organization chart, users inherit security from their assigned position. As users move from position to position, the system automatically assigns the appropriate access based upon the user's current position.

The District has addressed each of the specific findings regarding inappropriate levels of access or authorization for incompatible duties by removing specific transactions from roles and by creating new roles as necessary. These changes are associated with the following SAP Evolve Change Request numbers, the details of which are available for review. All of these security changes were completed by July 2, 2009:

CR # 102011 for Finance segregation of duties, including vendor maintenance;

CR # 102012 for Finance segregation of duties, including authorization to change purchase orders;

CR # 102021 for issues surrounding maintenance of user authorizations and profiles;

CR # 102022 for issues surrounding authorization to maintain tables;

CR # 102023 for issues surrounding authorization to maintain the data dictionary.

Finding No. 13: Information Technology – Security Awareness

Management Response: The District will broadcast a Blackboard presentation to all staff to educate them on the importance of network security and the integrity of Polk County data. Each user will be required to logon to the Polk County Blackboard web site and their attendance will be recorded.

Finding No. 14: Information Technology - User Authentication

Management Response: The District will review its controls over user authentication, as necessary, to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$56,875

Management Response: Management will document the process to allocate the commissions from the beverage contract and provide this documentation for the allocation of the \$56,875 to the grantor and Auditor General's Office.

Federal Awards Finding No. 2:**Federal Agency:** United States Department of Health and Human Services**Pass-Through Entity:** N/A**Program:** Head Start (CFDA No. 93.600)**Finding Type:** Noncompliance**Questioned Costs:** N/A

Management Response: Planning has progressed beyond the initial stage (Stage One) noted in November 2009. A committee has been formed, consisting of Head Start policy council members, community partners, and district program and management staff. Stage Two has commenced and involves observation, document review, and personal interviews. The analysis and interpretation of this collected data culminates in Stage Three, planned for completion no later than April 30, 2010, resulting in a proper self-assessment for the grant period January 1, 2010 through December 31, 2010. Stage Four shall commence in May 2010 and be ongoing throughout the remainder of the grant period and involves using the analysis to strengthen the program as well as formalizing communication of the results to the Board, Policy Council, parents and community partners. The federal personnel from the Region V Head Start office in Atlanta, GA have provided significant training and technical assistance – they have visited numerous times onsite and work with program and management staff diligently to provide guidance for program operations. The self-assessment shall provide an extra level of assurance beyond our federal oversight.