

BROWARD COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Board members and the Superintendents who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Ann Murray, Vice Chair to 11-22-11, Chair from 11-23-11	1
Patricia Good	2
Maureen S. Dinnen	3
David Thomas to 8-11-11(1)	4
Donna P. Korn from 8-26-11	4
Benjamin J. Williams, Chair to 11-22-11	5
Laurie Rich Levinson, Vice Chair from 11-23-11	6
Nora Rupert	7
Robin Bartleman	At-Large, Countywide
Jennifer Gottlieb to 8-12-11(2)	At-Large, Countywide
Katherine M. Leach from 8-26-11	At-Large, Countywide

Robert W. Runcie, Superintendent from 10-5-11
Donnie Carter, Interim Superintendent to 10-4-11

Notes:

- (1) Board member resigned on 8-11-11, and position remained vacant until replaced on 8-26-11.
- (2) Board member resigned on 8-12-11, and position remained vacant until replaced on 8-26-11.

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 Stefanie Johnson, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not adopted adequate policies for communicating and reporting known or suspected fraud.

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Improvements could be made in collection procedures at certain decentralized locations.

Finding No. 4: Payroll processing procedures could be improved.

Finding No. 5: The District could enhance its monitoring of employee overtime.

Finding No. 6: The Superintendent's employment agreement included a severance pay provision that was contrary to Section 215.425(4)(a), Florida Statutes.

Finding No. 7: Enhancements could be made in controls over purchasing cards.

Finding No. 8: Improvements could be made in controls over tangible personal property.

Finding No. 9: The District did not always timely correct deficiencies noted in annual facility inspections.

Finding No. 10: The District did not timely obtain required background rescreenings for certain District employees.

Finding No. 11: Controls over expenditure processes could be enhanced.

Finding No. 12: Controls over journal entries needed enhancement.

Finding No. 13: Some inappropriate information technology (IT) access privileges existed.

Finding No. 14: District IT security controls related to software management, user authentication, and monitoring of application data changes 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, Student Financial Assistance Cluster, Magnet Schools Assistance, School Improvement Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: The District transferred \$625,202 of Special Revenue – Food Service moneys to the General Fund to reimburse the General Fund for time clocks purchased during the 2004-05 fiscal year, without preauthorization for the transfer, resulting in questioned costs.

Federal Awards Finding No. 2: District records did not always evidence that the food service program director preapproved charges to the Child Nutrition Cluster programs.

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



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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 Broward County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 11 percent of the assets and 14 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Broward County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The School Board of Broward County, Florida (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. The narrative is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify individual fund issues or concerns. As with other sections of this financial report, the information contained within this narrative should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the footnotes and other required supplemental information.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- The District's financial status, as reflected in **total net assets**, decreased by \$163.5 million, or 10.6% from \$1.55 billion to \$1.39 billion when compared to the prior fiscal year. The decrease in total net assets reflects primarily decreases in current and other assets of \$125.2 million, and a decrease in capital assets of \$73.0 million, partially offset by a decrease in liabilities of \$13.3 million.
- **Total revenues** decreased by \$320.5 million, or 12.7%, from \$2.52 billion to \$2.20 billion when compared to the prior fiscal year. The decrease was principally the result of a decrease in ad valorem taxes of \$81.6 million (including General and Capital Funds) due to a decline in the total assessed property values, and a decrease in other general revenues (including General, Capital, and American Recovery and Reinvestment Act (ARRA) Funds) of \$242.1 million as a result of not receiving the same level of Federal economic stimulus funds compared to the prior fiscal year.
- The District had \$2.36 billion in **expenses** related to programs, a decrease of \$205.9 million, or 8.0% from the prior fiscal year. The decrease is primarily due to workforce reduction and implemented employee furloughs in an effort to balance the 2011-2012 budget and State-required changes in the Florida Retirement System (FRS) of charging employees 3% of their salaries toward retirement contributions.
- The District's **debt** (Bonds Payable, Certificates of Participation and Capital Leases) decreased by \$88.4 million, or 4.4%, to \$1.91 billion from \$2.00 billion in the prior fiscal year. The decrease was due to scheduled debt repayments. See Notes 9 through 13 of the Notes to the Basic Financial Statements for more information.

Governmental Funds Financial Statements

- The overall **General Fund balance** (the primary operating fund) decreased \$22.7 million, or 22.7% to \$77.1 million from \$99.8 million in the prior fiscal year. The decrease is primarily due to the General Fund assuming expenditures in the 2011-2012 fiscal year that were paid through utilization of Education Jobs Fund moneys of \$21.8 million in the 2010-2011 fiscal year. Additionally, the decrease was also the result of a \$1.7 million mid-year holdback in revenue by the State.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's annual financial report includes a series of basic financial statements and accompanying notes, with the primary focus being on the District as a whole. The Statement of Net Assets and the Statement of Activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The governmental fund financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the governmental fund financial statements focus on major funds rather than fund types. The proprietary fund statements offer short-term and long-term financial information about the activities the District operates like businesses, such as printing services and self-insurance programs. The remaining statements, the Fiduciary Funds Statements, provide financial information for those activities in which the District acts solely as a trustee or agent for the benefit of others. The accompanying notes provide

essential information that may not be readily available on the face of the basic financial statements. Consequently, these notes form an integral part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide financial statements incorporate governmental and business-type activities, as well as its non-fiduciary component units. They contain various adjustment, elimination and reclassification entries, such as the recording of depreciation, the recognition of other revenues, and the recognition of long-term liabilities. The government-wide financial statements are designed to provide the readers with a view of the District as a whole. While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities, and use the economic resources measurement focus and the accrual basis of accounting similar to the accounting used by most private-sector companies, matching the financial impact of long-term financial decisions to the period in which the expense or revenue is more properly attributed. In short, the financial impact of long-term decisions is promptly recorded as the transaction occurs, as opposed to recording it when paid. A good example of this is the recording of compensated absences, such as vacation and sick leave. In the fund financial statements, vacation and sick leave are expensed when used, not when accrued, with the unused hours accumulating over time. Consequently, the reader would never see the potential financial impact the accumulated leave would have on the District's financial health. In the government-wide financial statements, vacation and sick leave are expensed when accrued, allowing the reader to see the full financial impact.

The Statement of Net Assets combines and/or consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Statement of Net Assets also provides information about the nature and amounts of investment of resources and obligations to creditors.

The Statement of Activities provides information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the District's financial health or financial position. A reader can think of the District's net assets as the difference between what the District owns (assets) and what the District owes (liabilities). Over time, the increase or decrease in the District's net assets, as reported in the Statement of Activities, is another indicator of whether its financial health is improving or deteriorating. The difference between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. To fully assess the financial health of any government entity, the reader must also consider other non-financial factors such as the quality of education provided, the safety of the schools, fluctuations in the local economy, state-mandated program administrative changes, and the physical condition of the District's capital assets.

FUND FINANCIAL STATEMENTS

Fund financial statements are generally presented on a modified accrual basis, using the current financial resources measurement focus, and report expenditures rather than expenses as used in the government-wide financial statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, the Special Revenue ARRA Economic Stimulus Fund, the Certificates of Participation Series (COPs) Debt Service Fund, the ARRA Debt Service Fund, the Local Millage Capital Improvement Fund, the Other Capital Improvement Fund, and the ARRA Economic Stimulus Capital Projects Fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements.

Governmental Funds. Most of the District's activities are reported in governmental funds which describe how money flows into and out of those funds and the balances remaining at year-end that are available for spending in

future periods. These funds are reported using an accounting method called “modified accrual accounting,” which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and services. Governmental fund information helps determine what financial resources will be available in the near future to support educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds. Based on the nature of the activities, proprietary funds are used to report the activities in the District’s Internal Service Funds. Internal Service Funds are used to record the financing of goods or services provided by one department to another on a cost reimbursement basis, such as general and automobile liability self-insurance, workers compensation self-insurance, and other services.

Proprietary funds are reported in the same way as government-wide financial statements. The Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Proprietary funds are included in the governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs. The accounting used for Fiduciary funds is much like that used for Proprietary funds. The District’s fiduciary fund consists of an Agency fund used to account for student activity funds.

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

ANALYSIS OF THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The analysis below focuses on the Net Assets (Table 1) and Changes in Net Assets (Table 2) of the District’s governmental activities.

Government-Wide Financial Analysis. The District’s net assets were \$1.39 billion at June 30, 2012, representing a \$163.5 million, or 10.6% decrease from June 30, 2011. By far, the largest portion of the District’s net assets (97.7%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not liquid or 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.

Table 1

Summary Statement of Net Assets (in thousands)			
	As of June 30,		Increase
	2012	2011	(Decrease)
Current and other assets	\$ 783,150	\$ 908,310	\$ (125,160)
Non-current assets	16,191	21,866	(5,675)
Capital assets	3,117,576	3,190,604	(73,028)
Deferred swap outflow	59,753	32,682	27,071
Total assets and deferrals	3,976,670	4,153,462	(176,792)
Current and other liabilities	393,881	407,388	(13,507)
Long-term liabilities	2,197,492	2,197,306	186
Total liabilities	2,591,373	2,604,694	(13,321)
Net assets:			
Invested in capital assets, net			
of related debt	1,354,057	1,459,470	(105,413)
Restricted	176,917	166,170	10,747
Unrestricted	(145,677)	(76,872)	(68,805)
Total net assets	\$ 1,385,297	\$ 1,548,768	\$ (163,471)

The second largest portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. Of the \$176.9 million in restricted net assets, \$128.4 million are restricted for capital projects. The District will use these resources to complete construction in progress and perform property maintenance. Unrestricted net assets were a deficit of \$145.7 million at June 30, 2012. The deficit in the Statement of Net Assets should not be viewed as an indication of short-term financial difficulties. The District would only experience actual deficit if it had to pay all of its long-term liabilities today at once.

As shown in Table 2, governmental activities decreased the District's net assets by \$163.5 million from the prior fiscal year. Key highlights are as follows:

Table 2

Summary Statement of Changes in Net Assets			
(in thousands)			
For the Fiscal Years			
Ended June 30,			
	2012	2011	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for services	\$ 45,820	\$ 45,308	\$ 512
Operating grants and contributions	74,915	73,666	1,249
Capital grants and contributions	28,657	27,270	1,387
Total program revenues	149,392	146,244	3,148
General revenues:			
Ad valorem taxes	950,263	1,031,828	(81,565)
Other general revenues (including FEFP)	1,101,053	1,343,106	(242,053)
Total general revenues	2,051,316	2,374,934	(323,618)
Total revenues	2,200,708	2,521,178	(320,470)
Functions/Program Expenses:			
Instructional services	1,374,058	1,544,961	(170,903)
Instructional support services	219,525	236,635	(17,110)
Operation and maintenance of plant	229,195	247,447	(18,252)
School administration	122,644	134,051	(11,407)
Food services	90,191	93,200	(3,009)
Facilities acquisition and construction	32,646	24,517	8,129
General administration	79,246	92,854	(13,608)
Pupil transportation services	87,777	93,605	(5,828)
Interest expense	128,897	102,841	26,056
Total expenses	2,364,179	2,570,111	(205,932)
Change in net assets	\$ (163,471)	\$ (48,933)	\$ (114,538)
Ending net assets	\$ 1,385,297	\$ 1,548,768	\$ (163,471)

- Ad valorem taxes (property taxes) decreased by \$81.6 million (including General and Capital Funds) due to a decline in the total assessed property values.
- Other general revenues (including General, Capital, and ARRA Funds) decreased \$242.1 million primarily as a result of not receiving the same level of Federal economic stimulus funds compared to the prior fiscal year.
- Total expenses decreased \$205.9 million, or 8.0%. The decrease is primarily due to workforce reduction and implemented employee furloughs in an effort to balance the 2011-2012 budget and State-required changes in the Florida Retirement System (FRS) of charging employees three percent of their salaries toward retirement contributions.

Financial Analysis of the Government's Funds. As was noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at the funds aids in determining if the District is being accountable for the resources taxpayers and others provide, and may also give more insight into the District's overall financial health. In particular, the combination of assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental Funds. As of June 30, 2012, the District's governmental funds reported a combined fund balance of \$451.5 million, a decrease of \$94.0 million, or 17.2% from the prior fiscal year. The reduction is primarily due to a net decrease of \$22.7 million in the General Fund balance, a decrease of \$6.8 million in the COP Series Debt Service fund balance, a decrease of \$75.2 million in the Capital Projects funds, which primarily consisted of a decrease of \$23.8 million in the nonmajor Public Education Capital Outlay (PECO) Fund as a source of state funding, a decrease of \$14.3 million in Local Millage Capital Improvement Fund balance due to a decline in the total assessed property values, a decrease of \$14.5 million in the Other Capital Improvement Fund balance, and a decrease of \$23.3 million in the ARRA Economic Stimulus Capital Project Fund balance. The District's governmental funds balance reduction was partially offset by an increase of \$10.3 million in the Food Service Fund balance.

General Fund. The fund balance for the General Fund decreased by \$22.7 million from the prior fiscal year. The decrease is due to the General Fund assuming expenditures in the 2011-2012 fiscal year that were paid through utilization of Education Jobs Fund moneys of \$21.8 million in the 2010-2011 fiscal year. Additionally, the decrease was also the result of a \$1.7 million mid-year holdback in revenue by the State.

Major Capital Projects Funds. The fund balance of the Major Capital Projects funds decreased by \$52.1 million primarily due to the District's continuing to complete previous fiscal years' approved long-term projects funded by the prior fiscal year's accumulated capital reserves. At June 30, 2012, the District had purchase orders outstanding for goods and/or services related to future expenditures for the 2012-2013 fiscal year totaling \$15.3 million in the Local Millage Capital Improvement Fund, \$26.1 million in the ARRA Economic Stimulus Capital Project Fund, and \$20.0 million in the Other Capital Improvement Fund.

Major Debt Service Funds. The fund balance of the Major Debt Service funds decreased by \$6.7 million primarily as a result of the refinancing and scheduled debt payments (see Notes 10 and 11 of the Notes to the Basic Financial Statements for more information).

General Fund Budgetary Highlights. Over the course of the fiscal year, the District revises its budget to deal with unexpected changes in revenues and expenditures. The District's original and final budget amounts compared with actual amounts are provided in Table 3.

Table 3

Summary Schedule of Revenues, Expenditures and Changes in Fund Balance of General Fund Budget and Actual (Budgetary Basis) (in thousands)				
	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Local sources:				
Ad valorem taxes	\$ 778,582	\$ 770,505	\$ 767,336	\$ (3,169)
Other	47,702	44,175	44,178	3
Total local sources	826,284	814,680	811,514	(3,166)
State sources:				
Florida Education Finance Program	596,592	577,422	577,416	(6)
Other	309,990	299,043	299,043	
Total state sources	906,582	876,465	876,459	(6)
Federal sources	9,209	12,002	12,012	10
Total revenues	1,742,075	1,703,147	1,699,985	(3,162)
Other financing sources	69,856	80,243	80,243	
Total amounts available for appropriations	1,811,931	1,783,390	1,780,228	(3,162)
Expenditures:				
Instructional services	1,176,652	1,147,653	1,146,297	1,356
Instructional support services	161,595	160,339	156,540	3,799
Pupil transportation services	77,639	85,016	84,770	246
Operation and maintenance of plant	250,793	226,570	226,039	531
School administration	120,575	118,896	118,712	184
General administration	86,512	78,556	77,030	1,526
Capital outlay	309			
Interest		155	155	
Total expenditures	1,874,075	1,817,185	1,809,543	7,642
Other financing uses	6,033	3,486	3,486	
Total charges against appropriations	1,880,108	1,820,671	1,813,029	7,642
Net change in fund balances	\$ (68,177)	\$ (37,281)	\$ (32,801)	\$ 4,480
Appropriated beginning fund balances:	\$ 68,177	\$ 37,281		
Adjustments to conform with GAAP:				
Elimination of encumbrances			10,116	
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (GAAP Basis)			(22,685)	
Fund balances, beginning of year			99,831	
Fund balances, end of year			\$ 77,146	

Actual revenues and other financing sources were \$3.2 million less than the final budget primarily due to a difference between the State's required collection rate and the actual property taxes collected. The State required the District to budget at a 96.0% collection rate. The actual property taxes collected for the fiscal year 2012 were 95.6% of the taxes levied.

Actual expenditures and other financing uses (including encumbrances and open purchase orders) were \$7.6 million less than the final budget. This was due to a purchasing freeze and other cost saving measures that were implemented during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As shown in Table 4, at June 30, 2012, the District had \$3.1 billion invested in a broad range of capital assets. This amount represents a net decrease (including additions, deletions and depreciation) of \$73.0 million from last fiscal year. The District has been concentrating on safety projects, Americans with Disabilities Act compliance, and indoor air quality remediation. The District is focused on keeping the schools safe and accessible and keeping vital components of school buildings running, such as air conditioning, plumbing and roofing systems.

Table 4

Capital Assets at Year-End (in thousands)			
	2012	2011	Increase (Decrease)
Land	\$ 229,475	\$ 228,096	\$ 1,379
Land improvements	432,882	424,632	8,250
Construction in progress	83,283	80,541	2,742
Broadcast license intangible	3,600	3,600	
Buildings and fixed equipment	3,499,523	3,484,680	14,843
Furniture, fixtures and equipment	415,902	398,723	17,179
Assets under capital leases	40,852	55,840	(14,988)
Audio visual	1,076	926	150
Computer software	54,813	56,266	(1,453)
Motor vehicles	87,306	94,543	(7,237)
Less: accumulated depreciation	(1,731,136)	(1,637,243)	(93,893)
Total capital assets, net	<u>\$ 3,117,576</u>	<u>\$ 3,190,604</u>	<u>\$ (73,028)</u>

For the 2013 fiscal year, the District expects to continue with a scaled back construction due to a reduction in revenues and student enrollment. The District will continue to complete construction in progress but has cancelled plans to add capacity and to do major replacements or remodeling/renovation projects. See Notes 6 and 22 of the Notes to the Basic Financial Statements for more information.

Debt Administration. As shown in Table 5 below, at the end of this fiscal year the District had \$1.91 billion in debt outstanding compared to \$2.00 billion last year, a decrease of \$88.4 million, or 4.4%, from the prior fiscal year. The decrease was a result of net reductions of \$72.9 million in COPs, \$7.4 million in capital leases and \$8.1 million in Capital Outlay Bond Issues (COBI) all due to scheduled debt repayments and debt refinancing. See Notes 9 through 12 of the Notes to the Basic Financial Statements for more information.

Table 5

Debt Outstanding at Year-End (in thousands)			
	2012	2011	Increase (Decrease)
Capital outlay bond issues	\$ 55,340	\$ 63,490	\$ (8,150)
Certificates of participation	1,834,975	1,907,842	(72,867)
Capital leases	16,361	23,740	(7,379)
Total	<u>\$ 1,906,676</u>	<u>\$ 1,995,072</u>	<u>\$ (88,396)</u>

As of June 30, 2012, the District's COPs were rated Aa3 by Moody's Investors Service, A by Standard and Poor's and A+ by Fitch Ratings Service, respectively, among the highest ratings held by a Florida School District.

ECONOMIC FACTORS

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

REQUESTS FOR INFORMATION

The District's financial statements are designed to present users (participants, investors, creditors, and regulatory agencies) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report should be addressed to the Director of the Accounting and Financial Reporting Department, The School Board of Broward County, Florida, 1643 North Harrison Parkway, Building H, Sunrise, Florida, 33323.

BASIC FINANCIAL STATEMENTS

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA

STATEMENT OF NET ASSETS

June 30, 2012

(in thousands)

	PRIMARY GOVERNMENT TOTAL GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
ASSETS:		
Current assets:		
Cash, cash equivalents and investments	\$ 684,430	\$ 21,483
Due from other governmental agencies	67,860	1,345
Due from other schools		2,167
Accrued interest receivable	863	
Inventories	12,037	
Prepays	12,258	6,975
Other assets	5,702	6,599
Total current assets	<u>783,150</u>	<u>38,569</u>
Non-current assets:		
Deferred charges	16,191	
Capital assets:		
Non-depreciable	440,476	
Depreciable, net	2,677,100	70,560
Deferred swap outflows	59,753	
Total non-current assets	<u>3,193,520</u>	<u>70,560</u>
Total assets	<u>3,976,670</u>	<u>109,129</u>
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	125,098	9,527
Accrued payroll taxes and withholding	25,543	
Tax arbitrage rebate payable	63	
Due to other governmental agencies	7,199	
Due to other schools		1,011
Unearned revenue	351	987
Retainage payable	10,012	
Matured debt and interest payable	100,231	
Management fees payable		87
Obligations under capital leases	5,930	
Liability for compensated absences	20,540	
Debt, net of premiums and discounts	79,854	1,189
Estimated liability for self-insurance risks	19,060	
Other liabilities		620
Total current liabilities	<u>393,881</u>	<u>13,421</u>
Non-current liabilities:		
Obligations under capital leases	10,431	
Liability for compensated absences	146,093	
Debt, net of premiums and discounts	1,897,194	62,086
Estimated liability for self-insurance risks	38,628	
Other post-employment benefits obligations	45,393	
Derivatives swap liability	59,753	
Total non-current liabilities	<u>2,197,492</u>	<u>62,086</u>
Total liabilities	<u>2,591,373</u>	<u>75,507</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,354,057	11,508
Restricted for:		
State required carryover programs	6,521	
Debt service	11,763	
Capital projects	128,358	
Food service & other purposes	30,275	
Scholarships		6,478
Unrestricted (deficit)	<u>(145,677)</u>	<u>15,636</u>
Total net assets	<u>\$ 1,385,297</u>	<u>\$ 33,622</u>

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

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THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(in thousands)

		PROGRAM REVENUES		
		CHARGES FOR	OPERATING	CAPITAL
	EXPENSES	SERVICES	GRANTS AND	GRANTS AND
			CONTRIBUTIONS	CONTRIBUTIONS
PROGRAM EXPENSES AND REVENUES:				
PRIMARY GOVERNMENT:				
Instructional services	\$ 1,374,058	\$ 23,201	\$	\$
Instructional support services	219,525			
Pupil transportation services	87,777	1,140		
Operation and maintenance of plant	229,195			
School administration	122,644			
General administration	79,246			
Food services	90,191	21,479	74,915	
Facilities acquisition and construction	32,646			18,573
Unallocated interest expense	128,897			10,084
Total primary government	<u>\$ 2,364,179</u>	<u>\$ 45,820</u>	<u>\$ 74,915</u>	<u>\$ 28,657</u>
COMPONENT UNITS:				
Component units	<u>\$ 159,263</u>	<u>\$ 7,525</u>	<u>\$ 14,642</u>	<u>\$ 5,632</u>

GENERAL REVENUES:

Ad valorem taxes levied for:

- General purposes
- Debt service
- Capital outlays

Grants and contributions not restricted to specific programs:

- Florida education finance program
- Other
- Other unrestricted Federal sources
- Other unrestricted State sources
- Other unrestricted local sources
- Unrestricted investment earnings

Total general revenues

Change in net assets**Total net assets, beginning of year****Total net assets, end of year**

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (1,350,857)	\$
(219,525)	
(86,637)	
(229,195)	
(122,644)	
(79,246)	
6,203	
(14,073)	
(118,813)	
(2,214,787)	
	(131,464)
757,984	
21	
192,258	
577,416	
	123,001
205,162	83
300,459	5,715
13,002	2,817
5,014	17
2,051,316	131,633
(163,471)	169
1,548,768	33,453
\$ 1,385,297	\$ 33,622

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**BALANCE SHEET****GOVERNMENTAL FUNDS****JUNE 30, 2012****(in thousands)**

	GENERAL FUND	ARRA ECONOMIC STIMULUS SPECIAL REVENUE FUND	COPS SERIES DEBT SERVICE FUND
ASSETS:			
Equity in pooled cash and investments	\$ 177,596	\$ 20	\$ 15
Cash and investments with trustees			103,790
Total cash, cash equivalents and investments	177,596	20	103,805
Due from other governmental agencies	31,156	1,953	
Due from other funds	15,503		
Accrued interest receivable	380		1
Inventories	10,016		
Other assets	2,452		
Total assets	\$ 237,103	\$ 1,973	\$ 103,806
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenditures	\$ 114,899	\$ 125	\$ 17
Accrued payroll taxes and withholdings	25,543		
Tax arbitrage rebate payable			
Due to other governmental agencies	7,196		
Due to other funds		1,828	4,000
Deferred revenue	3,179	9	
Retainage payable		11	
Matured debt and interest payable			96,122
Liability for compensated absences	9,140		
Total liabilities	159,957	1,973	100,139
Fund balances:			
Nonspendable	10,015		
Restricted	6,521		3,667
Committed	1,690		
Assigned	9,274		
Unassigned	49,646		
Total fund balance	77,146		3,667
Total liabilities and fund balance	\$ 237,103	\$ 1,973	\$ 103,806

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

ARRA ECONOMIC STIMULUS DEBT SERVICE FUND	LOCAL MILLAGE CAPITAL IMPROVEMENT FUND	ARRA ECONOMIC STIMULUS CAPITAL PROJECT FUND	OTHER CAPITAL IMPROVEMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 130	\$ 79,316	\$ 2,728	\$ 48,999	\$ 36,228	\$ 345,032
4,102		68,756	134,847		311,495
4,232	79,316	71,484	183,846	36,228	656,527
	7,410		2,504	24,837	67,860
	4,000		292		19,795
	288	6	76	58	809
				2,010	12,026
	112		1,953	35	4,552
\$ 4,232	\$ 91,126	\$ 71,490	\$ 188,671	\$ 63,168	\$ 761,569
\$	\$ 894	\$ 3,076	\$ 1,913	\$ 3,678	\$ 124,602
			63		25,543
				3	63
		292		13,675	7,199
	903		2,329	7,030	19,795
	2,527	2,326	4,734	414	13,450
4,031					10,012
				126	100,153
4,031	4,324	5,694	9,039	24,926	9,266
					310,083
201	86,802	65,796	179,632	2,010	12,025
				33,719	376,338
					1,690
				2,513	11,787
					49,646
201	86,802	65,796	179,632	38,242	451,486
\$ 4,232	\$ 91,126	\$ 71,490	\$ 188,671	\$ 63,168	\$ 761,569

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012
(in thousands)**

Total fund balances - governmental funds \$ 451,486

Amounts reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 229,475	
Land improvements-nondepreciable	124,118	
Land improvements, net of \$88,480 accumulated depreciation	220,284	
Broadcast license intangible	3,600	
Buildings and fixed equipment, net of \$1,143,416 accumulated depreciation	2,356,107	
Furniture, fixtures and equipment, net of \$371,674 accumulated depreciation	43,807	
Assets under capital lease, net of \$27,848 accumulated depreciation	13,004	
Audio visual, net of \$626 accumulated depreciation	450	
Computer software, net of \$27,014 accumulated depreciation	27,799	
Motor vehicles, net of \$71,660 accumulated depreciation	15,646	
Construction in progress	<u>83,283</u>	3,117,573

The District deems the following revenues as earned at year-end for the Statement of Net Assets:

Ad valorem taxes - General Fund	3,179	
Ad valorem taxes - Capital Projects Funds	806	
Impact fees - Capital Projects Funds	2,329	
Public Education Capital Outlay - Capital Projects Funds	6,688	
Miscellaneous revenue - Capital Projects Funds	<u>97</u>	13,099

Internal service funds are used by the District to charge the costs of services, such as workers' compensation insurance and printing services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.

(16,805)

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Assets.

Balances at June 30, 2012 are:

Accrued interest on long-term debt	(78)	
Certificates of participation	(1,834,975)	
Debt premiums and discounts, and deferred charges on refunding, net	(86,733)	
Debt issuance costs	16,191	
Bonds payable	(55,340)	
Capital leases payable	(16,361)	
Compensated absences	(157,367)	
Other postemployment benefits (OPEB)	<u>(45,393)</u>	(2,180,056)

Total net assets of governmental activities \$ 1,385,297

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

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THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****(in thousands)**

	GENERAL FUND	ARRA ECONOMIC STIMULUS SPECIAL REVENUE FUND	COPS SERIES DEBT SERVICE FUND
REVENUES:			
Local sources:			
Ad valorem taxes	\$ 767,336	\$	\$
Food sales			
Interest on investments	777		486
Other	43,401		
Total local sources	811,514		486
State sources:			
Florida education finance program	577,416		
Discretionary lottery funds	870		
Categorical programs and other	298,173		
Total state sources	876,459		
Federal sources:			
Food service			
Grants and other	12,012	17,298	
Total federal sources	12,012	17,298	
Total revenues	1,699,985	17,298	486
EXPENDITURES:			
Current operating:			
Instructional services	1,142,727	6,876	
Instructional support services	155,551	9,908	
Pupil transportation services	84,067	13	
Operation and maintenance of plant	221,809		
School administration	118,692		
General administration	76,426	501	
Food services			
Total current operating	1,799,272	17,298	
Debt service:			
Principal retirement			70,111
Interest charges and other	155		82,945
Total debt service	155		153,056
Capital outlay			
Total expenditures	1,799,427	17,298	153,056
Excess (deficiency) of revenues over (under) expenditures	(99,442)		(152,570)
OTHER FINANCING SOURCES (USES):			
Premium on refunding bonds			
Refunding bonds issued			
Certificates of participation			270,650
Premium (discount) on long-term debt issued			29,027
Sale of capital assets			
Other loss recoveries	4		
Payments to refunded bond escrow agent			(297,825)
Transfers in	80,239		143,929
Transfers out	(3,486)		(13)
Total other financing sources (uses)	76,757		145,768
Net change in fund balances	(22,685)		(6,802)
Fund balances, beginning of year	99,831		10,469
Fund balances, end of year	\$ 77,146	\$	\$ 3,667

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

ARRA ECONOMIC STIMULUS DEBT SERVICE FUND	LOCAL MILLAGE CAPITAL IMPROVEMENT FUND	ARRA ECONOMIC STIMULUS CAPITAL PROJECT FUND	OTHER CAPITAL IMPROVEMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$	\$ 194,510	\$	\$	\$ 21	\$ 961,867
				21,477	21,477
1	796	141	475	162	2,838
	5,223		4,257	3,889	56,770
1	200,529	141	4,732	25,549	1,042,952
					577,416
			10,545	14,239	870
			10,545	14,239	322,957
					901,243
				67,416	67,416
			2,822	179,132	211,264
			2,822	246,548	278,680
1	200,529	141	18,099	286,336	2,222,875
				131,999	1,281,602
				40,474	205,933
				1,450	85,530
				177	221,986
				155	118,847
				2,977	79,904
				85,985	85,985
				263,217	2,079,787
				7,500	77,611
8,063		17		2,788	93,968
8,063		17		10,288	171,579
	10,999	23,302	24,946	10,754	70,001
8,063	10,999	23,319	24,946	284,259	2,321,367
(8,062)	189,530	(23,178)	(6,847)	2,077	(98,492)
				1,367	1,367
				12,265	12,265
					270,650
					29,027
	268		2,411		2,679
			90		94
8,201				(13,597)	(311,422)
	(204,117)	(133)	1,913	54	234,336
8,201	(203,849)	(133)	(12,076)	(14,696)	(234,521)
			(7,662)	(14,607)	4,475
139	(14,319)	(23,311)	(14,509)	(12,530)	(94,017)
62	101,121	89,107	194,141	50,772	545,503
\$ 201	\$ 86,802	\$ 65,796	\$ 179,632	\$ 38,242	\$ 451,486

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(in thousands)**

Total net change in fund balances - governmental funds \$ (94,017)

Amounts reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capitalizable and non-capitalizable capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized capital outlays (\$60,884) exceeded depreciation (\$130,785) and deleted assets (\$3,127) in the current period. (73,028)

The issuance of long-term debt provides a source of current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of debt premiums, discounts, deferral amounts on refunding, and debt issuance costs when debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.

Debt proceeds	\$ (282,915)	
Premium on new debt issues	(30,394)	
Deferred loss on refunding	(18,980)	
Debt issuance costs	1,887	
Debt refunded	<u>287,145</u>	(43,257)

The repayment of long-term debt principal amount is reported as an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal payments	77,611
--------------------	--------

Internal service funds are used by the District to charge the costs of services, such as workers' compensation insurance and printing services, to individual funds. The net income (loss) of internal service funds is reported within the governmental activities. (30,360)

In the Statement of Activities, certain operating expenses - compensated absences (vacation and sick leave) - are measured by the amounts earned during the fiscal year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount actually paid) and for new retirees, the amount expected to be paid out for terminal sick leave over the next fiscal year.

Net change in compensated absences	1,826
Net change in postemployment benefits obligation	(8,385)

The District has recorded the following as revenue in the government-wide statements which do not meet the earned criterion for recognition in the fund financial statements:

Ad valorem taxes - General Fund	3,179	
Ad valorem taxes - Capital Projects Funds	806	
Impact fees - Capital Projects Funds	2,329	
Public Education Capital Outlay - Capital Projects Funds	6,688	
Miscellaneous revenues - Capital Projects Funds	<u>97</u>	13,099

Reversal of prior year's accruals:

Tax arbitrage liability	1,932	
Ad valorem taxes - General Fund	(12,531)	
Ad valorem taxes - Capital Projects Funds	(3,058)	
Miscellaneous revenues - Capital Projects Funds	<u>(97)</u>	(13,754)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Net change in accrued interest on long-term debt	48
--	----

Debt issuance costs and premiums/discounts are recognized as paid or received in the governmental funds but must be capitalized and amortized in the government-wide presentation. This amount represents the net amount between current year's additions and amortization of prior year's amounts. 6,746

Change in net assets of governmental activities	<u>\$ (163,471)</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS****JUNE 30, 2012****(in thousands)**

	INTERNAL SERVICE FUNDS
ASSETS:	
Current assets:	
Equity in pooled cash and investments	\$ 27,903
Accrued interest receivable	54
Inventories	11
Prepays	12,258
Other assets	1,150
Total current assets	<u>41,376</u>
Noncurrent assets:	
Furniture and equipment (net of accumulated depreciation)	<u>3</u>
Total assets	<u>41,379</u>
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued expenses	496
Estimated liability for self-insured risks	19,060
Total current liabilities	<u>19,556</u>
Long-term liabilities:	
Estimated liability for self-insured risks	<u>38,628</u>
Total liabilities	<u>58,184</u>
NET ASSETS:	
Invested in capital assets	3
Unrestricted	(16,808)
Total net assets (deficits)	<u>\$ (16,805)</u>

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

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(in thousands)**

	INTERNAL SERVICE FUNDS
OPERATING REVENUES:	
Premium revenues	\$ 24,259
Charges for services	57,819
Other	<u>2</u>
Total operating revenues	<u>82,080</u>
OPERATING EXPENSES:	
Claims	31,553
Insurance	16,417
Personnel services	57,993
Depreciation	2
Other	<u>6,904</u>
Total operating expenses	<u>112,869</u>
Operating loss	(30,789)
NON-OPERATING REVENUE:	
Interest and other	<u>244</u>
Net income (loss) before transfers	(30,545)
Transfers in	<u>185</u>
Net loss	(30,360)
Total net assets, beginning of year	<u>13,555</u>
Total net assets, (deficits) end of year	<u>\$ (16,805)</u>

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

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(in thousands)

	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from governmental customers	\$ 79,903
Cash payments for goods and services	(38,453)
Cash payments to employees	(57,988)
Net cash used in operating activities	(16,538)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from other funds	185
Net cash provided by noncapital financing activities	185
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	244
Net decrease in cash and cash equivalents	(16,109)
CASH AND CASH EQUIVALENTS:	
Beginning of year	44,012
End of year	\$ 27,903
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (30,789)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	2
Change in assets and liabilities:	
Increase in interest receivable	(14)
Decrease in inventories, prepaids, and other assets	80
Increase in accounts payable and accrued expenses	378
Increase in estimated liability for self-insured risks	13,805
Net cash used by operating activities	\$ (16,538)

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

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES****FIDUCIARY FUNDS****JUNE 30, 2012****(in thousands)**

	<u>AGENCY FUNDS</u>
ASSETS:	
Equity in pooled cash and investments	\$ 5,284
Cash and cash equivalents	8,204
Total assets	<u>\$ 13,488</u>
LIABILITIES:	
Accounts payable	\$ 567
Due to student organizations and other agencies	12,921
Total liabilities	<u>\$ 13,488</u>

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

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School Board of Broward County, Florida (the "District") has direct responsibility for operation, control and supervision of schools in Broward County and is considered a primary government for financial reporting purposes. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The general operating authority of the District and the Superintendent is contained in chapters 1000 through 1013, Florida Statutes. Pursuant to Section 1010.01, Florida Statutes, the Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The District's significant accounting policies are described below.

A. FINANCIAL REPORTING ENTITY

The District was created by the State Constitution and is part of the state system of public education operated under the general direction and control of the State Board of Education. Established in 1915, the District is governed by nine elected board members (the "Board"). The appointed Superintendent of Schools is the executive officer of the District. The District has taxing authority and provides elementary, secondary and vocational education services to the residents of Broward County, Florida ("Broward 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 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 is financially accountable and other organizations that the nature and significance of their relationship with the 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, District management has determined that the component units reportable with the accompanying basic financial statements are the Broward School Board Leasing Corporation (the "Corporation"), the Broward Education Foundation (the "Foundation"), and 71 charter schools.

Blended Component Units - The Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 12 of the Notes to the Basic Financial Statements. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.

Discretely Presented Component Units - The Foundation, a non-profit direct-support organization of the District, is included as a discretely presented component unit in the accompanying basic financial statements. The purpose of the Foundation is exclusively educational and charitable, namely, to receive, hold, invest and administer property and to make expenditures for the benefit of the District. In addition, the Foundation is fiscally dependent on the District to provide financial support for its ongoing operating expenses. An audit of the Foundation financial statements, for the fiscal year ended June 30, 2012, was conducted by an independent certified public accountant and is on file at the District's administrative office.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Additionally, in accordance with Section 1002.33, Florida Statutes, district school boards are authorized to approve charter ("Charter") school applications. Charter schools are public schools operating under a performance contract with the local school district and are fiscally dependent on the District for a majority of their funding. Revenues such as Florida Education Finance Program ("FEFP"), State categoricals and other State and Federal revenue sources are received by the District on behalf of the Charter schools and then remitted to them. As such, Charter schools are funded on the same basis and are subject to the same financial reporting requirements as the District. Additionally, all students enrolled in Charter schools are included in the District's total enrollment. To date, the District has approved the establishment of 94 Charter schools, of which, 76 were operating sites in fiscal year 2012. All of the Charter schools are considered component units of the District or another legal entity. For financial reporting purposes, 66 of the Charter schools are included in the basic financial statements of the District as discretely presented component units. Audits of the Charter schools' financial statements, for the fiscal year ended June 30, 2012, were conducted by independent certified public accountants and are on file at the District administrative office. The audited financial information for Lauderdale Lakes Academy, Parkway Academy, Smart School Middle, and Touchdowns 4life were not reported to the District as of the date of publication of the Comprehensive Annual Financial Report (CAFR) or this audit report.

The component unit beginning net assets does not agree to prior year ending net assets on the Statement of Net Assets and Statement of Activities because four charter schools ceased operations and did not obtain audits for the 2012 fiscal year.

The accompanying basic financial statements include the operations of the District, the Corporation, the Foundation and the 66 Charter schools. For financial reporting purposes, the operations of Charter schools within multiple locations operating under a single contract with the District are presented on a consolidated basis. Therefore, the operations of the Somerset Academy and Somerset Neighborhood have been consolidated. The District is independent of and is not financially accountable for any other local governmental units or civic entities other than those mentioned above. The Foundation and Charter Schools are presented in the government-wide presentation.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government-Wide Financial Statements – The Government-Wide Financial Statements are prepared under the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the government in its entirety, except for those that are fiduciary.

The Statement of Net Assets includes all assets and liabilities of the District. The Statement of Activities presents a comparison between the direct expenses and program revenues of the District. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Amounts reported as program revenues include 1) charges to students for tuition fees, rentals, materials, supplies, or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The District eliminates from the Statement of Net Assets and the Statement of Activities most interfund receivables and payables and transfers between funds as well as the transactions associated with its Internal Service Funds to minimize the effect of double counting. However, direct expenses are not eliminated from the various functional categories.

Fund Financial Statements – Governmental fund financial statements are prepared using the current financial resource measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are interest and principal on long-term debt, compensated absences, and other postemployment benefits (OPEB), which are recognized when due, unless funds have been set aside in the debt service funds for repayments. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions are further classified into (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government-mandated non-exchange transactions, and (d) voluntary non-exchange transactions. Derived tax revenues (ex. sales taxes) are recorded when the transaction occurs. Imposed non-exchange transactions (ex. property taxes) are recorded when the use of the resource is required or first permitted by time requirement (ex. property taxes, the period for which they are levied). Government-mandated and voluntary non-exchange transactions (ex. Federal mandates, grants and donations) are recorded when all eligibility requirements have been met.

When applying the “susceptible to accrual” concept under the modified accrual basis, resources should also be available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Agency (Fiduciary) funds, accounted on the accrual basis, are purely custodial in nature (assets equal liabilities) and as such do not have a measurement focus.

The Proprietary Fund Financial Statements are prepared under the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s internal service funds are for commercial insurance, graphics and printing, maintenance services, and facility construction management provided to other funds. Operating expenses for the internal service funds include salaries, employee benefits, purchased services, supplies, materials, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is reported in a separate column. Non-major funds are aggregated and reported in a single column. Currently, the District does not have any funds classified as enterprise funds. The District reports the following major funds:

GENERAL FUND

The General Fund is the primary operating fund of the District. The General Fund is used 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.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) ECONOMIC STIMULUS - SPECIAL REVENUE FUND

ARRA Economic Stimulus includes State Fiscal Stabilization Funds and Federal stimulus grants funds. These funds are used to save and create jobs; improve student achievement through school improvement and reform; ensure transparency and accountability and report publicly on the use of funds; and invest one-time ARRA funds thoughtfully to minimize the funding cliff.

CERTIFICATE OF PARTICIPATION SERIES (COPS) – DEBT SERVICE FUND

This fund is used to account for the accumulation of resources for the payment of debt principal, interest and related costs on the long-term certificates of participation (COP).

ARRA ECONOMIC STIMULUS DEBT SERVICE FUND

This fund is used to account for the accumulation of resources for the payment of debt principal, interest and related costs on the ARRA Economic Stimulus Capital Project Fund.

LOCAL MILLAGE CAPITAL IMPROVEMENT FUND

This fund is used to account for financial resources received from millage to be used for maintenance and other educational capital needs, including new construction, renovation and remodeling projects.

ARRA ECONOMIC STIMULUS CAPITAL PROJECTS FUND

ARRA Economic Stimulus Capital Projects Fund includes Qualified School Construction and Build America Bonds. These funds are used for capital expenditures related to construction, renovation and remodeling projects and are authorized by Federal law.

OTHER CAPITAL IMPROVEMENT FUND

Other Capital Improvement Fund is used to account for the Certificates of Participation Series, Classrooms First, and Impact Fees Funds used as revenue for planned improvements of property and equipment that meet the specific restrictions of those funding sources and are authorized by statute or local ordinance.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District also reports the following additional fund types:

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department to another on a cost reimbursement basis. These funds are used to account for the general and automobile liability self-insurance, workers' compensation, and other services provided to other District funds. Proprietary funds are included in the governmental activities in the government-wide financial statements.

FIDUCIARY FUND – AGENCY FUND

This fund is used to account for resources of the schools' Internal Funds, which is used to administer monies collected at the schools in connection with school, student athletics, classes and club activities.

The Broward Education Foundation and Charter Schools, shown as discretely presented component units, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

C. DEPOSITS AND INVESTMENTS

The District maintains an accounting system in which substantially all general District cash, investments, and accrued interest are recorded and maintained in a separate group of accounts. All such cash and investments are reflected as "Equity in Pooled Cash and Investments" in each fund in the accompanying financial statements. Investment income is allocated based on the weighted average balances of each fund's Equity in Pooled Cash and Investments.

Cash includes amounts in demand and time accounts as well as cash on hand. For purposes of the statement of cash flows, cash and cash equivalents also include highly liquid investments with an original maturity of 90 days or less at time of purchase.

The District's investment in the Florida Education Investment Trust Fund (FEITF), which the FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, is similar to money market funds in which shares are owned in the fund rather than the underlying investments. These amounts are reported at fair value, which is amortized cost.

Investments are stated at fair value. Funds are invested in various instruments allowed by Florida Statutes, including money market funds and bank certificates of deposit.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****D. INVENTORIES AND PREPAIDS**

Inventories consist of expendable supplies held for consumption in the course of the District's operations. Inventories are stated at cost, as determined on a first-in, first-out basis or a moving weighted average cost basis. U.S.D.A. commodities received from the federal government are recorded at the unit rate established by the Federal government. This inventory is accounted for under the consumption method, and as such, is recorded as expenditure when used.

Prepaid expenses are recognized when the goods or services are received but not consumed at year-end. The expenditure is recorded when the asset is used.

E. CAPITAL ASSETS

Capital assets, which the District defines as land, buildings and fixed equipment, improvements other than buildings, furniture and equipment, audiovisual equipment, computer software, and motor vehicles with a cost of \$1,000 or greater and an initial useful life of more than 1 year, are reported in the government-wide financial statements. Such assets are recorded at historical cost or at estimated historical cost if the actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation. Land, Land Improvements, Construction in Progress, and certain Intangible Assets are not depreciated. Other capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide financial statements.

The estimated useful lives are as follows:

Improvements other than buildings	15 to 35 years
Buildings and fixed equipment	7 to 50 years
Furniture, fixtures and equipment	5 to 20 years
Audio visual	5 years
Computer software	5 years
Motor vehicles	10 to 15 years

Depreciation expense on school buses has been allocated to the pupil transportation services function on the government-wide Statement of Activities. All other depreciation expense has been ratably allocated to the various expense functions based on an analysis of the use of each room in the District and its relative square footage.

Capital assets owned by the Proprietary Funds, principally equipment, are stated at cost. Straight-line depreciation has been provided over the estimated useful lives of these assets, which range from three to five years.

When capital assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the results of operations in the government-wide statements.

The District is required annually to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of a capital asset, and construction stoppage. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Based on this criteria, there were no impairments recognized in fiscal year 2012.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****F. REVENUE RECOGNITION**

State Revenue Sources - Revenues from state sources for current operations are primarily from the FEFP, administered by the Florida Department of Education ("FDOE"), under the provisions of Section 1011.62, Florida Statutes. The District files reports on full time equivalent ("FTE") student membership with the FDOE. The FDOE accumulates information from these reports and calculates the allocation of FEFP funds to the District. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made.

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. These funds are described as "restricted for categorical carryover programs" in the Statement of Net Assets and the Governmental Funds Balance Sheet.

Property Taxes – In the fund financial statements, property tax revenue is recognized when levied for, and available, which is when received, except at year end when revenue is accrued for taxes collected by the Broward County Revenue Collector as of fiscal year end, but remitted to the District within 60 days subsequent to fiscal year end. Any delinquent taxes expected to be collected in the subsequent fiscal year are accrued for and deferred at year-end. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received. In the government-wide financial statements, property tax revenue is recognized when levied for, net of allowance for estimated uncollectible amounts. Accordingly, uncollected, but earned, property tax revenue, net of uncollectible amounts, represent a reconciling item between the fund and government-wide presentation.

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 for 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.

G. DEFERRED REVENUE

Delinquent property taxes, net of uncollectible amounts; impact fees; and the Public Education Capital Outlay (PECO) are not available and are therefore deferred until received in the fund financial statements.

H. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Debt premiums and discounts and deferral amounts on refunding are deferred and amortized over the life of the debt using the effective interest method, or the straight-line method if it does not differ materially from the effective interest method. Debt payable is reported net of the applicable bond premium or discount and deferral amounts on refunding. Debt issuance costs are reported as deferred charges and amortized using the effective interest method or the straight-line method over the life of the debt.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

I. COMPENSATED ABSENCES

Compensated absences are salary related payments to employees for accumulated vacation and sick leave. These amounts also include the related employer's share of Social Security and Medicare and retirement contributions. They are recorded as expenditures when used or are accrued as a payable to employees who are entitled to cash payment in lieu of taking leave. District employees may accumulate unused sick leave without limitation and unused vacation up to a specified amount depending on their date of hire. Vacation leave is payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement. Sick leave is payable to employees upon retirement at the rate of pay in effect at the time the leave is earned. The number of days payable is subject to limitations as set forth in District policies.

The current portion represents the estimated terminal sick-leave amount that is due to, and has not been paid out to, employees who have retired on or prior to June 30, 2012.

The noncurrent portion (the amount estimated to be used in subsequent fiscal years) of \$157.4 million for the governmental funds is maintained separately and represents a reconciling item between the fund financial statements and government-wide financial statements.

J. SELF-INSURANCE

The District is self-insured for portions of its general and automobile liability insurance and workers' compensation. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (see Note 19 of the Notes to the Basic Financial Statements).

As of June 30, 2012, the District's consolidated Self-Insurance Internal Service funds, non-governmental internal service funds, had a deficit in net assets of \$16.8 million. This deficit resulted from the Proprietary Fund Financial Statements requirement to report the long-term outstanding liability.

The projected actuarial cost for claims expected to occur during the 2012-2013 fiscal year (short term) was in the amount of \$19.1 million. At year end, the Self-Insurance Internal Service funds maintained cash and investments in the amount of \$27.9 million, more than enough to fully cover these projected future claims in the short-term.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****K. FUND EQUITY**

The District adopted GASB Statement No. 54 ("GASB 54"), "Fund Balance Reporting and Governmental Fund Type Definitions," effective fiscal year 2011. The statement is intended to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major fund balance classifications: nonspendable and spendable. Nonspendable fund balance includes amounts that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of nonspendable fund balance include inventory, prepaid items and the principal (corpus) of a permanent fund. The District has classified inventory as nonspendable.

GASB 54 provides for four categories of the spendable fund balance classification based on the level of constraint placed on the use of those resources.

- Restricted fund balance includes resources constrained to a specific purpose by their external providers such as grantors and contributors, or laws and regulations.
- Committed fund balance includes resources constrained to a specific purpose by the District's highest level of decision-making authority, the School Board. These items cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- Assigned fund balance represents amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by the District's management based on Board direction.
- Unassigned fund balance includes the remaining fund balance, or net resources, available for any purpose. Unassigned fund balance represents amounts that are not constrained in any way.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

L. NET ASSETS

Fund balance is the difference between fund assets and liabilities on the governmental fund financial statements that are based on the modified accrual basis of accounting. Net assets is the difference between fund assets and liabilities on the government-wide and proprietary fund financial statements that are based on the accrual basis of accounting.

M. MANAGEMENT'S USE OF ESTIMATES

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

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****2. BUDGETARY POLICIES**

The Board follows procedures established by State Statute and State Board of Education rules in establishing annual budgets for governmental funds as described below:

- (1) 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.
- (2) The major functional level is the legal level of budgetary control. Budgeted amounts may be amended by resolution at any Board meeting prior to the due date for the annual financial report. General Fund budgetary disclosure in the accompanying financial statements reflects the final budget including all amendments approved for the fiscal year through September 5, 2012.
- (3) Project-length budgets, such as in the capital projects funds, are determined and then are fully appropriated in their entirety in the year the project is approved. For the beginning of the following year, any unexpended appropriations for a project from the prior year are re-appropriated. This process is repeated from year to year until the project is completed.
- (4) Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward, if applicable, to the following year for the General Fund and are closed after a three-month period.

3. DEPOSITS AND INVESTMENTS

On January 18, 2000, the Board formally adopted policy number 3110, a comprehensive investment policy pursuant to Section 218.415, Florida Statutes that established permitted investments, asset allocation limits and issuer limits, credit ratings requirements and maturity limits to protect the District's cash and investment assets. The policy's main objectives are geared to maintain the safety of principal, liquidity and return on investment.

Cash and Cash Equivalents:

As of June 30, 2012, the carrying amount of the District's bank deposit account was \$28.7 million. Banks qualified as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes, hold all deposits.

All money market funds are comprised of U.S. Treasury and U.S. Government Obligations that are backed by the full faith and credit of the U.S. Government. At June 30, 2012, the aggregate of the money market funds held by the District totaled \$24.1 million.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Cash and investments at June 30, 2012 are shown below (in thousands):

	Governmental Funds	Internal Service Funds	Total Government- Wide	Agency Funds
Federal Treasury Bonds & Notes	\$ 30,593	\$ 2,484	\$ 33,077	\$ 471
Government Sponsored Entity Securities	203,145	16,495	219,640	3,123
Municipal Bonds	2,221	180	2,401	34
Corporate Notes and Paper	21,968	1,784	23,752	338
Funds Held by Trustee:				
Commercial Paper Sweep	307,045		307,045	
Commercial Paper	196		196	
Money Market Fund	19		19	
Government Sponsored Entity Securities	4,236		4,236	
Funds Held in Trust by State	1,373		1,373	
Florida Education Investment Trust	45,712	3,712	49,424	703
Money Market Account	22,009	1,787	23,796	338
Total Investments	638,517	26,442	664,959	5,007
Total Deposits	18,010	1,461	19,471	8,481
Total Cash, Cash Equivalents, and Investments	<u>\$ 656,527</u>	<u>\$ 27,903</u>	<u>\$ 684,430</u>	<u>\$ 13,488</u>

Credit Risk:

The District has adopted an investment policy that authorized the District to participate in the State Board Administration Investment Pool (SBA). The policy also authorizes the District to invest in interest-bearing time deposits or savings accounts, direct obligations of the United States Treasury, Federal Agencies, and money market funds with the highest credit quality rating from nationally recognized statistical rating organizations and registered with the Securities and Exchange Commission; State and/or local government taxable and/or tax exempt debt, general obligation and/or revenue bonds, rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long term debt, or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short-term debt; and bankers acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" by Standard & Poor's. Additionally, the bank shall not be listed with any recognized credit watch information service.

The Policy also authorizes the District to invest in commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Additionally, the company shall not be listed with any recognized credit watch information service. Corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long term debt rating of "AA" by Standard & Poor's.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

As of June 30, 2012, the District's investment securities had the following ratings as shown in the chart below (dollars in thousands):

Investments	Fair Market Value	S&P Rating
Short term portfolio:		
SBA: Debt Service Accounts	\$ 1,373	NA
Florida Education Investment Trust Fund	50,127	AAAm
Money Market:		
Bank of America	24,134	A-2
US Bank, NA	19	AAAm
Corporate Notes	5,476	A+,AA+,AAA
Commercial Paper Sweep	307,045	A-1+
Commercial Paper	4,400	A, A-1
Government Sponsored Entity Securities	141,033	AA+, A
Treasury Bonds and Notes	1,270	AA+
Long term portfolio:		
Corporate Notes	14,410	AA-,A+,AA,AA+
Government Sponsored Entity Securities	85,966	AA+
Treasury Bonds and Notes	32,278	AA+
Municipal Bonds	2,435	AA
Total Investments	<u>\$ 669,966</u>	

Interest Rate Risk:

The District manages its exposure to interest rate risk in fair value by forecasting cash outflows and inflows. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than 24 months. According to the District's policy, securities may be purchased at a premium or traded for other securities to improve yield, maturity or credit risk.

Investments of bond reserves, construction funds, and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years.

The Florida Education Investment Trust Fund (FEITF) had a weighted average days to maturity (WAM) of 46 days at June 30, 2012. 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 charges.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District's money market account is tied to Federal Funds. The following table shows the District's short term portfolio weighted average maturity at June 30, 2012 (dollars in thousands).

Investments	Fair Market Value	Maturities		Weighted Average Maturity
		Less than 1 Year	2 Years	
Florida Education Investment Trust Fund	\$ 50,127	\$ 50,127	\$	46 Day Average
Money Market Funds:				
Bank of America	24,134	24,134		NA
US Bank, NA	19	19		NA
Corporate Notes	5,476	5,476		288
Commercial Paper Sweep	307,045	307,045		NA
Commercial Paper	4,400	4,400		52
Government Sponsored Entity Securities	141,033	141,033		294
Treasury Bonds and Notes	1,270	1,270		288
Total	<u>\$ 533,504</u>	<u>\$ 533,504</u>	<u>\$</u>	

The following table shows the District's long term portfolio effective duration at June 30, 2012:

Investments	Effective Duration in Years
Corporate Notes	0.898
Government Sponsored Entity Securities	0.605
Treasury Bonds and Notes	1.847
Municipal Bonds	0.743
Average effective duration	0.767

The Long Term Portfolio uses the Effective Duration.

Concentration of Credit Risk:

The District's investment policy has established asset allocation and issuer limits on the following investments, which are designed to reduce concentration of credit risk of the District's Investment Portfolio.

The Florida Government Surplus Fund Trust Fund ("SBA"):

A maximum of 100% of available funds may be invested by the District's Treasurer (the "Treasurer") in the SBA. Funds deposited with the SBA are invested in the pooled investment account, an external investment pool administered by the State of Florida and operated in a manner consistent with the Security and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940.

U.S. Government Securities:

The Treasurer may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. A maximum of 100% of available funds may be invested in these securities; the maximum length to maturity is 5 years from the date of purchase.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

These securities include but are not limited to:

Cash Management Bills, Treasury Securities - State and Local Government Series ("SLGS"), Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Strips.

U.S. Government Agencies:

The Treasurer may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government. A maximum of 50% of available funds may be invested in U.S. government agencies. A maximum of 25% of available funds may be invested in individual U.S. government agencies. The maximum length to maturity is 5 years from the date of purchase.

Federal Instrumentality (U.S. Government Sponsored Entities):

The Treasurer may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Government Sponsored Entities (Federal Instrumentalities), which are non-full faith. A maximum of 80% of available funds may be invested in Federal Instrumentalities. A maximum of 40% may be invested in any one issuer. The maximum length to maturity for an investment is 5 years from the date of purchase.

Interest Bearing Time Deposit or Savings Account:

Funds can be invested in non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in National Banks organized by the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. A maximum of 25% of available funds may be invested in non-negotiable interest bearing time certificates of deposit. A maximum of 15% of available funds may be deposited with any one issuer. The maximum maturity on any certificate is 1 year from the date of purchase.

Corporate Notes:

The Treasurer may invest in Corporate Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long term debt rating of "AA" by Standard's & Poor's. A maximum of 15% of available funds may be invested in corporate notes. Only 5% invested with one issuer. The length of maturity shall be 3 years from the date of purchase.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The following table shows the composition of the District's investments at June 30, 2012, excluding funds held in trust (dollars in thousands).

Investments	Fair Market Value	Percentage of Portfolio
Short term investments:		
State Board of Administration:		
Debt Service Accounts	\$ 1,373	0.20%
Florida Education Investment Trust	50,127	7.48%
Money Market Accounts:		
Bank of America	24,134	3.60%
US Bank, NA	19	0.01%
Corporate Notes:		
General Electric	5,169	0.77%
Wells Fargo	307	0.05%
Commercial Paper:		
Bank of Tokyo Mitsubishi Ltd	4,204	0.63%
US Bank, NA Sweep	307,045	45.83%
US Bank, NA Natixis	196	0.03%
Government Sponsored Entity Securities:		
Federal Home Loan Bank	76,052	11.35%
Federal Farm Credit Bank	30,073	4.49%
Federal Home Loan Mortgage Corporation	10,351	1.55%
Federal National Mortgage Association	24,557	3.67%
Treasury Bonds and Notes	1,270	0.19%
Long term investments:		
Corporate Notes:		
Bank of New York Mellon	3,912	0.58%
Berkshire Hathaway Fin	832	0.12%
General Electric	3,692	0.55%
Johnson & Johnson	1,024	0.15%
Proctor & Gamble	2,005	0.30%
Wal-mart Stores Global Notes	2,005	0.30%
XTO Energy Inc	940	0.14%
Government Sponsored Entity Securities:		
Federal Home Loan Bank	31,070	4.64%
Federal Farm Credit Bank	1,235	0.18%
Federal Home Loan Mortgage Corporation	30,476	4.55%
Federal National Mortgage Association	23,185	3.46%
Treasury Bonds and Notes	32,278	4.82%
Municipal Bonds:		
New York, New York	2,435	0.36%
Total Investments	\$ 669,966	100.00%

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****Custodial Risk:**

Pursuant to Florida Statute 218.415 (10), securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by, and all collateral obtained by the District is properly designated as an asset of the District. The securities are held in an account separate and apart from the assets of the financial institution.

As of June 30, 2012, the District's investment portfolio was held by Wells Fargo Securities, LLC, a third-party custodian, as required by the School Board's investment policy.

4. DUE TO/FROM OTHER GOVERNMENTAL AGENCIES AND DEFERRED/UNEARNED REVENUE**Due To/From Other Governmental Agencies:**

At June 30, 2012, the District's due to/from other governmental agencies balances are as follows (in thousands):

	General Fund	ARRA Economic Stimulus Fund	Local Millage Capital Improvement Fund	Other Capital Improvement Fund	Other Governmental Funds	Total
Due from other governments:						
Federal Government:						
Miscellaneous Federal	\$ 1,843	\$ 1,953	\$	\$	\$ 15,325	\$ 19,121
State Government:						
Food Reimbursement					1,842	1,842
Public Education Capital Outlay					6,688	6,688
Miscellaneous State	49			175	3	227
Local Government:						
Taxes Receivable	29,235		7,405			36,640
Miscellaneous Local	29		5	2,329	979	3,342
Total due from other governmental agencies	\$ 31,156	\$ 1,953	\$ 7,410	\$ 2,504	\$ 24,837	\$ 67,860
Due to other governments:						
Florida Retirement System						
Contribution	\$ 7,196	\$	\$	\$	\$	\$ 7,196
Miscellaneous					3	3
Total due to other governmental agencies	\$ 7,196	\$	\$	\$	\$ 3	\$ 7,199

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****Deferred/Unearned Revenue:**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2012, the various components of deferred revenue reported in the government-wide statements and the governmental funds were as follows (in thousands):

	Unearned Revenue Government- Wide	Deferred Revenue Governmental Funds
Delinquent property taxes receivable - General Fund	\$	\$ 3,179
Delinquent property taxes receivable – Local Millage Capital Improvement Fund		806
Interlocal Agreements		97
Impact Fees		2,329
Public Education Capital Outlay (PECO)		6,688
Grant drawdowns prior to meeting all eligibility requirements	351	351
	<u>\$ 351</u>	<u>\$ 13,450</u>

5. AD VALOREM TAXES

The District is authorized by Florida Statutes to levy property taxes for District operations, capital improvements and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. Property taxes are assessed by the Broward County Property Appraiser and are collected by the Broward County Tax Collector who remits them to the District. The Board adopted the 2011 tax levy on September 15, 2011.

Property values are assessed as of January 1 of each year, and levied on November 1, at which time taxes become an enforceable lien on property. Such levy serves to finance expenditures of the following fiscal year. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to four percent for early payment.

On April 1 of the year following the year of assessment, taxes become delinquent and Florida Statutes provide for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing certificates to satisfy unpaid taxes. The District recognizes revenue during the fiscal year following the year of assessment. Accordingly, substantially all of the taxes assessed on January 1, 2011, have been recognized during the fiscal year ended June 30, 2012.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The following is a summary of millages and taxes levied on the final 2011 tax rolls for the fiscal year 2012 (dollars in thousands):

		Taxes			
	Millages	Levied	Collected	Uncollected, net	Prior Years Taxes Collected
<u>General Funds</u>					
Non-voted School Tax:					
Required Local Effort	5.170	\$ 701,164	\$ 670,341	\$ 2,777	\$ 9
Discretionary Local Effort	0.748	101,445	96,985	402	1
	<u>5.918</u>	<u>\$ 802,609</u>	<u>\$ 767,326</u>	<u>\$ 3,179</u>	<u>\$ 10</u>
<u>Capital Project Funds</u>					
Non-voted School Tax:					
Capital Improvements	1.500	\$ 203,432	\$ 194,489	\$ 806	\$ 21
<u>Debt Service Funds</u>					
Voted Tax:					
Debt Service	0.000	\$	\$	\$	\$ 21

The State Constitution limits the non-voted levying of taxes by the District to 10 mills (\$10.00 per thousand of assessed valuation). State law prescribes the upper limit of non-voted taxes to be levied on an annual basis, with the fiscal year 2012, limit being 7.418 mills, which includes up to 1.50 mills for the Capital Projects Funds. The voter approved levy for debt service is limited to 6.0 mills; for fiscal year 2012, no taxes for debt service were levied.

The total assessed value for calendar year 2011, on which the fiscal 2012 levy was based, was approximately \$135.6 billion, which is subject to change based upon appeals to the Broward County Value Adjustment Board.

The Broward County Tax Collector is not required by law to make an accounting to the District of the difference between taxes levied and taxes collected. The State required the District to budget at a 96.0 percent collection rate; however, the actual property taxes collected or accrued for fiscal year 2012 were 95.6 percent of the taxes levied.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012****6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows (in thousands):

	Balance 06/30/2011	Additions	Deletions	Transfers	Balance 06/30/2012
Primary Government:					
Capital assets not being depreciated:					
Land	\$ 228,096	\$ 1,579	\$ (200)	\$	\$ 229,475
Land improvements	123,968	9	(245)	386	124,118
Construction in progress	80,541	26,593	(2,682)	(21,169)	83,283
Broadcast license intangible	3,600				3,600
Total capital assets not being depreciated	436,205	28,181	(3,127)	(20,783)	440,476
Other capital assets:					
Land improvements	300,664	1,415	(4,292)	10,977	308,764
Buildings and fixed equipment	3,484,680	5,464	(427)	9,806	3,499,523
Furniture, fixtures and equipment	398,315	22,336	(21,607)	16,437	415,481
Assets under capital leases	55,840	1,449		(16,437)	40,852
Audio visual	926	345	(195)		1,076
Computer software	56,266	1,114	(2,567)		54,813
Motor vehicles:					
Buses	67,302	72	(6,579)		60,795
Other	27,241	508	(1,238)		26,511
Total other capital assets at historical cost	4,391,234	32,703	(36,905)	20,783	4,407,815
Less accumulated depreciation for:					
Land improvements	(80,236)	(12,536)	4,292		(88,480)
Buildings and fixed equipment	(1,064,835)	(79,008)	427		(1,143,416)
Furniture, fixtures and equipment	(354,294)	(24,730)	21,607	(14,257)	(371,674)
Assets under capital leases	(36,272)	(5,833)		14,257	(27,848)
Audio visual	(606)	(215)	195		(626)
Computer software	(24,232)	(5,349)	2,567		(27,014)
Motor vehicles:					
Buses	(55,286)	(1,570)	6,579		(50,277)
Other	(21,079)	(1,542)	1,238		(21,383)
Total accumulated depreciation*	(1,636,840)	(130,783)	36,905		(1,730,718)
Total other capital assets, net	2,754,394	(98,080)		20,783	2,677,097
Total primary government, net	3,190,599	(69,899)	(3,127)		3,117,573
Internal service fund:					
Machinery and equipment	408	14	(1)		421
Accumulated depreciation*	(403)	(16)	1		(418)
Total Internal service fund, net	5	(2)			3
Total capital assets, net	\$ 3,190,604	\$ (69,901)	\$ (3,127)	\$	\$ 3,117,576

*Depreciation expense was recorded in the following governmental functions:

Instructional Services	\$ 95,811
Instructional support services	13,787
Pupil transportation services	2,010
Operation and maintenance of plant	7,313
School administration	3,360
General Administration	2,432
Food services	6,086
Total depreciation expense	\$ 130,799

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****7. INTERFUND TRANSACTIONS**

Interfund Transfers. A summary of interfund transfers for the fiscal year ended June 30, 2012 is as follows (in thousands):

	Transfers In					Total
	General Fund	Major Debt Service Funds	Major Capital Funds	Other Governmental Funds	Internal Service Funds	
Transfers Out:						
General Fund	\$	\$ 1,334	\$ 1,913	\$ 54	\$ 185	\$ 3,486
COPS Series Debt Service Fund		13				13
Local Millage Capital Improvement Fund	55,498	148,619				204,117
ARRA Economic Stimulus Capital Project Fund		133				133
Other Capital Improvement Fund	10,045	2,031				12,076
Other Governmental Funds	14,696					14,696
Total Primary Government	\$ 80,239	\$ 152,130	\$ 1,913	\$ 54	\$ 185	\$ 234,521

The transfers in to the General Fund primarily relate to the funding of maintenance and repairs of existing school facilities pursuant to Chapter 1013 of the Florida Statutes. The transfers in also represent reimbursement of property and casualty insurance premiums pursuant to Chapter 1011.71 of the Florida Statutes. The transfers in to the Debt Service Funds relate to the funding of principal and interest payments on the District's outstanding debt issues.

Interfund Receivables and Payables. Individual fund receivable and payable balances as reported in the Governmental Funds Balance Sheet at June 30, 2012 are as follows (in thousands):

	Payable Fund				Total
	ARRA Economic Stimulus	Major Debt Service Funds	ARRA Economic Stimulus Capital Projects	Other Governmental Funds	
Receivable Fund:					
General Fund	\$ 1,828	\$	\$	\$ 13,675	\$ 15,503
Other Capital Improvement Fund			292		292
Local Millage Capital Improvement Fund		4,000			4,000
Total	\$ 1,828	\$ 4,000	\$ 292	\$ 13,675	\$ 19,795

Interfund receivables and payables relate to temporary funding of negative cash balances.

8. TAX ANTICIPATION NOTES

On November 2, 2011, the District issued Tax Anticipation Notes ("TANS"), Series 2011. The \$125.0 million note proceeds were used to pay fiscal year 2012 operating expenditures prior to the receipt of ad valorem taxes. Interest costs incurred on the life of this issue for the year ended June 30, 2012, were \$0.4 million, with the effective yield of 0.13 percent. There was no arbitrage rebate due on the TANS, Series 2011. The notes came due January 25, 2012.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Short-term debt activity for the year ended June 30, 2012, was as follows (in thousands):

	Beginning Balance July 1, 2011	Issued	Redeemed	Ending Balance June 30, 2012
Tax Anticipation Notes	\$	\$ 125,000	\$ 125,000	\$

9. CAPITAL LEASES

Property acquired under capital leases, which is stated at acquisition cost, is included in the government-wide financial statements. At June 30, 2012, the various components of property acquired under capital leases reported in the government-wide statements were as follows (in thousands):

	Amount
Furniture, fixtures and equipment	\$ 16,128
Buses	24,724
Subtotal	40,852
Less: Accumulated Depreciation	(27,848)
Total Net Book Value	\$ 13,004

The following is a summary of changes in capital leases for the fiscal year ended June 30, 2012 (in thousands):

	Interest Rate	Final Maturity Date	June 30, 2011	Increases	Decreases	June 30, 2012
School buses	4.35%	06/30/2012	\$ 1,199	\$	\$ (1,199)	\$
Computer equipment	3.71%	12/18/2012	1,435		(947)	488
School buses	4.06%	12/18/2016	6,122		(1,015)	5,107
Computer equipment	3.27%	06/30/2014	968		(312)	656
Computer equipment	3.27%	06/30/2014	2,020		(652)	1,368
Buses/Equipment	4.13%	11/01/2014	11,996		(3,254)	8,742
Total capital leases			\$ 23,740	\$	\$ (7,379)	\$ 16,361
Less: portion due within one year						(5,930)
Total capital leases due in more than one year						\$ 10,431

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The following is a summary of the future minimum lease payments under capital leases together with the present value of minimum lease payments as of June 30, 2012 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 6,520
2014	6,024
2015	3,111
2016	1,253
2017	626
Total minimum lease payments	17,534
Less:	
Amount representing interest	(1,173)
Present value of minimum lease payments	\$ 16,361

The amount representing interest was calculated using annual rates ranging from 3.27 percent to 4.13 percent.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****10. NON-CURRENT DEBT**

The following is a summary of changes in non-current debt for the fiscal year ended June 30, 2012 (in thousands):

	Interest Rate	Final Maturity Date	June 30, 2011	Increases	Decreases	June 30, 2012	Amounts Due Within One Year
Bonds payable:							
Capital outlay bond issues:							
Series 2002A	3.00-5.00%	01/01/2022	\$ 6,575	\$	(6,575)	\$	\$
Series 2002B	3.38-5.38%	01/01/2015	9,475		(9,475)		
Series 2003A	3.00-5.00%	01/01/2023	7,345		(375)	6,970	415
Series 2005A	3.00-5.00%	01/01/2017	21,865		(3,150)	18,715	3,300
Series 2005B	3.50-5.00%	01/01/2020	3,075		(355)	2,720	345
Series 2006A	3.50-5.00%	01/01/2026	250		(35)	215	40
Series 2008A	3.25-5.00%	01/01/2028	4,550		(65)	4,485	80
Series 2009A- New Money	2.00-5.00%	01/01/2029	1,120		(35)	1,085	40
Series 2009A- Refunding	2.00-5.00%	01/01/2019	2,240		(250)	1,990	255
Series 2010A- Refunding	4.00-5.00%	01/01/2022	6,995		(100)	6,895	475
Series 2011A- Refunding	3.00-5.00%	01/01/2023		12,265		12,265	2,715
Total capital outlay bond issues			63,490	12,265	(20,415)	55,340	7,665
Certificates of participation:							
Series 2000 QZAB	(i)	12/20/2013	701		(351)	350	350
Series 2001A	3.00-5.50%	07/01/2026	43,990		(43,990)		
Series 2001 QZAB	(ii)	06/28/2014	737		(368)	369	369
Series 2001B	3.00-5.375%	07/01/2026	51,930		(51,930)		
Series 2003A	2.00-5.25%	07/01/2028	164,370		(158,830)	5,540	5,540
Series 2004A	2.00-5.25%	07/01/2017	44,210		(6,570)	37,640	6,825
Series 2004B	5.00-5.25%	07/01/2017	71,920		(6,810)	65,110	11,495
Series 2004C	2.50-5.25%	07/01/2020	69,030		(39,240)	29,790	6,995
Series 2004D	Variable	07/01/2029	113,825			113,825	
Series 2004 QZAB	(iii)	12/22/2020	531		(53)	478	53
Series 2005A	3.00-5.00%	07/01/2030	161,740		(7,170)	154,570	7,520
Series 2005B	Variable	07/01/2021	44,460			44,460	
Series 2006A	4.00-5.25%	07/01/2028	202,105		(8,280)	193,825	8,640
Series 2006B	Variable	07/01/2031	65,000			65,000	
Series 2007A	3.50-5.00%	07/01/2032	241,615		(8,485)	233,130	8,785
Series 2008A	3.15-5.25%	07/01/2033	270,560		(7,355)	263,205	7,640
Series 2009A T-E	5.00-5.25%	07/01/2027	20,140			20,140	
Series 2009A BAB	7.40%	07/01/2034	63,910			63,910	
Series 2009A QSCB	(iv)	07/01/2024	49,913			49,913	
Series 2010A QSCB	(v)	07/01/2027	51,645			51,645	
Series 2011A	2.00-5.00%	07/01/2024	175,510		(4,085)	171,425	
Series 2012A	4.00-5.00%	07/01/2028		270,650		270,650	
Total certificates of participation			1,907,842	270,650	(343,517)	1,834,975	64,212
Total bonds and certificates of participation payable			\$ 1,971,332	\$ 282,915	\$ (363,932)	1,890,315	
Add: net premium/discount/deferral amount on refunding						86,733	7,977
Less: amounts due within one year						(79,854)	
Add: interest rate swap – fair value						59,753	
Total debt, net of premiums and discounts						\$ 1,956,947	\$ 79,854

See notes i-v on the following page.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- (i) Interest on the Series 2000 QZAB is paid by the Federal government in the form of an annual tax credit to the bank or other financial institution that holds the QZAB. Annual payments of \$350,712 are made for twelve consecutive years, being deposited in an escrow account held by a fiscal agent, which when coupled with interest earnings and net appreciation in market value will be sufficient to pay off the principal balance of the QZAB, in full, at maturity on December 20, 2013.
- (ii) Interest on the Series 2001 QZAB is paid by the Federal government in the form of an annual tax credit to the bank or other financial institution that holds the QZAB. Annual payments of \$368,121 are made for twelve consecutive years, beginning on June 30, 2002, which will pay off the principal balance of the QZAB, in full, by its maturity on June 28, 2014.
- (iii) Interest on the Series 2004 QZAB is paid by the Federal government in the form of an annual tax credit to the bank or other financial institution that holds the QZAB. Annual payments of \$53,062 are made for sixteen consecutive years, being deposited in an escrow account held by a fiscal agent, which when coupled with interest earnings and net appreciation in market value will be sufficient to pay off the principal balance of the QZAB, in full, at maturity on December 22, 2020.
- (iv) Series 2009A-QSCBs (Qualified School Construction Bonds) are issued with principal only repaid by the District (no interest) and the investor receives a tax credit in lieu of interest payment. Annual payments of \$4,540,000 will be made for eleven consecutive years, being deposited in an escrow account held by a fiscal agent. The Series 2009A-QSCB will mature on July 1, 2024.
- (v) Series 2010A-QSCBs (Qualified School Construction Bonds) are issued with a 6.45 percent interest rate and an issuer subsidy interest rate of 5.25 percent, for a net interest rate of 1.2 percent. Annual payments of \$5,164,500 will be made for ten consecutive years, beginning July 1, 2018 being deposited in an escrow account held by a fiscal agent. The Series 2010A-QSCB will mature on July 1, 2027.

The capital outlay bond issues (COBI) are retired by the State for the District. The bonds mature serially and are secured by a pledge of the District's share of revenue from the sale of license plates. The State Board of Administration determines the sinking fund requirements for these bonds annually. The sinking fund, maintained in the COBI Debt Service Fund, at June 30, 2012 was \$1.4 million.

In April 2012, the Refunding Certificates of Participation, Series 2012A were issued for \$270.7 million to refund all of the outstanding Certificates of Participation, Series 2001A for \$44.0 million, all of the outstanding Certificates of Participation, Series 2001B for \$51.9 million, a portion of the outstanding Certificates of Participation, Series 2003A for \$152.4 million, and a portion of the Certificates of Participation, Series 2004C for \$32.5 million, for a net difference of \$10.1 million. The issuance included a premium of \$29.0 million and issuance costs of \$1.9 million. This refunding generated over \$19.4 million in present value savings. See Note 11 of the Notes to the Basic Financial Statements for further discussion of the defeased debt.

The Certificates of Participation are liquidated through the COP-Series Debt Service Fund from the proceeds of the capital millage levied by the District. See Note 12 of the Notes to the Basic Financial Statements for further discussion of the Certificates.

The Tax Reform Act of 1986 requires local units of government to rebate to the federal government the income (in excess of interest costs) received from investing proceeds on substantially all tax-exempt debt issued subsequent to August 1986. Such rebate of cumulative arbitrage earnings must be paid every five years until such time as the proceeds have been expended. For the fiscal year ended June 30, 2012, the District does not have any accrued liability for rebatable arbitrage.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Annual requirements to amortize all bond and certificates of participation issues outstanding as of June 30, 2012, are as follows (in thousands):

Year Ending June 30,	Capital Outlay Bond Issue			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 7,665	\$ 2,597	\$ 10,262	\$ 64,212	\$ 89,273	\$ 153,485
2014	8,365	2,259	10,624	71,143	87,262	158,405
2015	6,920	1,849	8,769	74,053	83,058	157,111
2016	6,675	1,511	8,186	79,153	79,599	158,752
2017	6,790	1,184	7,974	82,753	76,272	159,025
2018-2022	14,000	2,939	16,939	487,000	322,657	809,657
2023-2027	4,240	586	4,826	570,241	204,105	774,346
2028-2032	685	34	719	365,385	64,623	430,008
2033-2037				41,035	3,419	44,454
Total	<u>\$ 55,340</u>	<u>\$ 12,959</u>	<u>\$ 68,299</u>	<u>\$ 1,834,975</u>	<u>\$ 1,010,268</u>	<u>\$ 2,845,243</u>

11. DEFEASED DEBT

On April 5, 2012, the District issued Certificates of Participation, Series 2012A in the amount of \$270.7 million. The proceeds were used to refund the remainder of Certificates of Participation, Series 2001A, Series 2001B and portions of Series 2003A and Series 2004C. The net proceeds of \$297.8 million (par amount plus original issue premium of \$29.0 million and less \$1.9 million in underwriting fees and other costs of issuance) were deposited into an irrevocable escrow and used to redeem the refunded certificates. As a result, \$280.8 of the refunded certificates are considered to be in-substance defeased and the liability for these certificates has been removed from the Statement of Net Assets.

The Series 2012A Certificates were issued to reduce the total debt service over the next 16 years by \$23.5 million and to obtain an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$19.4 million.

On January 5, 2012, the FDOE issued State Board of Education (SBE), Capital Outlay Bonds COBI Series 2011A that refunded the callable portion of the Series 2002B bonds and the Series 2003A bonds. The Series 2002B were called on January 6, 2012 and are considered an in-substance defeasance. As a result, the liability for the Series 2002B has been removed from the District's government-wide financial statements. The refunding of the callable portion of the Series 2003A is not considered an in-substance defeasance in accordance with GASB Statement 7, since the payment to the escrow agent was invested with the state treasury in a Special Purpose Investment Account. As a result, the total outstanding amount of the Series 2003A is still considered outstanding and is presented as a long-term liability on the government-wide financial statements. The economic gain associated with the refunding of the COBI Series 2002B was approximately \$2.2 million for the State. The District's share of this economic gain was approximately \$0.5 million.

In fiscal year 2011, the FDOE issued State Board of Education (SBE), Capital Outlay Bonds (COBI), Series 2010A that included a refunding of the callable portion of the Series 2002A bond issue. The District's portion of the Series 2002A was \$6.2 million. The payment to bond escrow agent was invested in the State Treasury, which was not considered essentially risk-free in accordance with GASB Statement No. 7. Therefore, the refunding of the callable portion of the Series 2002A bond issue was not considered an in-substance defeasance in fiscal year 2011. In fiscal year 2012, this refunding becomes an in-substance defeasance and the debt is retired. As a result, the liability for the Series 2002A has been removed from the District's government-wide financial statements. The economic gain associated with the refunding of the Series 2002A

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

bond issue was approximately \$1.9 million for the State. The District's share of this economic gain was approximately \$0.6 million.

12. OBLIGATION UNDER LEASE PURCHASE AGREEMENT-CERTIFICATES OF PARTICIPATION

The District entered into a Lease Purchase Agreement with the Corporation on June 15, 1989 and a Master Lease Purchase Agreement on July 1, 1990 (the "lease agreements"), to finance the acquisition or construction of certain facilities, vehicles and equipment for District operations. On February 27, 2003, March 16, 2004, June 18, 2004, June 29, 2004, May 18, 2005, June 6, 2006, March 30, 2007, June 19, 2008, June 17, 2009, July 23, 2010, May 20, 2011 and April 2012, the Corporation issued refunding and new money Certificates, Series 2003A, Series 2004A (refunding), Series 2004B (refunding), Series 2004C, Series 2004D, Series 2005A, Series 2005B, Series 2006A, Series 2006B, Series 2007A, Series 2008A, Series 2009A-Tax Exempt, Series 2009A-BAB, Series 2009A-QSCB, Series 2010A-QSCB, Series 2011A (refunding), and Series 2012A (refunding) in the amounts of \$209.2 million, \$69.9 million, \$71.9 million, \$110.5 million, \$113.8 million, \$198.1 million, \$44.4 million, \$202.1 million, \$65.0 million, \$272.6 million, \$270.6 million, \$20.1 million, \$63.9 million, \$49.9 million, \$51.6 million, \$175.5 million and \$270.7 million respectively, to third parties, evidencing undivided proportionate interest in basic lease payments to be made by the District, as lessee, pursuant to the lease agreements. Interest rates ranged from 2.0 percent to 7.4 percent.

In April 2012, the Corporation issued Certificate Series 2012A in the amount of \$270.7 million. The Series 2012A was issued to refund the outstanding Certificates of Participation pertaining to Series 2001A, Series 2001B and portions of Series 2003A and Series 2004C.

In May 2011, the Corporation issued Certificate Series 2011A in the amount of \$175.5 million. The Series 2011A was issued to refund a portion of the outstanding Certificates of Participation pertaining to Series 1997B, Series 2001A and Series 2001B.

In July 2010, the Corporation issued Certificate Series 2010A-QSCB (Qualified School Construction Bonds) in the amount of \$51.6 million. The Series 2010A-QSCB was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. This is a taxable obligation with the District receiving a direct subsidy rebate of a portion of the interest cost from the U.S. Treasury.

The American Recovery and Reinvestment Act (ARRA) of 2009, signed into law on February 17, 2009, created two new categories of direct subsidy debt for schools districts: The Qualified School Construction Bonds (QSCBs) and the Build America Bonds (BABs). Neither the QSCBs nor the BABs represent incremental Federal funding, both must be repaid by the District.

In June 2009, the Corporation issued Certificate Series 2009A-Tax Exempt in the amount of \$20.1 million. The Series 2009A-TE was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2009A-TE is a conventional Fixed Rate issue with interest ranging from 5.0 percent to 5.25 percent.

In June 2009, the Corporation issued Certificate Series 2009A-BAB (Build America Bond) in the amount of \$63.9 million. The Series 2009A-BAB was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2009A-BAB Certificates are taxable debt instruments, whereby the District receives a direct rebate payment from the Federal Government equal to 35 percent of the interest cost. The Series 2009A-BAB is a conventional Fixed Rate issue with an interest rate of 7.4 percent.

In June 2009, the Corporation issued Certificate Series 2009A-QSCB (Qualified School Construction Bonds) in the amount of \$49.9 million. The Series 2009A-QSCB was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2009A-QSCB Certificates are non-interest obligations, and are issued as "principal only", i.e. the principal is repaid by the District.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

In June 2008, the Corporation issued Certificate Series 2008A in the amount of \$270.6 million. The Series 2008A was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2008A is a conventional Fixed Rate issue with interest ranging from 3.15 percent to 5.25 percent.

In March 2007, the Corporation issued Certificate Series 2007A in the amount of \$272.6 million. The Series 2007A was issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2007A is a conventional Fixed Rate issue with interest ranging from 3.5 percent to 5.0 percent.

In June 2006, the Corporation issued Certificates Series 2006A and 2006B in the amounts of \$202.1 million and \$65 million, respectively. Both Series were issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2006A is a Conventional Fixed Rate issue with the interest rates ranging from 4.0 percent to 5.25 percent. The Series 2006B is a Variable Rate issue. Interest is calculated at a variable rate on a weekly basis and payable weekly.

In May 2005, the Corporation issued Certificates Series 2005A and 2005B in the amounts of \$198.1 million and \$44.4 million, respectively. Both Series were issued to finance the cost of acquisition, construction, installation and equipping educational facilities. The Series 2005A is a Conventional Fixed Rate issue with the interest rates ranging from 3.0 percent to 5.0 percent. The Series 2005B is a Variable Rate issue. Interest is calculated at a variable rate on a weekly basis and payable monthly.

On December 20, 2000, the Corporation sold Certificates, Series 2000 Qualified Zone Academy Bonds ("QZAB") in an aggregate principal amount of \$6.4 million of which \$4.2 million in principal will be repaid due to a guarantee investment contract. On June 28, 2001, Certificate Series 2001-QZAB were sold for \$4.4 million. On December 22, 2004, the District sold Series 2004-QZAB for \$1.0 million of which \$848,000 in principal will be repaid pursuant to the Trust Agreement.

The District deposits funds annually in escrow for QZAB 2000 which, when coupled with interest earnings, will be sufficient to pay off the principal, which is due at maturity. There is no interest to be paid on the QZAB as the certificate holders receive Federal tax credits in lieu of interest payments. The total deposits and interest earned on securities held in escrow had a market value of \$6.5 million as of June 30, 2012.

The Corporation leases the facilities, vehicles and equipment to the District under the lease agreements, which are automatically renewable through varying dates (see summary below), unless earlier terminated following the occurrence of an event of default or a non-appropriation of funds to make lease payments, all as described and defined in the leases. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases, including the 2000 QZAB, 2001 QZAB, 2004 QZAB, 2001A, 2001B, 2003A, 2004A, 2004B, 2004C, 2004D, 2005A, 2005B, 2006A, 2006B, 2007A, 2008A, 2009A-Tax Exempt, 2009A BAB, 2009A QSCB, 2010A QSCB, 2011A, and 2012A. The remedies on default include the immediate surrender and delivery of possession of all facilities, vehicles and certain equipment (excludes certain computer equipment) financed under all leases to the Trustee in the condition, state of repair and appearance required under the leases. Upon such surrender, the Trustee will sell or lease such facilities, vehicles and certain equipment in such manner and to such person as it determines appropriate. The proceeds of any sale or lease will be applied first to the payment in full of the Certificates and then to the payment of the District's obligations under the reimbursement agreement and finally to the payment of the District.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

A summary of the lease terms are presented as follows:

Certificates	Lease Term
Series 2000 QZAB	December 20, 2013 as to the Facilities
Series 2001 QZAB	June 28, 2014 as to the Facilities
Series 2003A	June 30, 2013 as to the Facilities
Series 2004A-Refunding	June 30, 2017 as to the Facilities
Series 2004B-Refunding	June 30, 2017 as to the Facilities
Series 2004C	June 30, 2016 as to the Facilities
Series 2004D	June 30, 2029 as to the Facilities
Series 2004 QZAB	December 22, 2020 as to the Facilities
Series 2005A	June 30, 2030 as to the Facilities
Series 2005B	June 30, 2021 as to the Facilities
Series 2006A	June 30, 2028 as to the Facilities
Series 2006B	June 30, 2031 as to the Facilities
Series 2007A	June 30, 2032 as to the Facilities
Series 2008A	June 30, 2033 as to the Facilities
Series 2009A-Tax Exempt	July 01, 2027 as to the Facilities
Series 2009A-BAB	July 01, 2034 as to the Facilities
Series 2009A-QSCB	July 01, 2024 as to the Facilities
Series 2010A-QSCB	July 01, 2027 as to the Facilities
Series 2011A-Refunding	July 01, 2024 as to the Facilities
Series 2012A-Refunding	July 01, 2028 as to the Facilities

The Series 2004A, 2004B, 2004C, 2004D, 2005A, 2005B, 2006A, 2006B and 2008A Certificates are insured by Financial Security Assurance, Inc. The Series 2003A Certificates are insured by Municipal Bond Investors Assurance Corporation. The Series 2007A and Series 2009A-Tax Exempt are insured by Municipal Bond Investors Financial Guaranty Insurance Company. The Series 2009A-BAB Certificates and the Series 2009A-QSCB Certificates are not guaranteed under the financial guaranty insurance policy. The Series 2010A-QSCB Certificates are not insured by any municipal bond insurance policy. The Series 2011A Certificates are insured by Assured Guaranty. There is no insurance for the Series 2012A issue.

The Certificates are not separate legal obligations of the District, but represent undivided interests in the basic lease payments to be made from appropriated funds budgeted annually by the Board for such purposes from current or other funds authorized by law and regulations of the Department of Education. However, neither the District, the State of Florida, nor any political subdivision thereof, shall be obligated to pay, except from appropriated funds, any sums due under the leases from any source of taxation. The full faith and credit of the District is not pledged for payment of such sums due hereunder and such sums do not constitute an indebtedness of the District within the meaning of any constitutional or statutory provision or limitation.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The remaining obligation, as of June 30, 2012, through maturity to the holders of the Certificates, is as follows (in thousands):

Year Ending June 30,	Series 2000 QZAB	Series 2001 QZAB	Series 2003A	Series 2004A	Series 2004B	Series 2004C
2013	\$ 350	\$ 369	\$ 5,817	\$ 8,722	\$ 14,854	\$ 8,422
2014				8,726	15,198	9,237
2015				8,721	15,198	7,931
2016				8,724	15,204	8,010
2017				8,725	15,198	
2018-2022						
2023-2027						
2028-2032						
2033-2037						
Subtotal	350	369	5,817	43,618	75,652	33,600
Less: Interest			(277)	(5,978)	(10,542)	(3,810)
Total Principal	\$ 350	\$ 369	\$ 5,540	\$ 37,640	\$ 65,110	\$ 29,790

Year Ending June30,	Series 2004D	Series 2004 QZAB	Series 2005A	Series 2005B	Series 2006A	Series 2006B
2013	\$ 5,520	\$ 53	\$ 14,931	\$ 1,778	\$ 18,118	\$ 3,250
2014	5,520	53	14,933	1,778	18,122	3,250
2015	5,520	53	14,933	1,778	18,120	3,250
2016	5,521	53	14,932	1,778	18,120	3,250
2017	5,521	53	9,729	6,983	18,120	3,250
2018-2022	51,770	213	40,297	43,259	90,597	16,250
2023-2027	76,667		83,541		90,598	16,250
2028-2032	30,024		50,128		10,905	74,111
2033-2037						
Subtotal	186,063	478	243,424	57,354	282,700	122,861
Less: Interest	(72,238)		(88,854)	(12,894)	(88,875)	(57,861)
Total Principal	\$ 113,825	\$ 478	\$ 154,570	\$ 44,460	\$ 193,825	\$ 65,000

Year Ending June30,	Series 2007A	Series 2008A	Series 2009A T-E	Series 2009A BAB	Series 2009A QSCB	Series 2010A QSCB
2013	\$ 20,113	\$ 20,405	\$ 1,034	\$ 4,729	\$	\$ 3,332
2014	20,114	20,401	1,034	4,729	4,540	3,332
2015	20,110	20,403	1,034	4,729	4,540	3,332
2016	20,117	20,405	1,034	4,729	4,540	3,332
2017	20,113	20,405	1,033	4,729	4,540	3,332
2018-2022	88,297	102,015	5,168	23,647	22,700	42,483
2023-2027	88,287	102,021	24,350	23,647	9,053	42,484
2028-2032	88,290	102,016		60,125		
2033-2037		20,404		24,050		
Subtotal	365,441	428,475	34,687	155,114	49,913	101,627
Less: Interest	(132,311)	(165,270)	(14,547)	(91,204)		(49,982)
Total Principal	\$ 233,130	\$ 263,205	\$ 20,140	\$ 63,910	\$ 49,913	\$ 51,645

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Year Ending June30,	Series 2011A	Series 2012A	Total
2013	\$ 8,511	\$ 13,177	\$ 153,485
2014	8,511	18,927	158,405
2015	8,512	18,947	157,111
2016	8,512	20,491	158,752
2017	8,512	28,782	159,025
2018-2022	162,713	120,248	809,657
2023-2027	42,050	175,398	774,346
2028-2032		14,409	430,008
2033-2037			44,454
Subtotal	247,321	410,379	2,845,243
Less: Interest	(75,896)	(139,729)	(1,010,268)
Total Principal	\$ <u>171,425</u>	\$ <u>270,650</u>	\$ <u>1,834,975</u>

The Corporation entered into trust agreements with the Trustee pursuant to which the Certificates will be executed, delivered and paid under the terms of which (together with the leases) the facilities, vehicles and equipment will be acquired and/or constructed. Trust funds have been established with the Trustee to facilitate payments in accordance with the lease purchase agreement and the trust agreements securing payment of the Certificates.

13. INTEREST RATE SWAPS

The District is a party to two interest rate swap agreements recorded in the financial statements in accordance with GASB Statement No. 53 ("GASB 53"), "Accounting and Financial Reporting for Derivative Instruments". All derivatives are to be reported in the Statement of Net Assets at fair value, and all hedges must be tested for effectiveness to qualify for hedge accounting. Depending on the test results, the change in fair value is either reported in the Statement of Net Assets, or in the Statement of Activities.

The District engaged an independent party to perform the valuation and required tests on these two swaps, and both swaps qualify for hedge accounting. Therefore, the change in fair value of the interest rate swaps for the period ended June 30, 2012 was reported as a derivative swap liability of \$27.1 million, offset by a corresponding deferred outflow account in the Statement of Net Assets. The option for cancelling these swaps is only available to the District and not to the Counterparty. Following are disclosures of key aspects of these agreements:

A. Certificates of Participation, Series 2006B

Objective of the Interest Rate Swap – The District entered into a variable to fixed rate swap agreement for its Certificates of Participation, Series 2006B dated June 6, 2006. The objective was to achieve lower borrowing costs as compared to issuing regular fixed rate bonds at the time, by synthetically fixing interest rates on the subject certificates.

Terms – The Swap, with a notional amount of \$65.0 million, became effective on June 6, 2006. Under the terms of the swap agreement, the District will pay the Counterparty a fixed annual interest rate of 4.13 percent. The District receives from the Counterparty a variable payment based on two floating rate structures: 1) from July 1, 2006 through June 30, 2009, the interest rate was based on the SIFMA Index; 2) from July 1, 2009 through June 30, 2031, the interest rate is based on 70 percent of the London Interbank Offered Rate (LIBOR). The swap agreement terminates on June 30, 2031.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Fair Value – The swap had a negative fair value of \$26.0 million as of June 30, 2012.

Swap Payments and Associated Debt – Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

(dollars in thousands)

Year Ending June 30,	Series 2006B Principal	Interest Rate		
		Interest (1)	Swaps, Net (2)	Total
2013	\$	\$ 293	\$ 2,571	\$ 2,864
2014		293	2,571	2,864
2015		293	2,571	2,864
2016		293	2,571	2,864
2017		293	2,571	2,864
2018-2022		1,463	12,857	14,320
2023-2027		1,463	12,857	14,320
2028-2031	65,000	820	7,209	73,029
Total	\$ 65,000	\$ 5,211	\$ 45,778	\$ 115,989

(1) Assumes variable interest rate of 0.45 percent (actual rate on 6/30/12).

(2) Assumes fixed swap rate (payment) of 4.13 percent and variable swap rate (receipt) of 0.18 percent.

Credit Risk – As of June 30, 2012, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap agreement contains a collateral agreement with the Counterparty. To mitigate the potential for credit risk, if a Counterparty's credit rating from either Standard & Poor's (S & P) and/or Moody's Investors Services is "A+"/A1, respectively or lower, and the fair value of the swap reaches certain threshold amounts, the swap requires collateralization of the fair value of the swap by the Counterparty with U. S. Government Securities. Collateral would be posted with a third party custodian.

Swap Counterparty Data as of June 30, 2012

(dollars in thousands)

Counterparty	Swap Notional Amount	Credit Rating		Swap Fair Value
		Moody's	S&P	
JP Morgan Chase Bank, N.A.	\$ 65,000	Aa3	A+	\$ (26,011)

Basis Risk – Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable Counterparty. The swap exposes the District to basis risk since the District receives a variable rate based on Securities Industry and Financial Markets Association (SIFMA) formally known as Bond Market Association (BMA) to offset the variable rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Termination Risk – The District has the option to terminate the swap prior to its expiration date for any reason. The Counterparty may terminate the swap if the District fails to perform under the terms of the contract. If the swap is terminated, the Series 2006B certificates would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination, the swap has a negative fair value, the District would be liable to the Counterparty for payment equal to the swap's fair value.

B. Certificates of Participation, Series 2004D

Objective of the Interest Rate Swap – The District entered into a variable to fixed rate swap agreement for its Certificates of Participation, Series 2004D dated June 30, 2004. The objective was to lower borrowing costs as compared to issuing regular fixed rate bonds at the time, by synthetically fixing interest rates on the subject certificates.

Terms – The Swap, with a notional amount of \$113.8 million, became effective on June 30, 2004. Under the terms of the swap agreement, the District will pay the Counterparty a fixed annual interest rate of 3.85%. The District will receive from the Counterparty a variable payment based on 67 percent of the LIBOR. The District will also pay the interest rate resulting from the periodic remarketing of the 2004D variable rate certificates. The swap agreement terminates on July 1, 2029.

Fair Value – The swap had a negative fair value of \$33.7 million as of June 30, 2012.

Swap Payments and Associated Debt – Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

(dollars in thousands)				
Year Ending June 30,	Series 2004D Principal	Interest Rate		
		Interest (1)	Swaps, Net (2)	Total
2013	\$	\$ 512	\$ 4,192	\$ 4,704
2014		512	4,192	4,704
2015		512	4,192	4,704
2016		512	4,192	4,704
2017		512	4,192	4,704
2018-2022	25,050	2,479	20,288	47,817
2023-2027	60,800	1,472	12,047	74,319
2028-2029	27,975	190	1,556	29,721
Total	\$ 113,825	\$ 6,701	\$ 54,851	\$ 175,377

(1) Assumes variable interest rate of 0.45% (actual rate on 6/30/2012).

(2) Assumes fixed swap rate (payment) of 3.85% and variable swap rate (receipt) of 0.17%.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Credit Risk – As of June 30, 2012, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap agreement contains a collateral agreement with the Counterparty. To mitigate the potential for credit risk, if a Counterparty's credit rating from either Standard & Poor's (S & P) and Moody's Investors Service is "A+"/A1, respectively or lower, and the fair value of the swap reaches certain threshold amounts, the swap requires collateralization of the fair value of the swap by the Counterparty with U. S. Government Securities. Collateral would be posted with a third party custodian.

Swap Counterparty Data as of June 30, 2012
(dollars in thousands)

Counterparty	Swap Notional Amount	Credit Rating		Swap Fair Value
		Moody's	S&P	
Citibank, N.A., New York	\$ 113,825	A3	A	\$ (33,741)

Basis Risk – Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The swap exposes the District to basis risk since the District receives a percentage of LIBOR to offset the variable rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination Risk – The District has the option to terminate the swap prior to its expiration date for any reason. The Counterparty may terminate the swap if the District fails to perform under the terms of the contract. If the swap is terminated, the Series 2004D certificates would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination, the swap has a negative fair value, the District would be liable to the Counterparty for payment equal to the swap's fair value.

14. COMPENSATED ABSENCES

District employees are granted a specific number of vacation days and sick leave with pay as services are rendered. Certain employees are paid for portions of sick leave accrued but not used in a fiscal year. Administrative, supervisory and non-instructional professional employees are paid for unused vacation (up to a maximum of 60 days) upon termination. All other eligible employees are paid for unused vacation (up to a maximum of 50 days) upon termination.

All employees are eligible to receive portions of accumulated unused sick pay upon retirement. Such portions are determined based upon the employee's length of service. Prior to July 1, 2004, Florida Statutes and Board policy limited retirement sick leave payments to no more than 25 percent of the sick leave accumulated on or after July 1, 2001, up to a maximum payment of 60 days. Beginning July 1, 2004, this limitation was eliminated.

At June 30, 2012, the estimated current liability for accumulated sick leave including retirement and social security contributions was \$9.2 million and \$0.1 million in the General Fund and Special Revenue Funds, respectively. The balance of compensated absences payable from future resources was \$27.0 million for accumulated vacation leave and \$130.4 million for accumulated sick leave and are only reflected in the governmental activities in the government-wide presentation. The net change between the prior year balance

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

and the current year balance of the non-current portion was recorded in the government-wide statements as a current year expense.

The following is a summary of changes in the liability for compensated absences for the fiscal year ended June 30, 2012 (in thousands):

Balance - June 30, 2011		\$ 167,561
Additions		77,025
Reductions		(77,953)
Balance - June 30, 2012		<u>166,633</u>
Less:		
Amount due within one year		
Current portion (modified accrual basis)	\$ 9,266	
Non-current portion		157,367
Other amount due within one year	<u>11,274</u>	
Total due in more than one year		<u>\$ 146,093</u>
Total amount due within one year (full accrual basis)	<u>\$ 20,540</u>	

15. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District administers a single employer defined benefit plan in accordance with the Governmental Accounting Standard Board Statement No. 45 ("GASB 45"), "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions", for certain postemployment benefits including continued coverage for the retirees and dependents in the Medical/Prescription Plans as well as participation in the Employer-sponsored Dental group plan. In addition, retirees are eligible to continue the Employer-sponsored term life insurance policy provided by the District. GASB 45's basic concept is to recognize the cost of an employee's OPEB during the period of service. As defined in the statement, a significant expense recognizing the past and future costs of providing OPEB benefits is required to be recorded annually. For fiscal year 2012, the funded status of the plan is determined using an actuarial roll-forward supplement based on the results of a full actuarial valuation previously performed as of January 1, 2011. The actuarially determined liability for the District was \$156,129,491 on January 1, 2011, being amortized over the remaining period of 26 years. The General Fund typically has been used in prior years to liquidate the long-term liabilities associated with the net pension obligation or other postemployment benefit obligations.

Plan Description. The Other Postemployment Benefits Plan (Plan) operates as a single employer defined benefit plan. The benefits of the plan conform to Florida Statutes, which are the legal authority for the plan. The authority for establishing and amending the plan funding policy and benefits rests with the Board. Eligible retirees may choose among the same Medical Plan options available for active employees of the Employer. Prescription drug coverage is automatically extended to retirees and their dependents who continue coverage under any one of the Medical Plan options. Covered retirees and their dependents are subject to all the same medical, prescription and life insurance benefits and rules for coverage as are active employees. Retirees and their dependents are permitted to remain covered under the District's respective medical plans as long as they pay the premium charged by the insurance companies for the plan and coverage elected. This conforms to the requirement for Florida governmental employers' provision of the Section 112.081, Florida Statutes. The premiums charged by the insurance company are based on a blending of the experience among younger active employees and older retired employees. Since the older retirees actually have higher costs, that means that the District is actually subsidizing the cost of the retiree coverage because it pays all or a significant portion of that premium on behalf of the active employees, providing an implicit rate subsidy. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate under the District's Retirement Assistance Program. The District, therefore, has assumed an obligation to pay for that implicit subsidy for the covered lifetime of the current retirees and their dependents, as well for the covered lifetime of the current employees after they retire in the future. The District does not prepare a

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

standalone financial report for the Plan, and the Plan is not included in the report of a Public Entity Retirement System or another entity.

Funding Policy. The District plans to fund this postemployment benefit on a pay-as-you-go basis. For fiscal year 2011-12, approximately 1,327 retirees received post-employment benefits, and 108 retirees receive life insurance postemployment benefits. The District provided required employer contributions toward the annual OPEB cost in the amount of \$8,182,798, or 0.69 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligations. The OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The following is a summary of changes for 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 the fiscal year ended June 30, 2012 (in thousands):

		<u>FY 2012</u>
Annual Required Contribution (ARC)		
Normal Cost	\$ 9,126	
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	7,332	
Interest		
ARC		\$ 16,458
Interest on net OPEB Obligation		1,480
Adjustment to ARC		<u>(1,370)</u>
Annual OPEB cost (expense)		16,568
Less: Contributions made		<u>(8,183)</u>
Net OPEB Obligation Increase		8,385
Net OPEB Obligation, Beginning of Year		<u>37,008</u>
Net OPEB Obligation, End of Year		<u>\$ 45,393</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012, and the two preceding years were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2010	\$ 17,525	\$ 7,174	40.94%	\$ 27,974
06/30/2011	\$ 17,190	\$ 8,157	47.45%	\$ 37,008
06/30/2012	\$ 16,568	\$ 8,183	49.39%	\$ 45,393

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2012, was as follows (in thousands):

Actuarial Accrued Liability (a)	\$	156,129
Actuarial Value of Assets (b)		
Unfunded Actuarial Accrued Liability (a-b)	\$	<u>156,129</u>
Funded Ratio (b)/ (a)		0.0%
Covered Payroll (Active Plan Members) (c)	\$	1,187,368
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll ((a)-(b))/ (c)		13.15%

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Significant methods and assumptions were as follows:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	26 Years, Closed
Asset Valuation Method	Plan Not Funded
Investment Return Discount Rate *	4%
Assumed Rate of Payroll Growth *	4%
Healthcare Inflation Rate	Increase of 6% for First Year, Adjusted by various increments and decrements until Ultimate Rate of 4% is reached after 8 years

* Includes a price inflation assumption of 3 percent.

16. RETIREMENT PLANS

Plan Description: Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the 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,

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

contributions, and benefits are defined and described in detail. The 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 Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The contribution rates for Plan members are established, and may be amended, by the State of Florida. For the fiscal year ended June 30, 2012, contribution rates were as follows:

Class or Plan	Contribution Rates	
	Employee	Employer ^(A)
Florida Retirement System, Regular	3.00%	4.91%
Florida Retirement System, County Elected Officers	3.00%	11.14%
Florida Retirement System, Senior Management Service	3.00%	6.27%
Florida Retirement System, Special Risk	3.00%	14.10%
Teachers' Retirement System, Plan E	6.25%	11.35%
Deferred Retirement Option Program		4.42%
Florida Retirement System, Reemployed Retiree		1.60%

Note: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal year ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$131.4 million, \$141.6 million, \$77.4 million, respectively, which were equal to the required contributions for each fiscal year.

There were 3,283 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$10.5 million, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the 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.

17. RETIREMENT INCENTIVE PROGRAMS

In addition to the retirement benefits described in Note 16, the District has authorized an early retirement incentive to provide financial assistance for the purchase of health and life insurance to our retirees.

For those eligible employees who qualify for the retirement incentive programs, the Employer's Retirement Assistance Program (RAP) Incentives, listed below are brief descriptions and eligibility criteria of this Plan.

RAP effective July 1, 2008 through October 15, 2008:

- Are retired under the RAP.
- Effective upon retirement, the District will provide paid employee health insurance (HMO or Consumer Driven Plan premium) until the employee is Medicare eligible.
- Were insured under the Employer's group life insurance program on the last day before the insured's retirement.
- Are one of the following:
 - Full-time bargaining unit members who are at least age 55 and on Step 20 or higher on the teachers' salary schedule in the FRS and who have at least ten (10) years of service in the District.
 - Full-time bargaining unit members who are at least age 55 and on Step 20 or above in the TRS and who have at least ten (10) years of service in the District.

A summary of the total expenditures for the fiscal year ended June 30, 2012 is as follows (dollars in thousands):

	Number of Participants	Health Insurance*	Life Insurance	Total
RAP	79	\$ 614	\$ 10	\$ 624
Total	79	\$ 614	\$ 10	\$ 624

*Net of Florida Retirement System subsidy if applicable

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The District will subsidize health and life insurance premiums for those qualified employees on an annual basis. The subsidies continue until age 65. Premium costs in excess of the subsidy are borne by the participants. The District's expenditures are recognized in the fiscal year in which they are paid, and are not funded in advance on an actuarially determined basis. As of June 30, 2012, 79 employees participated in the District's retirement incentive program.

18. FICA ALTERNATIVE

The District has established the FICA Alternative Retirement Plan (the "FICA Plan"), a defined contribution retirement plan, for certain temporary employees not covered under the Plan. Under provision of the Internal Revenue Code (IRC) section 3121(b)(7)(F), public employers could place employees not covered under existing employer pension plans into an alternative retirement plan in place of social security. The FICA Plan was established under IRC section 401(a) and requires a mandatory pre-tax contribution of 7.5 percent in lieu of social security. The FICA Plan is noncontributory for the District and eliminates the required match of social security contributions. Approximately 5,605 temporary employees are currently participating in the FICA Plan. For the period ended June 30, 2012, \$2.5 million was contributed by participating employees based on gross wages of \$33.7 million. A third party administrator administers the FICA Plan with administrative fees being paid for by the District.

19. RISK MANAGEMENT

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 students; and natural disasters. Worker's compensation, automobile liability, and general liability coverage are being provided on a self-insurance basis up to specified limits. The District purchases commercial insurance for certain risks in excess of the self-insurance coverage and for other risks of loss. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating and payment of claims.

The District reports the self-insurance programs in the self-insurance internal service funds ("Self Insurance Fund"). Amounts are transferred from the General Fund to the Self-Insurance Fund to provide sufficient resources to cover claims incurred, to pay for the purchase of excess insurance, to pay the insurance service agent's administrative fee, and to pay for District risk management administrative costs. Settled claims resulting from risks described above have not exceeded commercial coverage for the past three years.

Health and hospitalization coverage is being provided through purchased commercial insurance. The Board offers its employees the choice from two HMO's and consumer driven model and one PPO plan.

The claims liability is based on an actuarial evaluation performed by an independent actuary as of June 30, 2012 using a margin for a 50% confidence level. With the 50% confidence level, the actuary is estimating the margin necessary so that there is a 50% likelihood that the funding level will be sufficient to cover the actual liabilities. The total claims liability of \$57.7 million at June 30, 2012 includes estimated losses for all reported claims and for claims incurred but not reported.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 43,882	\$ 45,518
Additions:		
Estimated future claims	31,553	17,288
Reductions:		
Claims payments	(17,747)	(18,924)
	<u>57,688</u>	<u>\$ 43,882</u>
less: portion due within one year	<u>(19,060)</u>	
Total due in more than one year	<u>\$ 38,628</u>	

20. FUND BALANCE REPORTING

The District's fund balance is reported with the following hierarchy:

Nonspendable:

The District has \$12.0 million in inventory classified as nonspendable.

Spendable:Restricted for State Categorical Programs, Debt Service, Capital Projects, and Food Service:

Florida Statutes require certain revenues to be designated for the purposes of state categorical programs, debt service, capital projects, and food service. The restricted fund balance totaling \$376.3 million represents \$6.5 million in State categorical programs, \$5.5 million in debt service, \$338.6 million in capital projects, and \$25.7 million in food service.

Committed for Student Enrichment Programs:

In June 2011, the School Board classified settlement proceeds as committed fund balance for student enrichment programs. The remaining committed amount was \$1.7 million at June 30, 2012.

Assigned for School Operations and Miscellaneous Special Revenue:

The District's management has assigned spendable fund balances for school operations and miscellaneous special revenue. The assigned fund balance is \$11.8 million, of which \$9.3 million is for school operations, and \$2.5 million is for miscellaneous special revenue funds.

Unassigned:

The District's unassigned fund balance is \$49.6 million.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The following table shows the District's fund balance classification at June 30, 2012 (in thousands):

	Major Funds							Total Governmental Funds
	General Fund	COPS Series Debt Service Fund	ARRA Economic Stimulus Debt Service Fund	Local Millage Capital Improvement Fund	ARRA Economic Stimulus Capital Project Fund	Other Capital Improvement Fund	Other Governmental Funds	
Fund Balances:								
Nonspendable:								
Inventories:								
General Fund	\$ 10,015	\$	\$	\$	\$	\$	\$	10,015
Special Revenue – Food Service							2,010	2,010
Restricted:								
State Required								
Carryover Programs	6,521							6,521
Debt Service		3,667	201				1,604	5,472
Capital Projects				86,802	65,796	179,632	6,363	338,593
Special Revenue – Food Service							25,752	25,752
Committed:								
Student Enrichment Programs	1,690							1,690
Assigned:								
School Operations	9,274							9,274
Special Revenue – Miscellaneous							2,513	2,513
Unassigned:	49,646							49,646
Total Fund Balance:	\$ 77,146	\$ 3,667	\$ 201	\$ 86,802	\$ 65,796	\$ 179,632	\$ 38,242	\$ 451,486

The total of the assigned and unassigned amounts will be used to calculate fund balance as a percentage of revenues under the provisions of Section 1011.051, Florida Statutes. At the end of the fiscal year, the total amount of the assigned and unassigned General Fund balance was \$58.9 million or 3.5 percent of the General Fund's total revenues, and 3.9 percent of the General Fund's total revenues excluding Charter school revenues.

21. NET ASSETS

The government-wide statement of net assets reports all financial and capital resources of the District, as well as its liabilities. The difference between assets and liabilities are reported as net assets. Net assets are displayed in three components:

- Invested in capital assets, net of related debt: Capital assets, net of depreciation and reduced by the outstanding balance of debt that is attributable to the acquisition or construction of those assets.
- Restricted net assets: Net assets where constraints on their use are: (1) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets (deficit): All other assets and liabilities not part of the above categories. This amount represents the accumulated results of all past years' operations. The deficit in net assets of governmental activities is due to long-term liabilities, including compensated absences.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The composition of net assets invested in capital assets, net of related debt as of June 30, 2012 is shown in the table below (in thousands):

Total capital assets, net of accumulated depreciation		\$	3,117,576
less:			
Total debt outstanding, net of unspent proceeds	\$	(1,753,507)	
Retainage payable		(10,012)	
Total related debt			(1,763,519)
Total invested in capital assets, net of related debt	\$		<u>1,354,057</u>

22. COMMITMENTS AND CONTINGENCIES

At June 30, 2012, the District had purchase orders outstanding for goods and/or services related to future expenditures for the 2011-12 school year totaling \$10.1 million in the General Fund (\$9.3 was within assigned fund balance and \$0.8 million was restricted for State Categorical Programs), \$15.3 million in the Local Millage Capital Improvement Fund, \$26.1 million in the ARRA Economic Stimulus Capital Project Fund, \$20.0 million in the Other Capital Improvement Fund, and \$2.5 million in the Other Governmental Funds.

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

Project	Contract Amount	Completed to Date	Balance Committed
Parkway Middle School:			
Phased Replacement	\$ 19,556,687	\$ 13,464,118	\$ 6,092,569
Cooper City High School			
Phase A	18,099,285	1,254,730	16,844,555
Ft Lauderdale High School:			
Phased Replacement	15,998,000	4,457,196	11,540,804
Tropical Elementary School:			
New Multi-Purpose Building and Renovations	11,391,239	7,487,684	3,903,555
Cypress Elementary School:			
Kitchen Cafeteria	7,865,235	5,684,628	2,180,607
Palmview Elementary School:			
Remodel Classrooms	6,721,467	4,552,180	2,169,287
Deerfield Beach High School:			
Roofing and Renovations	6,200,367	2,728,550	3,471,817
South Broward High School:			
New Aquatic Facility	3,182,407	250,583	2,931,824
Sheridan Technocal Center:			
Cosmotology Lab Renovations	1,255,000	119,626	1,135,374
Western High School:			
Renocations, Remodeling, and Additions	1,236,941	24,408	1,212,533
Total	<u>\$ 91,506,628</u>	<u>\$ 40,023,703</u>	<u>\$ 51,482,925</u>

The District has various agreements with other governmental agencies that may require the District to contribute additional financial resources, as anticipated by such agreements. Such liabilities are accrued at the time they become known to the District.

The District receives funding from the State of Florida under the FEFP and is based in part on a computation of the number of students attending different types of instruction (FTE Computation). The accuracy of data compiled by individual schools supporting the FTE Computation is subject to audit by the State and, if found

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

to be in error, could result in refunds to the State or in decreases to future funding allocations. Additionally, the District participates in a number of federal, state and local grants, which are subject to financial, and compliance audits. It is the opinion of management that the amount of revenue, if any, which may be remitted back to the State due to errors in the FTE computation or the amount of grant expenditures, which may be disallowed by grantor agencies, would not be material to the financial position of the District.

The District is a defendant in numerous lawsuits as of June 30, 2012. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with its legal counsel, that the final settlements of these matters will not have a material adverse effect on the financial condition, changes in financial position, cash flows or changes in fund balance of the affected funds.

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2011-12 fiscal year:

	Total	Self- Insurance	Other Services
Total Assets	\$ 41,379	\$ 41,321	\$ 58
Liabilities and Net Assets:			
Accounts Payable and Accrued Expenses	\$ 496	\$ 475	\$ 21
Current Estimated Liability for Self-Insured Risks	19,060	19,060	
Noncurrent Estimated Liability for Self-Insured Risks	38,628	38,628	
Net Assets:			
Invested in Capital Assets	3		3
Unrestricted Net Assets	(16,808)	(16,842)	34
Total Liabilities and Net Assets	\$ 41,379	\$ 41,321	\$ 58
Revenues:			
Premium Contributions	\$ 24,259	\$ 24,259	\$
Charges for Services	57,819		57,819
Interest Income	244	245	(1)
Other	2	2	
Total Revenues	82,324	24,506	57,818
Total Expenses	(112,869)	(54,891)	(57,978)
Transfers In	185		185
Change in Net Assets	\$ (30,360)	\$ (30,385)	\$ 25

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****24. SUBSEQUENT EVENTS**

On September 12, 2012, the District converted the interest rate of the outstanding Certificates of Participation, Series 2006B, which were originally issued in June 2006 with a variable interest rate determined weekly, to an index floating rate. The District needs to adjust the interest rate mode every couple of years based on market preferences. In the current financial market, the most cost effective variable rate mode is to place the Series 2006B with a bank where the variable rate is set based on an index. This interest rate conversion will lock in a rate spread, eliminating certain risks associated with variable rate obligations, and will reduce the District's debt service cost.

On September 27, 2012, the District refinanced Certificates of Participation, Series 2005B, which were originally issued in May 2005 with a variable interest rate which changed weekly. To date, this interest rate structure has saved the District approximately \$7.2 million over the cost of traditional fixed rate debt. However, fixed interest rates have reached all-time lows. The School Board has determined that it is in the best interest of the District to refinance its obligations under the Original Series 2005B in order to stabilize the interest rate. The refinancing converted Series 2005B to a fixed rate of 2.258 percent. This conversion locked in this historical low interest rate through June 30, 2021.

On October 16, 2012, the District issued \$125.0 million Tax Anticipation Notes, Series 2012, pursuant to Section 1011.13, Florida Statutes, to provide interim funds for the payment of operating expenses of the District for the fiscal year commencing July 1, 2012 and ending June 30, 2013, in anticipation of the receipt of the ad valorem taxes. The Notes and the interest thereon will be special, limited obligations of the District, payable from and secured by a pledge of the ad valorem taxes levied and collected for the benefit of the District for operating purposes. The Notes are not subject to redemption prior to maturity.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE (in thousands)

BUDGET AND ACTUAL (BUDGETARY BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUDGET		ACTUAL	VARIANCE Positive (Negative)
	ORIGINAL	FINAL		
SOURCES/INFLOWS:				
Revenues:				
Local sources:				
Ad valorem taxes	\$ 778,582	\$ 770,505	\$ 767,336	\$ (3,169)
Interest on investments	4,918	777	777	
Other	42,784	43,398	43,401	3
Total local sources	826,284	814,680	811,514	(3,166)
State sources:				
Florida education finance program	596,592	577,422	577,416	(6)
Discretionary lottery funds	767	870	870	
Categorical programs and other	309,223	298,173	298,173	
Total state sources	906,582	876,465	876,459	(6)
Federal sources:				
Grants and other	9,209	12,002	12,012	10
Total federal sources	9,209	12,002	12,012	10
Total revenues	1,742,075	1,703,147	1,699,985	(3,162)
Other financing sources				
Other loss recoveries		4	4	
Transfers in	69,856	80,239	80,239	
Total other financing sources	69,856	80,243	80,243	
Total amounts available for appropriations	1,811,931	1,783,390	1,780,228	(3,162)
USES/OUTFLOWS:				
Expenditures:				
Current operating:				
Instructional services	1,176,652	1,147,653	1,146,297	1,356
Instructional support services	161,595	160,339	156,540	3,799
Pupil transportation services	77,639	85,016	84,770	246
Operation and maintenance of plant	250,793	226,570	226,039	531
School administration	120,575	118,896	118,712	184
General administration	86,512	78,556	77,030	1,526
Total current operating	1,873,766	1,817,030	1,809,388	7,642
Debt service:				
Interest charges and other		155	155	
Total debt service		155	155	
Capital outlay	309			
Total expenditures	1,874,075	1,817,185	1,809,543	7,642
Other financing uses:				
Transfers out	6,033	3,486	3,486	
Total charges against appropriations	1,880,108	1,820,671	1,813,029	7,642
Net change in fund balances	\$ (68,177)	\$ (37,281)	(32,801)	\$ 4,480
Appropriated beginning fund balances	\$ 68,177	\$ 37,281		
Adjustment to conform with GAAP:				
Elimination of encumbrances			10,116	
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (GAAP Basis)			(22,685)	
Fund balance, beginning of year			99,831	
Fund balance, end of year			\$ 77,146	

The accompanying notes are an integral part of this statement.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**MAJOR SPECIAL REVENUE FUND - ARRA ECONOMIC STIMULUS****BUDGETARY COMPARISON SCHEDULE (in thousands)****BUDGET AND ACTUAL (BUDGETARY BASIS)****FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGET		ACTUAL	VARIANCE Positive (Negative)
	ORIGINAL	FINAL		
REVENUES:				
Federal sources:				
Other	\$ 21,873	\$ 21,873	\$ 17,298	\$ (4,575)
Total revenues	21,873	21,873	17,298	(4,575)
EXPENDITURES				
Current operating:				
Instructional services	6,433	6,433	7,313	(880)
Instructional support services	13,171	13,171	9,915	3,256
Pupil transportation services	14	14	13	1
School administration	672	672		672
General administration	1,583	1,583	506	1,077
Total current operating	21,873	21,873	17,747	4,126
Total expenditures	21,873	21,873	17,747	4,126
Excess (deficiency) of revenues over (under) expenditures			(449)	(449)
Appropriated beginning fund balances	\$	\$		
Adjustment to conform with GAAP				
Elimination of encumbrances			449	
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (GAAP basis)				
Fund balances, beginning of year				
Fund balances, end of year			\$	

The accompanying notes are an integral part of this statement.

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012****I. BUDGET**

Budget Information. GASB requires governments to include as required supplementary information (RSI), budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted budget.

Budgets are legally adopted annually for the General Fund and the major Special Revenue Fund. Unencumbered appropriations lapse at year-end for the General Fund and encumbered appropriations are carried forward, if applicable, to the following year and closed after a six-month period. Management may not amend the budget without the specific approval of the School Board. Accordingly, no expenditure may be authorized and no obligation incurred in excess of the current budgetary appropriations without Board authorization. The budgetary basis of accounting is the modified accrual basis plus encumbrances authorized for the fiscal year.

The budget revenues and expenditures shown in the accompanying schedule reflect all amendments to the original budget through September 11, 2012, the date the final amendments were approved by the Board.

II. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND REVENUES AND EXPENDITURES

The following table presents a reconciliation of the differences between the budgetary and GAAP basis of accounting for the General Fund (in thousands):

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 1,780,228
Transfers from other funds, other loss recoveries and sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>(80,243)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 1,699,985</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) "Total charges against appropriations" from the budgetary comparison schedule.	\$ 1,813,029
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(3,486)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (budgetary basis).	1,809,543
Encumbrances for goods and services is reported in the year the purchase order, contract or commitment for expenditures is initiated, but reported in the year received or delivered for financial reporting purposes.	<u>(10,116)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP).	<u>\$ 1,799,427</u>

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**NOTES TO THE BUDGETARY COMPARISON SCHEDULE (Continued)**
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The following table presents a reconciliation of the differences between the budgetary and GAAP basis of accounting for the major Special Revenue Fund (in thousands):

Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - major Special Revenue Funds (budgetary basis)	<u>\$ 17,747</u>
Encumbrances for goods and services is reported in the year the purchase order, contract or commitment for expenditures is initiated; but reported in the year received or delivered for financial reporting purposes	<u>(449)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP)	<u><u>\$ 17,298</u></u>

III. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2012, expenditures exceed appropriations for the following fund (in thousands):

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
ARRA Economic Stimulus Special Revenue Fund: Instructional Services	\$ 6,433	\$ 7,313	\$ (880)

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA**OTHER POSTEMPLOYMENT BENEFITS****SCHEDULE OF FUNDING PROGRESS (in thousands)**

Actuarial Valuation Date (a)	Actuarial Value of of Assets (b)	Actuarial Accrued Liability (AAL) (c)	Unfunded AAL (UAAL) (c-b)	Funded Ratio (b/c)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((c-b) / d)
1/1/2009	\$	\$ 162,964	\$ 162,964	0.0%	\$ 1,249,245	13.04%
1/1/2011		163,551	163,551	0.0%	1,187,368	13.77%
1/1/2011	*	156,129	156,129	0.0%	1,187,368	13.15%

* Reflects changes in population and trend revision during the fiscal year ending June 30, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**BROWARD COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	\$ 8,036,070.24	\$
National School Lunch Program	10.555(2)	300, 350	35,199,979.30	
Summer Food Service Program for Children	10.559	323,324,325	349,065.88	
Florida Department of Education:				
School Breakfast Program	10.553	321	5,717,243.84	
National School Lunch Program	10.555(2)	300,350	22,931,466.21	
Summer Food Service Program for Children	10.559	323,324,325	652,814.77	
Total Child Nutrition Cluster			72,886,640.24	
Florida Department of Agriculture and Consumer Services:				
Child and Adult Care Food Program	10.558	None	55,792.41	
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	57,002.54	
Fresh Fruit and Vegetable Program	10.582	330,331	247,211.33	
Florida Department of Education:				
Fresh Fruit and Vegetable Program	10.582	330,331	268,788.66	
Total United States Department of Agriculture			73,515,435.18	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
WIA Youth Activities	17.259	None	300,162.49	
Incentive Grants - WIA Section 503	17.267	408	800.07	
Total United States Department of Labor			300,962.56	
United States Department of Transportation:				
Indirect:				
Florida Department of Transportation:				
State and Community Highway Safety	20.600	None	1,416.27	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	144,081.00	
Federal Pell Grant Program	84.063	N/A	4,672,467.00	
Total Student Financial Assistance Cluster			4,816,548.00	
Magnet Schools Assistance	84.165	N/A	2,801,848.39	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	1,438,280.89	
Fund for the Improvement of Education	84.215	N/A	466,713.68	
Transition to Teaching	84.350	N/A	839,644.54	
Early Reading First	84.359	N/A	908,549.73	
High School Graduation Initiative	84.360	N/A	837,899.40	
Total Direct			12,109,484.63	
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	51,409,301.47	73,784.81
Special Education - Preschool Grants	84.173	266,267	1,296,244.97	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	66,145.78	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	123,183.91	
Total Special Education Cluster			52,894,876.13	73,784.81
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	212,222,223,226,228	67,176,090.54	2,684,687.49
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212,223	6,003,798.76	
Total Title I, Part A Cluster			73,179,889.30	2,684,687.49
School Improvement Grants Cluster:				
School Improvement Grants	84.377	126	4,192,918.07	228,128.51
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,507,963.70	
Total School Improvement Grants Cluster			5,700,881.77	228,128.51
Educational Technology State Grants Cluster:				
Education Technology Grants	84.318	122	208,775.10	
ARRA - Education Technology Grants, Recovery Act	84.386	121	10,784.35	
Total Educational Technology State Grants Cluster			219,559.45	

**BROWARD COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect (Continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191,193	\$ 3,577,947.78	\$
Migrant Education - State Grant Program	84.011	217	185,461.38	
Career and Technical Education - Basic Grants to States	84.048	161	2,869,540.45	37,294.83
Safe and Drug Free Schools and Communities - State Grants	84.186	103	788.97	
Education for Homeless Children and Youth	84.196	127	155,204.88	
Charter Schools	84.282	298	2,427,578.00	2,427,578.00
Twenty-first Century Community Learning Centers	84.287	244	1,256,746.52	
English Language Acquisition Grants	84.365	102	4,017,916.23	
Improving Teacher Quality State Grants	84.367	224,225	7,567,555.23	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,000.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	8,767,568.25	68,709.86
Education Jobs Fund	84.410	541	818,213.00	
Total Indirect			163,640,727.34	5,520,183.50
Total United States Department of Education			175,750,211.97	5,520,183.50
United States Department of Health and Human Services:				
Direct:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	86,041.24	
Head Start	93.600 (3)	N/A	13,605,096.29	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	449,746.35	
Total Direct			14,140,883.88	
Indirect:				
CCDF Cluster:				
Early Learning Coalition of Broward County, Inc.:				
Child Care and Development Block Grant	93.575	None	158,120.57	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	169,740.60	
Total CCDF Cluster			327,861.17	
Florida Department of Children and Families:				
Temporary Assistance for Needy Families	93.558	None	162,042.94	
Social Services Block Grant	93.667	None	392.24	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	330,525.88	
Total Indirect			820,822.23	
Total United States Department of Health and Human Services			14,961,706.11	
United States Department of Homeland Security:				
Indirect:				
Division of Emergency Management:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	1,189,033.22	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	1,293,862.59	
Air Force Junior Reserve Officers Training Corps	None	N/A	215,395.53	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	90,676.68	
Navy Junior Reserve Officers Training Corps	None	N/A	309,391.15	
Total United States Department of Defense:			1,909,325.95	
Total Expenditures of Federal Awards			\$ 267,628,091.26	\$ 5,520,183.50

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes \$5,528,016.22 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include \$9,947,106.44 for grant number/program year 04CH0314/36 and \$3,657,989.85 for grant number/program year 04CH0314/35.



DAVID W. MARTIN,
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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 Broward County District School Board as of and for the fiscal year ended June 30, 2012, 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 includes 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 Broward County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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.

Our **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*** 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 22, 2013



DAVID W. MARTIN,
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AUDITOR GENERAL STATE OF FLORIDA

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

Compliance

We have audited the Broward County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

The District's basic financial statements include the operations of Imagine Charter School at North Lauderdale, North Broward Academy of Excellence, Renaissance Charter School at Coral Springs, Renaissance Charter School at Plantation, and Somerset Preparatory Academy Charter School at North Lauderdale, reported as part of the aggregate discretely presented component units on the accompanying basic financial statements. These charter schools expended in excess of \$500,000 in Federal awards for the fiscal year ended June 30, 2012. Our audit did not extend to the operations of these charter schools because pursuant to Section 218.39(1), Florida Statutes, the charter schools engaged other auditors to perform audits in accordance with OMB Circular A-133.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 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 to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness

of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA

March 22, 2013

**BROWARD COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Student Financial Assistance Cluster (CFDA Nos. 84.007 and 84.063); Magnet Schools Assistance (CFDA No. 84.165); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); and ARRA - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

**BROWARD COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Fraud Policy

The District has an internal audit division and a special investigative unit whose Web sites have links to a fraud hotline and an anonymous tip program. In addition, Board policies and employee disciplinary guidelines addressed communicating and reporting known or suspected fraud. While these policies and guidelines require a drug-free workplace, self-reporting rules for employee arrest, and a code of conduct for administrators, they do not clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences of fraudulent behavior.

Effective fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud and taking appropriate action, reporting evidence of such action to the appropriate authorities, and avoiding damaging the reputation of persons suspected of fraud but subsequently found innocent. Further, in the absence of adequate policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities. District personnel indicated that a fraud policy was drafted, scheduled for review at a Board workshop in April 2013, and anticipated for final approval shortly thereafter. A similar finding was noted in our report No. 2010-183.

Recommendation: To aid in the detection and prevention of fraud, the District should continue its efforts to adopt a fraud policy for reporting known or suspected fraud to the appropriate authorities.

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains manual signatures of employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 fiscal year, the District regularly used EFTs for debt service payments, workers' compensation and dental self-insurance payments, purchases and sales of investments, and direct deposit of employee pay.

According to District records, cash and cash equivalents and investments totaling \$345 million were available for electronic transfer at June 30, 2012. The Board established a bank agreement with one bank and four investment agreements with investment institutions to provide various services, such as EFTs. While the District had informal EFT processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. In addition, the bank agreement dated April 2009 did not include the manual signatures of two finance employees authorized to initiate transactions, contrary to SBE Rule 6A-1.0012, FAC.

While the District had established certain controls over electronic fund transfers, such as separation of initiator and authorizer of EFTs, management review of EFT transactions, and independent bank account reconciliations, and our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy establishing policies and procedures governing EFT activities and addressing the use of electronic signatures, and lack of signatures on the bank agreement of employees designated to initiate EFTs, increases the risk of misappropriation of funds without timely detection.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures. In addition, the banking agreement should contain the signatures of employees authorized to initiate EFTs.

Finding No. 3: Decentralized Collections

District personnel collect moneys at various decentralized locations throughout the District and then transfer these moneys, along with a remittance transmittal form to establish responsibility for the collections, to the Treasurer's Office (Office) for deposit in the bank. Effective controls over collections require timely transfers from decentralized locations to the Office, and timely deposit of collections in the bank.

For the 2011-12 fiscal year, the District received total decentralized collections of \$5 million and, for the Instructional Staffing and Material Logistics Departments, decentralized collections totaled \$1.2 million. Our test of 60 collections totaling \$25,588 for these two departments disclosed 56 collections totaling \$24,929 that were not timely transferred to the Office, resulting in untimely deposits. While the deposits were made the same day the collections were received in the Office, the transfers were made from 10 to 26 days after the collection dates and consisted of 8 collections totaling \$13,125 in the Instructional Staffing Departments for teacher certifications and 48 collections totaling \$11,804 in the Material Logistics Department for a surplus auction.

District personnel indicated that the collection transfer procedures allowed transfers to the Office biweekly from the Instructional Staffing Department and monthly from the Material Logistics Department. In April 2012, District personnel indicated that the Instructional Staffing Department began transferring collections more timely to the Office, but the Material Logistics Department transfers remained untimely. Untimely transfers and deposits of decentralized collections increase the risk for collections to be lost or stolen. A similar finding was noted in our report No. 2010-183.

Recommendation: The District should ensure that daily collections from all decentralized collection locations are timely transferred to the Treasurer's Office and deposited.

Finding No. 4: Payroll Processing

For the 2011-12 fiscal year, the District incurred \$1.3 billion in salary expenditures. The Superintendent established Business Practice Bulletin PR-100 that requires documented approval of all payroll data such as time cards, timesheets, vacation and leave request forms, and all related payroll reports. Also, for the 2011-12 fiscal year, salary expenditures included payroll errors associated with employee terminations, leaves of absences, and changes in pay that resulted in salary overpayments totaling \$957,476.

The District recovered \$819,828 of salary overpayments during the 2011-12 fiscal year relating to the current and previous fiscal years; however, the total uncollected balance as of June 30, 2012, was approximately \$1.3 million, of which \$1 million had expired given the two-year statute of limitations established by Section 95.11(4)(c), Florida Statutes. In addition, our tests of October 2011 and May 2012 payroll records supporting 50 salary payments totaling \$138,220 to 25 employees disclosed the following:

- District records did not evidence time sheets, time cards, or other records to establish the basis for 4 salary payments totaling \$9,897 to 3 transportation department employees.
- District records did not evidence supervisory review and approval of work time for 22 salary payments totaling \$57,751 to 13 transportation department employees.
- For 13 salary payments totaling \$34,143 made to 10 transportation department employees, the hours reported in the accounting system and on the time cards did not agree, resulting in 8 employees paid from \$39 to \$853 less than the time cards supported and 2 paid from \$194 to \$535 more than the time cards supported.

Enhancements in controls over salary payments, including a more detailed supervisory review and approval of such payments, may reduce the risk of errors or fraud without timely detection. Similar findings were noted in our report Nos. 2007-164R and 2010-183.

Recommendation: The District should enhance its procedures to ensure payroll payments are accurate, properly documented, and approved. The District should also continue its efforts to remedy previous salary underpayments and overpayments.

Finding No. 5: Overtime Payment Monitoring

During the 2011-12 fiscal year, the District incurred expenditures of \$13.7 million for overtime pay. The District provides for overtime payments to employees for hours worked in excess of the normal day as authorized by Board policy and employee contracts. Also, Board policy defines overtime pay and compensatory time and requires supervisory review for all overtime. In addition, the Superintendent established Business Practice Bulletin PR-100, which requires documented approval of all payroll data such as overtime and compensatory forms, and requires supervisors to preapprove estimated overtime dates, hours, and reasons, and to approve the actual overtime of employees.

Our review of October 2011 and May 2012 payroll records, discussed in Finding No. 4, disclosed 20 employees that received a total of 40 overtime payments totaling \$38,623. Our tests of these overtime payments disclosed District records did not evidence the basis upon which 4 payments totaling \$3,367 were made to 3 transportation department employees. Also, of the remaining 36 overtime payments tested, District records did not evidence supervisory review and approval of 32 payments totaling \$30,479 for 13 transportation department employees and 4 other employees.

In addition, our analytical procedures of overtime payments disclosed that 6 of 20 employees receiving the highest amount of overtime payment in the 2011-12 fiscal year were also among those that earned the highest in the 2010-11 fiscal year. For the 2011-12 fiscal year, the 6 employees were paid from \$19,681 to \$25,890 in overtime pay, representing 58 to 96 percent of the employee's regular wages. While Business Practice Bulletin PR-100 requires supervisors to review and approve overtime reports each pay period, no Board policies or District procedures required analysis of overtime and District records did not evidence that an analysis was performed to determine the reasons for these deviations from typical overtime trends.

When overtime payments are not effectively monitored, there is an increased risk that errors, waste, or fraud may occur and not be timely detected. Properly developed policies or procedures could establish guidance requiring department heads and supervisory staff to review and consider the reasonableness of overtime services and related charges. A similar finding was noted in our report No. 2010-183.

Recommendation: The District should enhance its procedures to ensure overtime payments are properly documented and approved. Also, given the amount of overtime expenditures incurred, the District should enhance management controls to require overtime and staffing analyses to ensure the most cost effective use of human resources. In addition, the District should document the basis for the 4 payments totaling \$3,367 to the 3 transportation department employees or recover these amounts.

Finding No. 6: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that, on or after July 1, 2011, a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay with an officer, agent, employee, or contractor must include certain provisions, including a requirement that severance pay provided may not exceed an amount greater than 20 weeks of compensation.

On October 4, 2011, the Board approved an employment agreement with the Superintendent. The terms of the agreement provide for a three-year employment period commencing October 5, 2011, through October 4, 2014. Section 10.2 of the employment agreement provides that in the event the Superintendent is terminated without cause, the Superintendent shall be paid a sum equivalent to his salary for a period of 12 months or for the remaining term of the agreement, whichever period of time is less. This provision is contrary to Section 215.425(4)(a), Florida Statutes, in that it allows for the Superintendent to receive severance pay that exceeds 20 weeks of salary.

Recommendation: The District should ensure that future employment agreements contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes. The District should also take appropriate action to amend the Superintendent's employment agreement to be consistent with Section 215.425(4)(a), Florida Statutes.

Follow-up to Management's Response:

The District indicated in its response that Section 1001.50(2), Florida Statutes (2011), not Section 215.425, Florida Statutes, governed the Superintendent's employment agreement and expressly permitted severance pay up to one year of annual salary. The District's response also refers to amendments to Section 1001.50(2), Florida Statutes, in 2012 to make it consistent with the provisions of Chapter 215, Florida Statutes. However, Section 215.425, Florida Statutes, applies to all units of government, and the 2012 amendment to Section 1001.50(2), Florida Statutes, merely clarified existing law. Accordingly, we remain of the opinion

that the severance pay provision in the Superintendent's employment agreement is not consistent with existing law. In determining its actions to resolve this audit finding, the District should seek a legal opinion from the Florida Attorney General regarding its interpretation of the existing and controlling law.

Finding No. 7: Purchasing Cards

To expedite the purchase of selected goods and services, the District used purchasing cards in certain situations. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional requirements set forth in the purchasing card manual. The District card administrator is responsible for notifying the bank of employee terminations or reassignments to facilitate cancellation of purchasing cards. Occasionally, after terminations or reassignments, department supervisors destroy the card and send it to the administrator or the administrator obtains the card and destroys it later.

As of February 2012, the District had issued 262 purchasing cards to 223 employees and Board members, and the purchasing card administrator retained 50 emergency cards until requested and approved. The District credit limits for 136 cards were \$1 to make the cards inactive, although the limits can be temporarily increased as needed and no annual fee is assessed for these cards. The 176 cards that have limits above \$1 are assigned mainly to teachers for the aftercare programs, school administrators, and the Physical Plant Operations Division responsible for facilities maintenance. For the 2011-12 fiscal year, purchasing card expenditures totaled \$7.1 million.

Our tests of selected purchasing card transactions, and selected card cancellations, disclosed that controls needed improvement, as follows:

- While District personnel indicated that the monthly transaction limits are set by the card holders and their management and that expenditures are monitored on a daily basis, District records did not evidence that the reasonableness of the credit limits are reviewed. For 23 of 31 cardholders reviewed, monthly credit limits appeared excessive based on actual purchases, as follows:

Department	Employee Title	Monthly Limit	Actual Highest Monthly Total	Actual as Percent of Limit
Logistics Stockroom	Stock Clerk	\$250,000	\$115,052	46%
Logistics Stockroom	Stock Clerk (1)	250,000	95,187	38%
Logistics Stockroom	Stock Clerk (2)	250,000	85,590	34%
Logistics Stockroom	Stock Clerk (2)	250,000	82,233	33%
Logistics Stockroom	Stock Clerk (1)	250,000	37,520	15%
Physical Plant Operations	Area Manager	250,000	25,063	10%
Facility Support Services	Supervisor III (3)	250,000	15,047	6%
Central Area Maintenance	Area Manager	250,000	7,612	3%
Central Area Maintenance	Area Manager	250,000	5,322	2%
Facility Support Services	Supervisor III (3)	250,000	2,836	1%
Strategy/ Operations	Chief Operating Officer	50,000	181	0.36%
Broward Education				
Communication Network	Director	15,000	6,260	42%
Transportation	Shift Supervisor	15,000	5,580	37%
Risk Management	Accounting Specialist II	10,000	4,282	43%
Stranahan High	Budgetkeeper II	10,000	3,732	37%
Park Springs Elementary	Child Care Supervisor	10,000	2,957	30%
Safety	Director/ Chief Fire Official	10,000	1,742	17%
Ramblewood Elementary	Teacher	10,000	954	10%
Logistics Stockroom	Supervisor II	10,000	879	9%
Vehicle Maintenance Stockroom	Stockroom Assistant	10,000	795	8%
Chief Finance	Chief Finance Officer (4)	10,000	653	7%
Chief Finance	Chief Finance Officer (4)	10,000	374	4%
Chief Finance	Chief Finance Officer (4)	10,000	33	0.33%
Notes:				
(1) One employee had two cards with one card for the North Area purchases and the other for the Central Area purchases.				
(2) One employee had two cards with one card for the South Area purchases and the other for the Southwest Area purchases.				
(3) One employee had two cards with one card for maintenance and the other for office supplies.				
(4) One employee had three cards with one for travel, one for non-airfare and non-hotel travel, and one for office supplies.				

- The purchasing card manual did not establish procedures to document the dates of card cancellation or destruction for terminating or reassigned employees. Our review of 10 purchasing card cancellations disclosed 7 purchasing cards cancelled by the bank from 17 to 277 days after the employee terminated employment. In addition, District records did not evidence that 8 of the 10 cards were destroyed upon cancellation. While there were no transactions on the accounts subsequent to the termination dates, untimely cancellation of purchasing card accounts, and lack of evidence that the cards for terminated or reassigned employees were destroyed, increases the risk of unauthorized purchasing card use.

A similar finding was noted in our report No. 2010-183.

Recommendation: The District should enhance its purchasing card controls to ensure a periodic review of the reasonableness of purchasing card credit limits, and timely cancellation of purchasing card accounts and destruction of purchasing cards for terminated or reassigned employees.

Finding No. 8: Tangible Personal Property

Chapter 274, Florida Statutes, and Department of Financial Services Rule 69I-73, Florida Administrative Code, require that the District maintain adequate records of tangible personal property (TPP) in its custody and that the

property be inventoried annually, compared to the property records, and that all discrepancies be reconciled. Any property items found during the inventory meeting the capitalization requirements must be included in the inventory records, and items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. In addition, based on the results of the investigation, the District is required to file a report with the appropriate law enforcement agency of items not located.

At June 30, 2012, the District reported, net of accumulated depreciation, \$3.1 billion in capital assets, of which \$72.9 million was TPP (i.e., furniture, fixtures, and equipment; assets under capital lease; audio visual equipment; and motor vehicles). The Office of the Chief Auditor (OCA) is responsible for performing physical inventories, reconciling physical counts to property records, and permanently marking property items. Property custodians are responsible for reporting theft or vandalism to the Special Investigative Unit and law enforcement authorities.

Our review and tests of TPP disclosed the following:

Inventory and Tagging of TPP:

- During the 2011-12 fiscal year, the OCA physically inventoried only 177 of 231 schools and 74 of 95 departments, representing \$263 million or 48 percent of the District's TPP. In response to our inquiry, OCA personnel indicated that they did not have enough personnel to comply with the annual inventory requirements. Also, there were 13 asset classification codes, such as cabinets, chairs, tables, and other furniture, excluded from the physical inventory counts, and District personnel were unaware of the basis for excluding these items. The cost of the items in the 13 classification codes total \$33.9 million, or 6.2 percent of the total cost of TPP.
- In April 2012, we selected 21 property items with costs totaling \$68,240 from the property records for observation at the designated locations and noted 9 items, with costs totaling \$40,999, that were not tagged, as follows:
 - Four items totaling \$13,022 were assigned property numbers; however, due to the asset classification of these items, the property items were not included as part of the inventory and were not listed on inventory records to be tagged. These items consisted of an ice machine, warming cabinet, cafeteria seating booth, and an executive desk, which are among the 13 asset classifications not included in the inventory audits.
 - Audio visual equipment with costs totaling \$5,207 consisted of two separate items; however, the purchase was erroneously recorded in the property records as one item. As such, only one property number was assigned, resulting in one item recorded in the property records for the wrong amount and the second item not recorded in the property records, tagged, or inventoried.
 - Four items (projector purchased August 2010, golf cart purchased November 2011, computer donated March 2011, and speakers purchased February 2012) with costs totaling \$22,770 were assigned property numbers, but not tagged.

In addition, two items (pole vault pit and laptop computer) with costs totaling \$5,764 could not be located. Further inquiry indicated that the pole vault pit was never delivered to the school by the vendor due to manufacturer defects and would be delivered after the manufacturer completed repairs. The laptop computer was removed from school grounds by a District employee; however, forms authorizing the removal of the computer had not been completed. Similar unaccounted for items were noted by the OCA personnel during their inventory audit.

- Our review of purchasing card transactions disclosed 2 items (air handler and air condensing unit) with costs totaling \$9,520, that were not included in the property records or assigned property tags as they were part of the 13 asset classifications excluded from the physical inventory mentioned above.
- Property records did not always evidence the serial numbers, although the serial number field is a required field for schools and departments to complete when recording receipt of property items into the system. The

OCA typically does not tag property items unless the serial number identified online matches the serial number on the property item to ensure the tag is placed on the correct item. A report generated by OCA personnel on April 5, 2012, indicated that 4,431 property items, acquired from April 1962 through February 2012 with acquisition costs totaling \$20.9 million, did not have serial numbers entered into the system. The report included 393 items that were acquired from July 2009 through February 2012 with acquisition costs totaling \$1.5 million. In addition, considering the 13 classification codes that were excluded from the inventory procedures, the number of items that did not have serial numbers in the property records totaled 5,929, with acquisition costs totaling \$27 million.

Disposals of TPP:

- During the 2011-12 fiscal year, the District declared TPP with acquisition costs totaling \$13 million as surplus. District schools and departments complete and provide disposal forms identifying surplus TPP items to warehouse employees and warehouse employees are responsible for completing transfer forms to identify the surplus TPP items removed from the District sites and transported to the warehouse. In addition, the District contracts with a recycling company that guarantees removal of electronic media retained on surplus computers. Our review of District records supporting 15 TPP surplus items with costs totaling \$47,848 disclosed:
 - While the disposal forms identified 9 items, such as a video recorder, laptop computer, and server, with costs totaling \$30,169 for disposal, the transfer forms completed by warehouse employees did not identify the property items removed. As a result, District records did not evidence that these 9 items were properly disposed of.
 - The manner of disposition (sold, donated, recycled, scrapped, etc.) was documented in the property records; however, District records did not identify the equipment numbers for 11 items released to the recycling company. Without identifying the items released to the recycling company, computers may be discarded without removal of the electronic media, increasing the risk of misuse of the information.

Appropriately maintained TPP records, annually reconciled to physical inventories with discrepancies promptly and thoroughly investigated, decrease the risk of loss of TPP. In addition, effective controls over the surplus property process are necessary to ensure lawful disposal and removal of sensitive information stored on surplus computers. Similar findings were noted in our report Nos. 2007-164R and 2010-183.

Recommendation: To improve accountability and safeguarding of the District's assets, the District should strengthen procedures to provide for complete annual physical inventories of tangible personal property, prompt tagging of items upon receipt, timely updating of all necessary fields in the individual property records for acquisitions and dispositions, and proper monitoring of surplus property dispositions.

Finding No. 9: Annual Facility Inspections

Section 1013.12, Florida Statutes, requires that the District provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. In addition, fire-safety inspections are required to be performed annually by persons certified by the Division of State Fire Marshal as being eligible to conduct fire-safety inspections in public and ancillary plants.

The District obtained safety inspection reports for its 218 schools and 19 centers from July 2011 through January 2012. Our review of the inspection reports for 18 schools and 2 centers disclosed 1,347 total deficiencies, with 11 school reports citing 2 to 40 deficiencies that remained uncorrected from 3 to 11 years and 1 school report citing 7 deficiencies remaining uncorrected from 7 to 17 years. The deficiencies included lack of fire sprinklers,

missing or broken smoke detectors, insufficient number of exits, and other deficiencies, with 6 deficiencies relating to secondary exits that have been cited for 17 years.

Subsequent to our inquiries, District personnel indicated that re-inspections for the 11 schools were completed prior to fiscal year end. Upon review of the re-inspection reports, we noted that 10 school reports cited 1 to 37 deficiencies that remained uncorrected from 3 to 17 previous years. District personnel indicated that correcting the secondary exit issues outstanding for 17 years has been in the School District's Five Year Plan, but remains uncorrected, in part, due to differing opinions on how to correct the issue, employee turnover in facilities and building departments, and lack of funding. Failure to timely correct deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future. Similar findings were noted in our report Nos. 2007-164R and 2010-183.

Recommendation: The District should enhance procedures to ensure that deficiencies noted in inspection reports are timely corrected.

Finding No. 10: Background Rescreenings

Sections 1012.56(10) and 1012.465, Florida Statutes, require that instructional personnel renewing their teaching certificates and noninstructional personnel that have direct contact with students undergo required background screenings every five years following the initial screening upon employment.

Our review of District records for 25 instructional and noninstructional employees disclosed that 18 were not rescreened within five years, contrary to law. Of the 18 employees, 8 were rescreened from one to three months late and 10 were rescreened from 5 to 21 months late. District personnel indicated that delays in rescreening were due to an insufficient number of District personnel to process the rescreenings. Without timely completion of required background rescreenings, there is an increased risk that staff with unsuitable backgrounds may be allowed access to students. Similar findings were noted in previous audits.

Recommendation: The District should ensure that the District employees undergo the background screenings at least every five years as required by law.

Finding No. 11: Expenditure Processing

The District's purchase order process provides certain budgetary controls, such as preapproval of vendors and purchase amounts, to ensure that purchases are made from established vendors at a reasonable price within budgetary limits. Board Policy 3320, Section CC, requires that purchases be based on contracts, purchasing card systems, electronic procurements, or purchase orders. Purchasing Department personnel are required to review and approve purchases, and Accounts Payable Department personnel rely on this approval process to ensure the purchases are valid and for a public purpose.

Board policy further provides that District expenditures may be made using check requests or purchasing cards for items that do not require use of purchase orders or are exempt from bidding. Use of the check request system allows emergency type purchases that require shorter delivery times and quick payment, without disrupting the District's critical operations. Check requests forms are completed and attached to invoices that are approved by supervisors and forwarded to the Accounts Payable Department for payment processing. However, the District had not

established policies or procedures to limit the use of the check request system to certain goods, services, or dollar thresholds.

During the 2011-12 fiscal year, the District processed 55,000 check requests totaling \$59 million. Our audit tests included 57 payments totaling \$1.2 million, dated from August 2011 to January 2013, that were made pursuant to check requests rather than through the District's purchase order process. These expenditures ranged from \$47 to \$500,000 and included payments for various goods and services such as school resource officer services, textbooks, food purchases, donations, party supplies, meeting room rentals, and other miscellaneous purchases. Using the check request process bypasses typical controls provided by the purchase order process as these expenditures are not subject to the encumbrance system or budgetary process controls. While all the check requests were eventually reviewed and approved by supervisors, District records did not evidence the basis upon which these purchases, which did not appear to be emergency type purchases, were not processed through the Purchasing Department in accordance with Board policy.

When departments circumvent the purchase order process, there is an increased risk that unauthorized payments could be made to fictitious vendors for goods or services not received by the District, or for purchases that do not serve a public purpose, without timely detection. Also, given the significant number of check requests being processed, limiting check requests to emergency type purchases may reduce processing costs since processing purchases through the Purchasing Department provides an opportunity to consolidate purchases of similar items.

Recommendation: The District should enhance its controls over expenditure processing by establishing policies and procedures that limit the use of the check request system to emergency purchases of certain goods, services, and dollar thresholds.

Finding No. 12: Journal Entries

Good business practice dictates that independent review and approval of journal entries, such as transfers between funds, be performed to decrease the risk of incorrect or unauthorized adjustments to the accounting records. The Financial Reporting Department was responsible for maintaining the District's financial records, including recording account balances and transactions and related financial reporting.

Our review of journal entries disclosed that personnel of the Food and Nutrition Services (FNS) Department, Enterprise Resource Planning (ERP) Department, and Treasury Department had the ability to prepare, approve, and record journal entries that transferred amounts between departments and funds. These personnel were granted this ability due to the volume and nature of the transactions, whereas other journal entries were typically reviewed, approved, and recorded by Financial Reporting Department personnel. During the 2011-2012 fiscal year, the transfers processed by the Treasury, FNS, and ERP departments totaled \$3.4 billion, \$89 million, and \$15 million, respectively.

As discussed in Federal Awards Finding No. 1, FNS Department personnel approved and recorded a \$625,202 transfer from the Special Revenue - Food Service Fund to the General Fund without review and approval by Financial Reporting Department personnel. Absent an independent review of transfers processed by FNS, ERP, and Treasury Department personnel, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance controls over journal entries that involve transfers between funds to ensure entries are timely reviewed and approved by Financial Reporting Department personnel.

Finding No. 13: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end-users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions.

Our review of selected access privileges to the District's enterprise resource planning (ERP) finance and human resources (HR) applications disclosed that 7 IT employees within the ERP application project team had update privileges to critical functions within the finance application, including the ability to add and update vendor records and addresses, add and change purchase orders, process payments, and create and post journal entries. In addition, 24 IT employees within the ERP application project team had update privileges to one or more critical functions within the HR application, including the ability to add and update employee records, adjust salary records, create payroll runs, and update direct deposit information. The access privileges granted were contrary to an appropriate separation of end-user duties and the employees' assigned IT duties related to the technical support of the District's ERP applications.

To compensate, in part, for the effect of the above deficiencies, the District had certain controls, such as IT supervisor reviews of finance activity reports and payroll supervisor reviews of HR activity reports for actions performed within the ERP applications by IT employees. However, the absence of effective access controls that enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities increases the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

In response to our inquiry, District management created new security roles allowing inquiry only access for 5 of the 7 IT employees described above having update access within the finance application and for 8 of the 24 IT employees described above having update access within the HR application. A similar finding was noted in our report No. 2010-183.

Recommendation: The District should re-evaluate the need for the remaining IT employees to continue having update access to the finance and HR applications. If District management determines that there is a legitimate business need for IT employees to have update privileges to provide assistance to end-users, the access should be granted for only the length of time necessary to provide the needed assistance and then deactivated. In addition, update actions within the finance and HR applications performed by IT employees should be reviewed by end-user supervisory employees.

Finding No. 14: Information Technology – Security Controls – Software Management, User Authentication, and Monitoring of Application Data Changes

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to software management, user authentication, and monitoring of application data changes that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to software management, user authentication, and monitoring of application data changes, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were noted in previous audits.

Recommendation: The District should improve its security controls related to software management, user authentication, and monitoring of application data changes 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 (FDOE) and Florida Department of Agriculture and Consumer Services (FDACS)

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$625,202

Allowable Cost/Cost Principles and Procurement. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1.e, provides that to be allowable, costs should be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. Guidance from the FDOE's 2010 *Florida School Food Service Reference Manual (FSFS Reference Manual)* prohibits the use of food service funds for retroactive loans unless there has been an agreement in place since the occurrence of the obligation. Food service activities are accounted for in the Special Revenue – Food Service Fund.

The District transferred \$625,202 of Special Revenue - Food Service Fund moneys to the General Fund during the 2011-12 fiscal year to reimburse the General Fund for 202 time clocks purchased during the 2004-05 fiscal year for use at District cafeteria and food service locations. The time clocks for the FNS Department had not been activated at June 30, 2012, awaiting activation and use of clocks located in other departments. Although District personnel anticipate that the time clocks, once put into use, will be used solely by FNS Department personnel, District records did not document that the food service program would reimburse the General Fund for these purchases when the clocks were purchased. As such, use of the Special Revenue – Food Services Fund moneys to reimburse the General Fund for the purchase of the clocks was contrary to the *FSFS Reference Manual*. Without preauthorization for this transfer, these program expenditures represent \$625,202 of questioned costs subject to disallowance by the grantors (FDOE and FDACS).

Subsequent to delivery of our preliminary and tentative findings, the District contacted the FDACS and received a letter from the FDACS indicating that the food service funds may be used for the portion of the time clock project that is solely for the use of Food and Nutrition Services employees. However, as the clocks had not been placed into use, District records did not evidence the extent, if any, that these costs represent appropriate charges to the food service program.

In addition, for equipment and real property management, OMB Circular A-133 requires that equipment records be maintained, a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records, an appropriate control system be used to safeguard equipment, and equipment be adequately maintained. Upon audit request, we were provided a list of the 202 time clocks that identified location and serial number of the clocks; however, 165 of the 202 time clocks did not list a property number. District personnel indicated that the time

clocks were among the items in the 13 asset classifications that were not subject to physical inventory procedures as discussed in Finding No. 7 above. Absent appropriate controls over property purchased with Federal funds, the District cannot ensure that these assets are adequately safeguarded or reported in accordance with Federal Regulations.

Recommendation: The District should document to the grantors (FDOE and FDACS) the allowability of the \$625,202 transfer or restore this amount to the Child Nutrition Cluster programs. In addition, the District should enhance its controls over FNS Department equipment to ensure that items are safeguarded and reported in accordance with Federal Regulations.

District Contact Person: Mary Mulder, Director of Food and Nutrition Services

Follow-up to Management's Response:

The District indicated in its response that the FDACS reconfirmed the transfer of funds for the time clock purchases as an allowable expenditure of the food service program. However, the FDACS only indicated that food service funds may be used for the portion of the time clock project used solely for Food and Nutrition Services employees and did not address the propriety of the transfer of funds to the General Fund for reimbursement of time clocks that had not been placed into use. Therefore, we remain of the opinion that these expenditures totaling \$625,202 represent questioned costs of the Child Nutrition Cluster programs.

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education (FDOE) and Florida Department of Agriculture and Consumer Services (FDACS)

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Allowable Costs/Cost Principles. OMB Circular A-87, Attachment A, Section C.1., provides, in part, that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, and be adequately documented. The District's Physical Plant Operations Division (Division) automates certain entries to charge various programs from its work-order system for routine, preventive, and emergency maintenance services. Depending on the nature of the work, District employees or independent contractors perform the services, and Division employees approve the work orders and invoices as the work is completed. For the 2011-12 fiscal year, 5,079 work orders totaling \$2.3 million were charged to the Child Nutrition Cluster (CNC) programs.

Our tests of 40 expenditures charged to CNC programs disclosed 5 work orders totaling \$35,721 that were emergency in nature or preventive maintenance; however, District records did not evidence that the food service program director or authorized designees approved the work orders, before or after-the-fact, to ensure the costs were allowable charges to the programs. Although the work orders and subsequent costs were related to activities of the programs, there is an increased risk that unallowed costs will be charged to the programs absent preapproval of costs by the program director.

Recommendation: The District should establish procedures to ensure that expenditures charged to CNC programs are preapproved by the program director or authorized designees.

District Contact Person: Mary Mulder, Director of Food and Nutrition Service

RELATED INFORMATION

In February 2011, the Nineteenth Statewide Grand Jury issued a report that focused on noninstructional aspects of the District's functions, particularly the construction of schools. The report contained various findings and recommendations related to the Facilities and Construction Management Division. The District responded to the report in March 2011 outlining steps that would be taken to address these findings. The District's Office of the Chief Auditor determined that forty-eight of the fifty-one recommended actions were satisfactorily resolved. The three recommended actions pending, as of November 2012, included implementation of a database to monitor facility permits, inspections, occupancy, and closeout documentation; timely reporting construction contract revisions to the Board; and revision to Board policy with respect to naming facilities.

In February 2012, the District hired an independent accounting firm to conduct an operational review of the Facilities and Construction Management Division. The review focused on identifying opportunities for process and internal controls improvement and identifying and recommending best practice areas. The report was issued in June 2012, and findings included failure to perform a complete review of pay applications before issuing payment; project managers not approving or reviewing support for the transfer of amounts among line categories in the schedule of values/guaranteed maximum price contract; the average cost of the reuse projects had significantly more architectural fees than industry standards (77 percent of original cost vs. 40 percent of original cost); and the contracts did not require the construction manager to disclose any related party relationships with bidding subcontractors. The District's response to those findings included planned implementation dates during the 2012-13 fiscal year, and a copy of the report is available on the Districts' Office of the Chief Auditor Web site in the External Audits section.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	Financial and Federal Single Audit		Financial, Operational, and Federal Single Audit	
	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2008-09 Fiscal Year Audit Report and Finding Numbers	2005-06 Fiscal Year Audit Report and Finding Numbers
1	NA	NA	Audit Report No. 2010-183, Finding No. 1	NA
3	NA	NA	Audit Report No. 2010-183, Finding No. 4	NA
4	NA	NA	Audit Report No. 2010-183, Finding No. 7	Audit Report No. 2007-164R, Finding No. 10
5	NA	NA	Audit Report No. 2010-183, Finding No. 6	Audit Report No. 2007-164R, Finding No. 11
7	NA	NA	Audit Report No. 2010-183, Finding No. 9	NA
8	NA	NA	Audit Report No. 2010-183, Finding No. 10	Audit Report No. 2007-164R, Finding No. 2
9	NA	NA	Audit Report No. 2010-183, Finding No. 11	Audit Report No. 2007-164R, Finding No. 6
10	CPA Firm, Finding No. 2010-1	CPA Firm, Finding No. 2010-1	NA	NA
13	NA	NA	Audit Report No. 2010-183, Finding No. 14	NA
14	CPA Firm, Finding No. 07-7	CPA Firm, Finding No. 2010-4	Audit Report No. 2010-183, Finding No. 15	NA

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*BROWARD COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

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
Moore Stephens Lovelace, P.A.		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA

600 SOUTHEAST THIRD AVENUE • FORT LAUDERDALE, FLORIDA 33301-3125 • TEL 754-321-2600 • FAX 754-321-2701

ROBERT W. RUNCIE
Superintendent of Schools

SCHOOL BOARD

<i>Chair</i>	LAURIE RICH LEVINSON
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March 22, 2013

Mr. David W. Martin, CPA
Auditor General
Room 412C
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1456

Dear Mr. Martin:

Please find our responses below to the preliminary and tentative findings and recommendations from the following Financial, Operational and Federal Single audit of the:

Broward County District School Board
For the Fiscal Year Ended June 30, 2012

Finding No. 1: Fraud Policy

Management Response:

Response from the Office of Human Resources – We agree. In response to the Auditor General's report, an Anti-Fraud Policy has been drafted and reviewed by the Chief Auditor and the General Counsel. The policy is scheduled for review by the School Board at the April 16, 2013 School Board Workshop. Following the workshop presentation, Human Resources will adhere to the established policy processes and timeline for School Board adoption. The anticipated policy adoption will be completed by July 2013.

Finding No. 2: Electronic Funds Transfers

Management Response:

Response from the Office of the Chief Financial Officer - The District established an "Internal Controls and Operational Procedures Manual" on August 31, 2004. The Manual includes a section that pertains to Electronic Funds Transfers. We will have the Board adopt an Electronic Funds Transfer Policy, which will include the use of electronic signatures.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

The District's banking agreement delegates authority to persons holding the positions of Chief Financial Officer (CFO) and Treasurer to execute documents pertaining to the use of services, including, but not limited to, designating persons authorized to initiate electronic funds transfers. Persons that have been authorized to initiate wire transfers utilize electronic signatures in the form of passwords and Personal Identification Numbers (PIN). The CFO and Treasurer will sign the Treasury Services Delegation of Authority Form.

Finding No. 3: Decentralized Collections

Management Response:

Response from the Office of the Chief Strategy & Operations Officer – We agree. The Supply Management & Logistics Department will meet with the Office of the Chief Financial Officer to create a Business Practice Bulletin that will clearly outline procedures for receipting collections and timely remitting of all monies collected to the Treasurer's Office. The Business Practice Bulletin will specify strict timeframes for making deposits to the Treasurer's Office, in order to safeguard assets and expedite timely bank deposits. This Bulletin will be provided to all locations that handle decentralized collections throughout the District. The timeline for the initiation of this Business Practice Bulletin is April 30, 2013.

Finding No. 4: Payroll Processing

Management Response:

Response from the Office of the Chief Financial Officer - The \$1.3 million of uncollected funds dates back to 2001 when the SAP payroll system (first implementation) was implemented. At the time of the system implementation, a large amount of overpayments were generated. Dedicated efforts were made to recover the overpayments, however, due to the two year statute of limitations; the entire balance was not collected. In subsequent years, several processes were implemented to reduce the occurrence and frequency of overpayments resulting in higher recovery and lower overpayment balances. We continue to analyze data, provide appropriate training and implement accountability measures to perpetually lower the occurrence of overpayments. Of the \$957,476 overpayments that occurred in 2011-12, \$819,828 was recovered.

Response from the Office of the Chief Strategy & Operations Officer - Management agrees with the audit recommendation to "enhance its procedures to ensure payroll payments are accurate, properly documented, and approved."

Corrective Action: Since the audit findings the Transportation Department has fully migrated to the KRONOS Time & Attendance system. In conjunction with the implementation of the new system additional procedures and guidelines are being put in place to minimize the risk to the District in the areas of overpayments and inaccurate payrolls. The Department has also discontinued the use of the antiquated WRK215 COMPASS report for payroll reporting.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Additionally, all administrative staff located at the bus terminals has been trained on the new system. They will be responsible for reviewing and approving all payrolls. They will also be required to keep all appropriate records on file such as the Earnings, ZTIM, and Overtime Reports.

Finding No. 5: Overtime Payment Monitoring

Management Response:

Response from the Office of the Chief Strategy & Operations Officer - Management agrees with the audit recommendation to "enhance its procedures to ensure overtime payments are properly documented and approved and enhance management controls to require overtime and staffing analyses."

Corrective Action: The implementation of KRONOS will greatly enhance the transportation department's ability to monitor overtime. The system allows for a unique schedule to be placed in KRONOS for each employee. When there is a deviation from this schedule an alert occurs on the same day of the exception. The new system also provides a variety of reports that can be run to help monitor employee work hours.

Additionally, at the request of Student Transportation & Fleet Services, a unique payroll report has been created that allows the department to see all REG, OTS and OTP hours along with Gross, Net, and Retro pay, all in one report for all employees within the Department.

Finding No. 6: Severance Pay

Management Response:

Response from the Office of General Counsel - The "severance" provisions in the Superintendent's contract, as approved in 2011, were governed by sec. 1001.50(2), F.S., not Section 215.425(4)(a). At that time, Section 1001.50(2) provided:

(2) The district school board of each of such districts shall enter into contracts of employment with the district school superintendent and shall adopt rules relating to his or her appointment; however, the district school board may not enter into an employment contract that requires the district to pay from state funds a superintendent an amount in excess of 1 year of the superintendent's annual salary for termination, buyout, or any other type of contract settlement. This subsection does not prohibit the payment of earned leave and benefits in accordance with the district's leave and benefits policies which were accrued by the superintendent before the contract terminates.

This section expressly permitted severance payment of up to one year of annual salary. This section was subsequently revised to be in line with the provisions of Chapter 215 in 2012. As such, if the Superintendent negotiates a new contract with the School Board *after the termination of the current agreement in 2014*, said new contract would then be subject to the provisions of 1001.50(2), as it currently reads, which requires inclusion of the provisions of Section 215.425.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 7: Purchasing Cards

Management Response:

Response from the Supply Management & Logistics Department – We agree. The expenditures have been analyzed as compared to the monthly credit limits. There is no consistent process in place to verify that a Purchasing Card (P Card) has been destroyed or cancelled by the Bank. Notifications are not sent in a timely manner by the employees' management.

Corrective Action: The credit limits will be reduced to an appropriate level consistent with the spending history. Cardholders will be notified of the changes prior to the reduction of the limit. We will update the P Card manual to provide a process for notification and return of the P Card, by management, when an employee is transferred, terminated, resigns, retires, etc. A form will be created for that communication and will be maintained by the P Card Coordinator and provided to the P Card end using management to inform the P Card Coordinator of a change in employee status and the return of the P Card. Notifications will be sent to all users by March 20, 2013, and implementation of the change will be March 20, 2013.

Proposed Corrective Action Plan: Proposed Change to Process: All District equipment, issued to employees, should be maintained in the employees' personnel record. This record should be updated to contain items such as cell phones, lap-tops, keys, badges, and P Cards, etc. When an employee leaves the District, the individual's department should retrieve these items before the employee receives his/her final check. In addition, the individual's department should contact the Supply Management & Logistics Department to cancel any P Cards that was issued to the individual. A new process will need to be developed to address the reporting of District-owned property, as well as communicating a change of an employee's status to the P Card Coordinator when an employee is reassigned, laid off, terminated, retired, etc., to cancel a P Card. Staff will work with HR to consider the proposed plan of action. The proposed timeline is June 30, 2013.

Finding No. 8: Tangible Personal Property

Management Response:

Response from the Office of the Chief Auditor - The Office of the Chief Auditor (OCA) conducts property and inventory audits for all District locations to verify the physical presence of tangible personal property designated on a location's property inventory roster and to ensure appropriate controls are in place to safeguard the location's tangible personal property. Audits include a cursory review of the safeguards associated with high-risk items maintained within the location's secondary database per the requirements set forth in the Business Practice Bulletin O-100 Procedures for Property and Inventory Control. The OCA will continually evaluate the inventory process in an

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

effort to comply with annual inventory requirements despite staff reductions of Property Auditors. It should be noted that staff at all locations are minimally required to conduct semi-annual inventories to ensure the District's property records are accurately maintained and updated. This includes the high-risk property items maintained within the secondary database established by the location. Appropriate staff must physically verify that each property item listed on the PNI 811 (Modification-PENDING) report is accounted for on premises. As required by Business Practice Bulletin O-100, the property custodians shall complete the semi-annual inventory and forward a copy of the results to their respective senior administrator.

Class Codes Excluded

We agree. All assets captured since the current fiscal year by Accounting and Financial Reporting Department (AFRD) will be included in future property audits conducted by the Office of the Chief Auditor. Information and Technology's production division is currently modifying the asset report to ensure all assets are included for evaluation as recommended.

Tagging/Barcoding

We agree. All property items that have been reconciled by OCA staff will be barcoded, engraved or indelibly marked during the subsequent property audit. District staff receives a report of all additions to the Master File of Assets associated with their location (PNI 954A-Optispool). Records should be verified for accuracy to ensure that proper tagging, tracking and distribution are maintained. The Chief Auditor has established the process for tagging new purchases when asset records are confirmed to be accurate. The Accounting and Financial Reporting Department (AFRD) reviews Business Intelligence (BI) reports to ensure that all new purchases are captured and maintained with accuracy.

We agree. Bundling assets is prohibited by District policy. The Supply Management & Logistics Department, site administrators, as well as AFRD must provide increased oversight for properly executing the three phases of asset record development. The creation of an appropriately itemized and segregated requisition, an adequately executed individual goods receipt and subsequent recording of the detailed asset record information are essential to delivering effective property management controls. The Chief School Performance and Accountability Officer formally communicated a follow up memo of expectation regarding the adherence to procedures for executing new purchases as well as monitoring and safeguarding District assets to all school based administrators on February 4, 2013.

We agree. Any item that is donated which has a value of \$1,000 or more is considered to be high risk. These items must be reported to AFRD on an Equipment Acquisition Form per the District's Standard Practice Bulletin I-311 Donations.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

We agree. No assets should be paid for prior to verification by the site's administration. The delivery of the returned/damaged item, *12-02403 Pole Vault Pit*, included in the sample, has been verified as received by the location's inventory liaison.

We agree. A comprehensive review of legacy asset data is being performed by District personnel. Specifically, AFRD is working to correct the records identified during this evaluation that were incomplete or possibly unprocessed by the designated department staff. Class code 13, cafeteria equipment items are being evaluated by Food and Nutrition Services. A comprehensive capital equipment database has been developed and implemented in order to improve property management efficiency. Information has been compiled and submitted to the Information and Technology Department as well as AFRD for updating in the Master File of Assets.

Disposal of TPP

We agree. This issue has been discussed with warehouse management and personnel in the past. More detailed recordkeeping is needed to document the manner of final disposal of assets (sold, donated, cannibalized, scrapped, etc.) The Office of the Chief Auditor will meet with the Supply, Management & Logistics Department in order to ensure compliance with Florida Statutes, Chapter 274 and Department of Financial Services Rule 69I-73, Florida Administrative Code.

Finding No. 9: Annual Facility Inspections

Management Response:

Response from the Office of Facilities & Construction – We agree. The District is attempting to enhance its procedures to ensure that deficiencies noted in inspection reports are timely corrected; however, the District continues to operate in a fiscally challenged environment with extremely restricted resources in personnel and funding. Under the current circumstances, progress in addressing deficiencies remains limited.

Proposed Corrective Action Plan: Once resources and funding become available, the District will then be able to address the deficiencies more fully and expeditiously.

Timeline for Implementation: Due to current funding issues, a specific timeline cannot be determined at this time.

Finding No. 10: Background Rescreenings

Management Response:

Response from the Office of Human Resources – We agree with the Auditor General's findings. The Auditor General's findings indicate that the District's reason for the delays in rescreening of employees is as a result of insufficient personnel. While the reduced staffing levels have impacted the timely implementation of the five-year employee fingerprinting process, it is not the only reason rescreenings have not occurred in a timely manner.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

In a memorandum to the Auditor General dated December 7, 2012, the Security Clearance Division of the Broward District Schools Police Department (BDSPD) explained that deficiencies were identified and compliance issues were being rectified. Additionally, we explained that research had to be conducted in order to identify the actual issues to devise a process for overall compliance. As a result of the research we discovered that some fingerprint records were not taken electronically, fingerprint records were illegible, employees were never re-printed during the original re-fingerprinting process years ago due to an employee leave and/or absence, there were data inaccuracies at the time of fingerprinting causing a deletion of the record, two computers "crashed" containing fingerprint data (data could not be recovered) and corrupt fingerprint data could not convert to a newer format required for a future resubmission.

To that end, the Security Clearance staff are diligently working on rectifying the issues by May of 2013 by doing the following:

- Review and modify locally stored electronic fingerprint records for resubmission and retention;
- Email notification to employees that physical re-fingerprint is required in compliance with state statute;
- Provide written notification to substitute teachers regarding fingerprint requirement;
- Provide information concerning the fingerprinting requirement to Principals at their respective level meetings;
- Provide list of employees to site administrators;
- Provide three off-site locations with extended hours to employees for fingerprinting; and
- Re-submit approximately 1,236 fingerprint records since July 1, 2012, in compliance with state statute. This is in addition to the 5,657 new fingerprint records created for background screening.

Although our efforts have been successful, we are facing some challenges of employee compliance; specifically, employees electing not to comply with the directive for rescreening. We have provided the employees with a deadline date for rescreening. Employees failing to comply will be notified of possible disciplinary action for violating Florida Statutes.

Another issue noted in a previous response to the Auditor General is the continuing challenge of the lack of one data source housing all of the requisite information, including records of non-employees that are not housed in SAP, such as charter school employees, vendors, mentors/volunteers (chaperones), health science students, and pre-professionals (interns), making the process labor intensive. Currently, comprehensive reports from the SAP employee data system are compared against the state fingerprint data in Florida's Integrated Criminal History System. Continued analysis of the reports allows us to determine the required actions for the fingerprint record.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

We are continuing our process of cross-referencing the various databases for employees fingerprinted within a 5-year cycle; however, we have discovered that some employees need to be physically re-fingerprinted in order to submit their fingerprints for future re-screenings.

Finally, Florida statutes that reference retention of employee fingerprint records also state that if, for any reason following employment, the fingerprints of a person who is employed with the school district are not retained by the Department of Law Enforcement, the person must file a complete set of fingerprints with the district school superintendent of the employing school district. If we determine a record is out of compliance with a five-year resubmission, immediate steps are taken to ensure the resubmission occurs.

Finding #11: Expenditure Processing

Management Response:

Response from the Office of the Chief Financial Officer - In order to resolve the issue and limit the use of check requests in accordance with the School Board Purchasing Policy 3320, effective July 1, 2013, the Accounting and Financial Reporting Department (AFRD) will discontinue processing any check requests that are not permitted in the policy. AFRD will return the check request to the requester, copying responsible Senior Leadership Team Manager, and the Purchasing Department.

Response from the Office of the Chief Strategy & Operations Officer – We agree. Check requests bypass the Purchasing processes and should be avoided. These are considered to be unencumbered obligations and unrealized liabilities. These requests impact the District's budgets negatively when the funds are not available. There are provisions for the use of the Check Requests. These are under emergency situations or when a Purchase Order is not the appropriate or acceptable instrument. The P Card provides some relief in this process.

Corrective Action: Enforce Purchasing Policy 3320, Rule V, which specifies when a check request can be used. Notification regarding the use of the check request process can be communicated to the principals and department heads through our e-mail system. Excerpts of Policy 3320, Rule V can be attached. We will address any changes in Account Assignments, forms, etc., and release information to all involved. The timeline is March 2013 to notify principals and department heads on the check request process.

Finding No. 12: Journal Entries

Management Response:

Response from the Office of the Chief Financial Officer - The District concurs with your recommendation that journal entries that involve transfers between funds to ensure entries are timely reviewed and approved by the Accounting and Financial Reporting Department (AFRD). The District will change its process to ensure that journal entries that involve transfers between funds are timely reviewed and approved by the AFRD.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 13: Information Technology – Access Privileges

Management Response: Management Response:

Response from the Office of the Chief Strategy & Operations Officer – We agree.

Proposed Corrective Action: Subsequent to the last audit, critical access to financial applications for project employees was delimited. Currently, there are no project employees with access to critical financial data.

The District is in the process of evaluating the roles assigned to project employees that contain critical access with HR application. By June 30, 2013, new roles will be created to provide access to those whose job functions mandate such access be granted; access will be delimited for all others.

The review process of update actions within the finance and HR applications performed by IT employees and those employees that provide SAP ERP functional support that do not directly report to IT management will be enhanced to include review by the SAP ERP system functional support staff supervisory employee. The timeline is June 30, 2013.

Finding No. 14: Information Technology – Security Controls – Software Management, User Authentication, and Monitoring of Application Data Changes

Management Response:

Response from the Office of the Chief Strategy & Operations Officer – We agree.

Proposed Corrective Action: The Information & Technology Department agrees with the findings, and is making forward progress, and remains committed to addressing each of the outstanding items. The Information & Technology Department has a project plan in action with a clear goal of completing all corrective actions before June 30, 2014.

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 (FDOE) and Florida Department of Agriculture and Consumer Services (FDACS)
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$625,202

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Management Response:

Response from the Chief Strategy & Operations Officer - The FDACS reconfirms the transfer of funds for KRONOS time clocks and installation as an allowable expense. A copy of the FDACS letter was forwarded to the Auditor General on March 20, 2013 by the Office of the Chief Auditor.

The Food and Nutrition Services Department maintains a departmental inventory of clocks and locations.

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education (FDOE) and Florida Department of Agriculture and Consumer Services (FDACS)

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Management Response:

Response from the Chief Strategy & Operations Officer - Food & Nutrition Services will receive a listing for all emergency work orders from Physical Plant Operations (PPO) at month end for review and posted for approval by the director and/or designees; beginning April 1, 2013.

Food & Nutrition Services will receive a Preventative Maintenance (PM) schedule for the upcoming school year by June 30, annually. The director and/or designees will review and approve and/or adjust the schedule accordingly.

If you have any questions or concerns regarding any of the findings, please contact Patrick Reilly, Chief Auditor, at (754) 321-2400.

Sincerely,



Robert W. Runcie
Superintendent of Schools

RWR/PR:pm