



AUDITOR GENERAL
DAVID W. MARTIN, CPA



PASCO COUNTY
DISTRICT SCHOOL BOARD
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2007

Pasco County District School Board members and the Superintendent of Schools who served during the 2006-07 fiscal year are shown in the following tabulation:

| | <i>District</i> |
|---|-------------------|
| | <u><i>No.</i></u> |
| <i>Jean Larkin Weightman, to 11-20-06, Vice-Chair</i> | <i>1</i> |
| <i>Allen Altman, from 11-21-06</i> | <i>1</i> |
| <i>Margaret A. Whaley, Chair from 11-21-06</i> | <i>2</i> |
| <i>Catherine E. Martin, Chair to 11-20-06</i> | <i>3</i> |
| <i>Kathryn Starkey, Vice-Chair from 11-21-06</i> | <i>4</i> |
| <i>Kathleen Wolf, to 11-20-06</i> | <i>5</i> |
| <i>Frank Parker, from 11-21-06</i> | <i>5</i> |

Heather Fiorentino, Superintendent

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

PASCO COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Pasco County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2007, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note internal control and compliance findings that are summarized below.

Finding No. 1: Inventories – Separation of Duties

Improvements were needed in controls over maintenance, warehouse, and telecommunications department inventories by adequately separating asset custody and record keeping responsibilities, and limiting access to inventory storage areas.

Finding No. 2: Construction Projects

The District could enhance procedures over construction projects to ensure payments to construction management entities are properly monitored and contracts contain penalty clauses.

Finding No. 3: Board Meetings and Minutes

District procedures did not ensure that minutes for 16 workshop meetings were recorded and subsequently reviewed and approved by the Board. Also, although minutes were recorded for four appeal hearings and an informal meeting, these minutes were not approved by the Board.

Finding No. 4: Unclaimed Property

Improvements were needed to provide for the reporting and remittance of unclaimed property to the Florida Department of Financial Services, as required by law.

Finding No. 5: Strategic Planning

The District's planning and budgeting procedures could be improved by establishing a strategic plan to include a prioritization of specific long-term and short-term (annual) financial and budgetary goals.

Finding No. 6: Fingerprinting

The District did not have adequate procedures for timely obtaining fingerprints and background screenings for instructional and noninstructional staff that have direct contact with students.

Finding No. 7: Capital Outlay - Architect Insurance

District procedures did not ensure that its architectural firms were adequately and properly insured.

Finding No. 8: Educational Facilities - Safety Procedures

District records did not evidence that floor plans had been provided to area law enforcement agencies and fire departments, contrary to Section 1013.13, Florida Statutes.

Finding No. 9: Tangible Personal Property

Improvements in controls over tangible personal property could be made to ensure that the appropriate law enforcement agency is timely notified for items missing during the physical inventory procedures, property records are promptly adjusted to reflect missing property, and that property items are properly marked as property of the District.

Finding No. 10: Charter School Monitoring

Enhancements were needed in the District's procedures to ensure that the charter schools are in compliance with the contract provisions regarding insurance coverage.

Finding No. 11: Information Technology – Back-up Tape Procedures

Written policies and procedures have not been established outlining daily procedures for security over back-up tapes, such as steps to follow in the absence of the individual responsible for the tapes and off-site storage procedures.

Finding No. 12: Information Technology – Disaster Recovery

The District did not have procedures in its disaster recovery plan to address minimizing the disruption of operations in the event of a disaster and make the plan available to key employees. Additionally, the District did not conduct a disaster recovery test to ensure its ability to produce the output needed to sustain selected operations during a prolonged data center outage.

Finding No. 13: Information Technology – Program Change Controls

Procedural improvements could be made to ensure that program change activities are properly authorized and implemented.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. Food Donation, the Child Nutrition Cluster, and the Special Education Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a compliance finding that is summarized below.

Federal Finding No. 1: Cash Management

Contrary to Federal regulations, the District did not remit interest earnings, totaling \$43,468.32, to the Florida Department of Education.

Audit Objectives and Scope

Our audit objectives were to determine whether the Pasco 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 management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, 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 law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed 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, 2007. We obtained an understanding of internal control and assessed control risk 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, administrative 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*.

This audit was coordinated by Elba M. Guzik, CPA, and supervised by Janice Priolo, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, via e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

FINDINGS AND RECOMMENDATIONS

Significant Deficiencies

Finding No. 1: Inventories – Separation of Duties

The District could enhance its internal control over maintenance, warehouse, and telecommunications inventories by adequately separating asset custody and record keeping responsibilities, and limiting access to inventory storage areas. The maintenance, warehouse, and telecommunications inventories totaled \$1,442,837, \$2,056,609, and \$1,139,949, respectively, at June 30, 2007.

Two employees in the maintenance department, two employees in the District's main warehouse, and two employees in the telecommunications department had unrestricted access to the physical inventory and maintained the perpetual inventory records. Under these conditions, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should provide for an adequate separation of duties associated with the maintenance, warehouse, and telecommunications departments' inventories to the extent practicable with existing personnel.

Follow-up to Management Response:

In response to Finding No. 1, the District indicates that compensating controls over warehouse inventories that minimize the risk for errors or fraud are already in place and the District feels that the cost to implement additional controls would exceed the benefits derived. In discussions with District staff, the District indicated that physical inventory counts are conducted twice a year, and that adjustments to the perpetual records are made, as necessary. However, we believe the controls afforded by these procedures do not compensate for the weakness noted in the finding, and it is in the District's best interest to design and implement effective controls over its warehouse inventories.

Finding No. 2: Construction Projects

The District's New Construction and Code Compliance Department is responsible for the administration of the construction program. Our review of controls over construction projects and related expenditures disclosed the following deficiencies:

- Construction Manager Contracts - Subcontractor Monitoring. Section 1013.45(1)(c), Florida Statutes, authorizes districts to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. CME firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between actual cost of the project and the GMP amount, or the net costs savings, to be returned to the District. Our review of Trinity Oaks Elementary School (GMP \$14.7 million) and Sun Lake High School (GMP \$34.6 million) projects disclosed the following:
 - The District made payments to the CME for the Trinity Oaks Elementary School project based on payment applications; however, the payments were not supported by subcontractor detailed invoices to provide for proper monitoring of subcontractor billings, project contingency funds, and potential

cost savings under the GMP. Subcontractor charges generally represent a large portion of work billed. For example, of the total \$522,073 requested on Payment Application No. 18 for Trinity Oaks Elementary School, approximately \$443,589 represented subcontractor charges, and detailed invoices were not submitted to the District for these charges. Absent adequate preaudit of supporting invoices by appropriate staff, the District cannot ensure that payments are proper.

- The District did not monitor and approve the CME’s selection and award of the various subcontracts. The agreement provides that the CME was responsible for subcontractor bidding of sitework, masonry, structural steel, electrical and other subcontractor work, and for providing copies of subcontracts to the District. Our review disclosed that the CME generally provided subcontractor bid information to the project architect; however, District records did not evidence the District’s participation in the process. Without District involvement in the subcontractor bid award process, and appropriate documentation thereof, the District has limited assurance that the CME complied with the terms of the contract in the handling and awarding of subcontractor bids.
 - We noted that the subcontractor selected for painting, casework, hollow core, and walkway covers on the Trinity Oaks Elementary School project was not the lowest bidder for the work. In addition, we noted that the bid tabulation for doors, frames, and hardware did not include the subcontractor that was ultimately selected and, although requested, documentation was not provided to evidence the basis upon which the subcontractor was selected. Failure to establish controls to ensure that the CME used the lowest and best bidder, or documentation explaining otherwise, may result in higher project costs and an unrealized opportunity for cost savings to the District.
- Contract Penalty Clauses. Section 1013.47, Florida Statutes, provides that construction contracts, in part, contain time limits in which construction is to be completed and penalties to be paid by the contractor for any failure to comply with the terms of the contract. As part of our audit procedures, we noted that the two CME contracts did not contain penalty clauses. Financial penalties provide the District with a means to hold the contractor responsible, thereby increasing a contractor’s incentive to complete a project by a certain date.

Recommendation: The District should establish adequate monitoring procedures over payments to construction management entities to ensure the payments are properly supported by detailed subcontractor invoices, and documentation is maintained to evidence that the process of selecting subcontractors is fair and equitable. Also, the District should enhance procedures over construction projects to ensure that construction contracts contain appropriate penalty clauses.

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|---------------------------|
| Additional Matters |
|---------------------------|

Finding No. 3: Board Meetings and Minutes

The District’s procedures did not ensure that minutes were prepared for all Board meetings and subsequently reviewed and approved by the Board. Section 1001.42(1), Florida Statutes, provides that the minutes of each Board meeting shall be reviewed, corrected if necessary, and approved at the next regular meeting, or at an intervening special meeting if the Board desires. Section 286.011(2), Florida Statutes, requires that all minutes of a Board be promptly recorded and open to public inspection.

The GOVERNMENT-IN-THE-SUNSHINE MANUAL prepared by the Office of the Attorney General indicates, in Part I, Section C.1., that the Sunshine Law extends to any gathering, whether formal or casual, of two or more members of the same board or commission to discuss some matter on which foreseeable action may be taken by the public board or commission. In addition, the GOVERNMENT-IN-THE-SUNSHINE MANUAL, Section D, indicates that the Sunshine Law specifically applies to informal discussions and workshops and refers

to the Florida Supreme Court's statement that "collective inquiry and discussion stages" are embraced within the terms of the statute.

During the 2006-07 fiscal year, the Board conducted 48 meetings, including 23 regular meetings, 16 workshops, 4 appeal hearings, an informal meeting, and other meetings. While our audit disclosed that minutes were, for the most part, timely recorded and approved by the Board, minutes were not recorded and Board-approved for the 16 workshop meetings. In addition, although minutes for the four appeal hearings and informal meeting were documented, the minutes were not approved by the Board. When Board meetings are not properly recorded and approved, the actions taken at the meetings are not clearly documented and available for public inspection.

Recommendation: The Board and Superintendent should enhance procedures to ensure that minutes of all meetings subject to the provisions of the Sunshine Law are prepared, reviewed by the Board, corrected if necessary, and timely approved.

Finding No. 4: Unclaimed Property

Section 717.113, Florida Statutes, states that all intangible property that has remained unclaimed by the owner for more than one year after it became payable or distributable is presumed unclaimed. Further, Sections 717.113, 717.117, and 717.119, Florida Statutes, require that any governmental agency holding funds or other property presumed unclaimed shall report and deliver such property to the Florida Department of Financial Services (Department) by May 1 of each year for the preceding calendar year.

The District filed the required unclaimed property report with the Department on April 30, 2007, for the calendar year ended December 31, 2006, which indicated that the District had no property presumed to be unclaimed as of that date. However, our review disclosed that, as of June 30, 2007, outstanding payroll and accounts payable checks, totaling \$14,209.92, were currently being shown on the District records even though they were outstanding in excess of one year as of December 31, 2006. As a result, the District did not properly report and remit these unclaimed funds to the Department. Section 717.117(3), Florida Statutes, provides that the Department may impose and collect a penalty of \$10 per day up to a maximum of \$500 for failure to properly report unclaimed property.

Recommendation: The District should report and remit unclaimed property to the Florida Department of Financial Services, as required by the provisions of Chapter 717, Florida Statutes.

Finding No. 5: Strategic Planning

The District's planning and budgeting procedures could be improved by the enhancement of its strategic planning process. The District is in the process of formalizing its five-year strategic plan, and the final plan is scheduled to be submitted for Board approval in January 2008; however, the plan could be further enhanced by including long-term and short-term (annual) goals, priorities for the goals, and the financial impact of implementing the planned goals and action plans. In addition, a goal for a responsive budgeting process, linking strategic and operational priorities with resources, should be included with an appropriate quantifiable level of unreserved fund

balance to be maintained in the General Fund. A comprehensive strategic plan with the prioritization of the Board's strategic objectives would provide guidance in budget development and would assist the Board and administrators when making spending decisions.

Recommendation: The District should continue its efforts in creating a comprehensive strategic plan.

Finding No. 6: Fingerprinting

The District should improve its procedures for timely obtaining fingerprints and background screenings for instructional and noninstructional staff that have direct contact with students. Sections 1012.56(9) and 1012.465, Florida Statutes, require that instructional personnel renewing their teaching certificates and noninstructional personnel undergo a level 2 background screening, which includes fingerprinting, every five years following initial screening upon employment. In a memorandum dated June 25, 2004, the Florida Department of Education (FDOE) recommended that districts conduct background screenings for certified instructional employees every five years, at the time of renewal of their teaching certificates, and that background screenings be obtained for approximately 20 percent of the noninstructional employees each year, beginning with the 2004-05 fiscal year, in order to complete background screenings for all employees over the five-year period ending July 1, 2009.

Although FDOE recommended that districts initiate the fingerprinting and background screening process for all instructional and noninstructional staff during the 2004-05 fiscal year, District records evidenced that the District's process did not begin until September 2006. Further, for the 2006-07 fiscal year, the District only completed the required fingerprinting and background screenings on 35 percent of the District's staff, instead of the recommended screenings of 60 percent of the staff by the 2006-07 fiscal year pursuant to the guidance provided by FDOE. Absent the required fingerprinting and background screenings, there is an increased risk that staff with unsuitable backgrounds may be allowed access to students.

The District indicated that the fingerprint machine used prior to September 2006 was not portable and was difficult to collect fingerprints. During the 2006-07 fiscal year, the District purchased its own portable fingerprint machine with the intention of purchasing two more during the 2007-08 fiscal year.

Recommendation: The District should enhance its procedures to ensure that required fingerprinting and background screenings are performed for staff on a timely basis.

Finding No. 7: Capital Outlay - Architect Insurance

The District did not ensure that its architectural firms were adequately and properly insured. The District obtained architectural services for the Trinity Oaks Elementary and Sun Lake High Schools with construction contracts totaling \$14.7 million and \$34.6 million, respectively. The architectural firm provided a certificate of liability insurance evidencing that it carried various coverages, including \$3 million and \$1 million in professional liability insurance for Trinity Oaks Elementary and Sun Lake High Schools, respectively. However, District

records did not evidence the basis upon which the District determined the reasonableness of the architect's insurance for the two projects. Additionally, our review disclosed that the Board does not have a policy requiring its architects carry insurance, and the District's request for architect services did not contain requirements for types and amounts of insurance that should be carried. The District can limit its exposure to the various risks of possible loss relating to architectural services by establishing procedures to ensure that its contracted firms are adequately and properly insured for coverages such as professional liability, errors and omissions, and general, automobile, and workers' compensation liability.

Recommendation: The District should enhance its procedures to ensure that its architectural firms are adequately and properly insured by determining the types and limits of coverage that should be maintained by the architectural firm and including those insurance requirements in all invitations to obtain professional services, new agreements, and renewed agreements for architectural services.

Finding No. 8: Educational Facilities - Safety Procedures

In August 2005, the District completed construction of the Longleaf Elementary and Seven Oaks Elementary Schools and, in August 2006, the District completed construction of the Gulf Highlands Elementary, Oakstead Elementary, John Long Middle and Paul R. Smith Middle Schools; however, as of November 2007, District records did not evidence that floor plans for the schools had been provided to area law enforcement agencies and fire departments, contrary to Section 1013.13, Florida Statutes. This information may be useful to local authorities in the event that emergency hazardous conditions develop at District sites. Section 1013.13, Florida Statutes, requires the Superintendent to provide a copy of the educational floor plans and other relevant documents to law enforcement agencies and fire departments that have jurisdiction over District facilities. This statute further requires that, after the initial submission of these copies, the Superintendent must submit to these agencies by October 1 of each year, revised documents of District facilities that were modified during the preceding year.

Recommendation: The District should enhance school safety procedures to ensure that floor plans and other relevant documents are filed timely with appropriate law enforcement agencies and fire departments, as required.

Finding No. 9: Tangible Personal Property

Improvements were needed in internal controls over tangible personal property. The District reported \$45,402,184 in tangible personal property (furniture, fixtures, and equipment; motor vehicles; and audio visual materials), net of accumulated depreciation, at June 30, 2007. To ensure proper accountability and safeguarding of tangible personal property, the District should annually make a complete physical inventory of property, compare the results of the inventory with the property records, reconcile all discrepancies, and make appropriate

adjustments to the property records. Property items not located during the inventory process should be promptly reported to the custodian and a thorough investigation made. Items not located after the investigation should be reported to the appropriate law enforcement agency.

Our review disclosed that the District could make the following enhancements in controls over tangible personal property:

- As a result of the annual physical inventory completed in November 2006, District personnel noted 507 property items, totaling \$871,688, that could not be located, primarily including computer processors, monitors, printers, and various other electronic equipment with acquisition dates ranging from January 1971 to November 2005. However, District personnel indicated that none of the 507 missing property items were reported to a law enforcement authority. When missing property items are not reported to the appropriate law enforcement agency, the District's ability to recover missing property may be limited.
- The District indicated that 216 of the 507 missing property items, totaling \$383,118, were approved by the Board for write-off during the 2006-07 fiscal year, and that the resolution of the remaining 291 items was pending the completion of the next annual physical inventory, prior to submission and review of the Board. However, as of November 2007, District records could not be provided to evidence that District personnel had properly adjusted the property records for the 291 missing items. Failure to timely update the property records for missing property may result in tangible personal property being inaccurately reported on the financial statements.
- We selected 20 items from the District's property records for physical inspection, and concurrently selected 29 items observed at these locations for comparison to the District's property records. Our tests for physical inspection disclosed three property items, costing approximately \$30,638, that could not be located, including a keyboard music lab (although listed as an individual property item, it included several keyboard computers and other items), a portable computer, and a refrigerator. In addition, our tests disclosed ten property items which did not have property numbers attached to the property and eight of those property items could not be traced to the subsidiary records. We also noted three items, with costs totaling \$34,046, which did not have the name of the District on the property. Properly marking property of the District enhances the District's ability to readily account for its property and may reduce the difficulty in identifying District property recovered from theft.

Pursuant to Chapter 2006-122, Laws of Florida, rulemaking authority for local government-owned tangible personal property was transferred from the Auditor General to the State Chief Financial Officer, effective July 1, 2006.

Recommendation: District procedures could be improved to enhance accountability over tangible personal property by ensuring property items unlocated during the physical inventory procedures are timely reported to the appropriate law enforcement agency, property records are properly adjusted to reflect missing property, and items are appropriately marked as property of the District.

Finding No. 10: Charter School Monitoring

During the 2006-07 fiscal year, the District sponsored six charter schools and, pursuant to Section 1002.33(5), Florida Statutes, was required to monitor and review the charter schools in their progress towards the goals established in the charter contracts. The charter contracts require the charter schools to obtain commercial insurance and list the District as the additional insured on the policies, and provide for specific minimum insurance requirements for the various types of risk coverage. Our review disclosed the following deficiencies over the District procedures in monitoring insurance coverage of the charter schools:

- The contracts require that the Charter Schools obtain insurance from an insurer that is authorized by the Florida Department of Insurance (now the Office of Insurance Regulation, Department of Financial Services) or an eligible surplus lines insurer under Florida Statutes. In addition, the insurer must have a Best’s Rating of “A-” or better and a Financial Size Category of “VII” or better, according to the latest edition of Best’s Key Rating Guide, published by A.M. Best Company. The District did not obtain documentation to support that the charter schools had obtained insurance coverage from insurers that met these requirements. Subsequent to audit inquiry, the District verified that all insurers had a Best’s Rating of “A-” or better with only one insurer not meeting the requirement of a Financial Size Category of “VII” or better.
- The contracts require the charter schools to maintain automobile liability of \$1,000,000 per occurrence and \$2,000,000 annual aggregate coverage; however, we noted that one school, Academy at the Farms, did not carry automobile insurance.

Without adequate procedures to monitor the charter schools’ insurance coverage, there is an increased risk that such coverage may not exist, or may not be sufficient, subjecting the District to potential losses.

Recommendation: The District should enhance its monitoring procedures to ensure that the charter schools are in compliance with the contract provisions regarding insurance coverage.

Finding No. 11: Information Technology – Back-up Tape Procedures

Sound back-up and retention procedures for information technology-related media include provisions for the secure storage, both on-site and off-site, of back-up data files, software, and related documentation. It is important that accurate records be maintained of the location of back-ups and that storage sites are periodically inspected for adequate physical security measures.

During our review we noted that there were no written policies and procedures outlining daily procedures, including back-up schedules; steps to follow in the absence of the individual responsible for the tapes; off-site storage, including retrieval of tapes from the off-site storage during business hours as well as after business hours; and procedures for recycling, rotating, and destroying tapes. Without formal policies and procedures to establish controls and measures necessary for the quality and consistency with which an entity’s objectives are achieved, management may not have a basis for determining whether directives are properly performed and personnel will not have guidelines for achieving management’s expectations.

Audit inquiry disclosed that daily and weekly back-up data tapes are maintained in vaults on the District premises. After a month, back-up tapes are prepared and kept in a safety deposit box at a bank located within seven miles from the District. However, waiting a month to transfer back-up tape data to an off-site storage site increases the risk that data may be lost within the month, requiring it to be reentered into the applications.

Recommendation: The District should develop and distribute detailed data back-up tape procedures in order to promote sound internal control. In addition, to ensure data security, the District should consider transferring back-up tape data to an off-site storage site on a weekly basis.

Finding No. 12: Information Technology – Disaster Recovery

The District could improve its information technology disaster recovery procedures. The District's disaster recovery plan, dated November 2004, includes an agreement with another school district whereby each district agreed to serve as an alternate-processing site for the other in the event of a disaster that interrupts critical information technology operations. However, our review disclosed that the District's disaster recovery plan did not contain the following necessary elements:

- The disaster recovery plan did not include consideration of such matters as the procedures for minimizing and containing damage and restoring telecommunications capability. Without consideration of these elements, there is an increased risk of data loss in the event of a system failure.
- The disaster recovery plan also did not address procedures for minimizing the disruption to operations. Such a plan should indicate the conditions under which the back-up site will be used; identify the employees needed at the site and their job responsibilities; identify the supplies needed; outline procedures for notification of the back-up site and employees; establish a job priority schedule; include steps to be followed at the back-up site; and the plan should be provided to key employees. When staff responsibilities in a disaster are not articulated, there is an increased risk that recovery during an emergency may be delayed.
- The alternative-processing site agreement had not been tested. Without adequate testing at the alternative facility, there is an increased risk that the selected applications will not produce the expected results.

Recommendation: The District should enhance its disaster recovery plan to address procedures for minimizing the disruption of operations in the event of a disaster and make the enhanced plan available to key employees. Additionally, the District should conduct a disaster recovery test to ensure its ability to produce the output needed to sustain selected operations during a prolonged data center outage.

Finding No. 13: Information Technology – Program Change Controls

Controls over systems development and modification activities are intended to ensure that new systems and system changes are suitably approved, designed, tested, and implemented. Sound program change controls typically include, among other things, adequate user involvement in requesting, testing, and approving program changes; information systems and user personnel approval for program changes; and, sufficient documentation of program changes. Our review of the District's procedures disclosed the following:

- Incompatible duties were noted in that the same programmer or system analyst who made the program modifications also moved the changes to the production environment. We also noted that not all requests for changes were approved by a supervisor.
- The District did not maintain documentation of user approval for modifications made.

The absence of adequate controls over program modifications increases the risk that erroneous or unauthorized program changes will be placed into the production environment and not be timely detected.

Recommendation: The District should strengthen procedures in the above-mentioned areas to provide increased assurance that all program change activities are properly authorized and implemented.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in previous audit reports.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Pasco County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report in the Management Response Section, beginning on page 86.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***MANAGEMENT'S DISCUSSION AND ANALYSIS******BASIC FINANCIAL STATEMENTS***

- EXHIBIT – A*** *Statement of Net Assets.*
- EXHIBIT – B*** *Statement of Activities.*
- EXHIBIT – C*** *Balance Sheet – Governmental Funds.*
- EXHIBIT – D*** *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.*
- EXHIBIT – E*** *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.*
- EXHIBIT – F*** *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.*
- EXHIBIT – G*** *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund.*
- EXHIBIT – H*** *Statement of Net Assets – Proprietary Funds.*
- EXHIBIT – I*** *Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.*
- EXHIBIT – J*** *Statement of Cash Flows – Proprietary Funds.*
- EXHIBIT – K*** *Statement of Fiduciary Net Assets – Fiduciary Funds.*
- EXHIBIT – L*** *Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.*
- EXHIBIT – M*** *Notes to Financial Statements.*



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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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pasco County District School Board as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed on page 10. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal accounts for the elementary schools, reported as Agency Funds, which represent 1 percent of the assets and 7 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion insofar as it relates to the amounts included for the elementary schools' school internal accounts and the aggregate discretely presented component units, is based on the reports of the other auditors.

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

statement presentation. We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our opinions.

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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Pasco County District School Board as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis (pages 14 through 25) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management

and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
January 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Pasco County (the District) has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

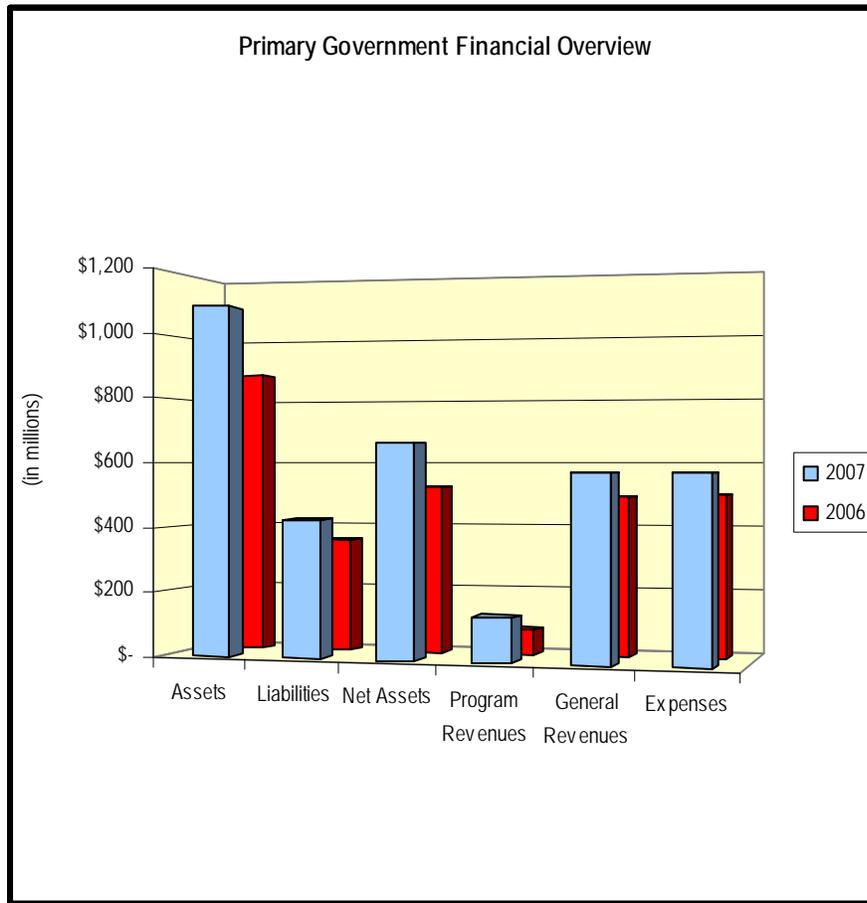
Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's basic financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006-07 fiscal year are as follows:

- The District's financial position improved during the fiscal year ended June 30, 2007. In total, net assets increased by \$128,586,558, which represents a 24.47 percent increase from the 2005-06 fiscal year.
- General revenues total \$563,497,829, or 80.35 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$137,853,116 or 19.65 percent. Total revenues increased from \$581,367,244 in the 2005-06 fiscal year, to \$701,350,945 in the 2006-07 fiscal year. The change is attributed to higher property tax valuations and increases in State operating revenues and capital revenues of \$50,018,343 from the Class Size Reduction Construction funds.
- Expenses total \$572,764,387; only \$137,853,116 of these expenses are offset by program specific charges, with the remainder paid from general revenues. Total revenues exceed total expenses by \$128,586,558. Total expenses increased \$71,207,714, or 14.20 percent, from \$501,556,673 in the 2005-06 fiscal year. This change is attributed to the increase in instructional salaries and benefits of \$32,733,092, due to an increase in number of teaching positions, cost of living and salary increases, and the direct costs associated with opening three elementary schools, one middle school, and one high school.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$33,724,599 at June 30, 2007, or 7.38 percent of total General Fund expenditures.
- The District's total debt increased by \$80,987,001, or approximately 31.18 percent. The key factor in this increase is the issuance of \$88,590,000 in Sales Tax Revenue Bonds.

The primary government financial overview for the 2005-06 and 2006-07 fiscal years is below:

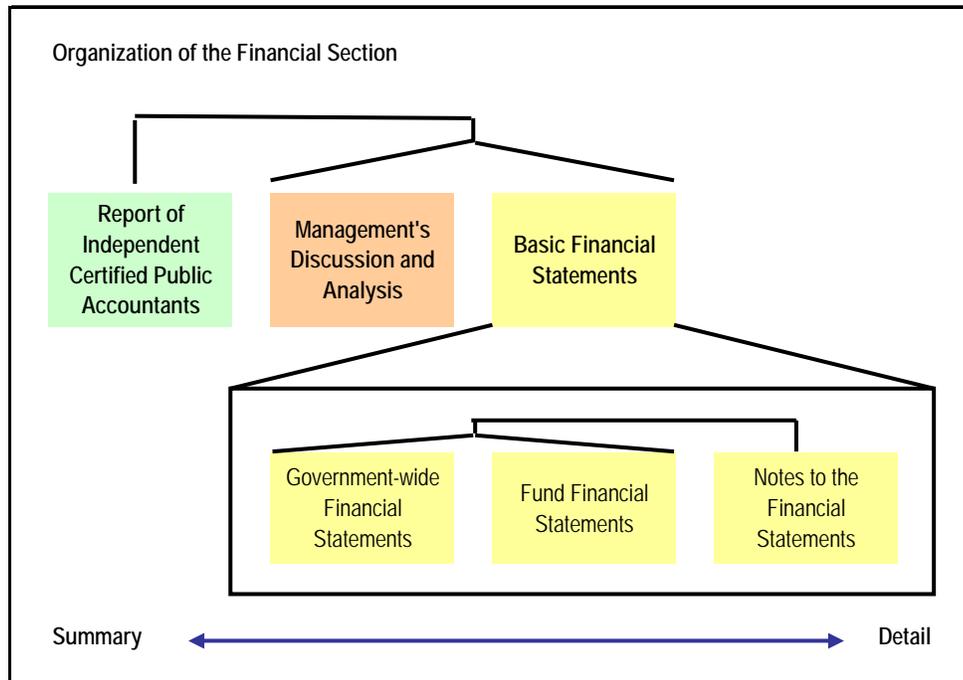


OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section consists of three parts: report of independent certified public accountants, management’s discussion and analysis (this section), and the basic financial statements. Management’s discussion and analysis (the MD&A) is intended to serve as an introduction to the District’s basic financial statements and presents other supplementary information in addition to the basic financial statements themselves. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District’s overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District and provide greater detail of the District’s operations than the government-wide statements. The basic financial statements also include notes, which explain some of the information in the statements and provide more detailed data.

The illustration below shows how the various parts of the financial section are arranged and relate to one another.



The basic financial statements consist of three components:

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

- Governmental Activities – This represents most of the District’s services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as operation and maintenance of plant, pupil transportation, and administration, are also included. Local property taxes and the State’s education finance program provide most of the resources that support these activities.

- Business-type Activity – The District charges fees to cover the cost of certain services it provides. The Pasco Learning and Activity Centers of Enrichment (the PLACE), a before and after school child care program, is reported as a business-type activity.
- Component Units – The District presents the following charter schools: Academy at the Farm, Inc.; Countryside Montessori Charter School, Inc.; Dayspring Academy for Education and the Arts; The Language Academy Charter School, Inc.; Athenian Academy of Pasco County, Inc.; and the Pasco Education Foundation, Inc. (the Foundation) as separate legal entities in this report. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by accounting principles generally accepted in the United States (GAAP).
- The Pasco County School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

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

Proprietary Funds. Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its before and after school child care program.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses internal service funds to account for its fully insured employees group health; individual self-insurance programs for property, casualty, liability, workers' compensation, and pharmacy programs; the employee assistance program; graphics services; the energy management program; and exclusive agreements administered by the School Board. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. Conversely, the internal service funds are combined into a single, aggregated column in the proprietary fund financial statements.

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

The District uses private-purpose trust funds to account for scholarship funds established by private donors.

The District uses a pension trust fund to account for resources used to finance its early retirement program.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the government's financial position. The following is a summary of the District's net assets as of June 30, 2007, compared to net assets as of June 30, 2006:

| Net Assets, End of Year | | | | | | | |
|------------------------------|-----------------------|-----------------------|---------------------|---------------------|-----------------------|-----------------------|-------------------|
| | Governmental | | Business-Type | | Total | | Percentage Change |
| | Activities | | Activities | | | | |
| | 6-30-07 | 6-30-06 | 6-30-07 | 6-30-06 | 6-30-07 | 6-30-06 | |
| Current and Other Assets | \$ 337,188,576 | \$ 303,630,444 | \$ 3,344,060 | \$ 3,824,233 | \$ 340,532,636 | \$ 307,454,677 | |
| Capital Assets | 751,275,234 | 573,132,573 | 282,704 | 301,788 | 751,557,938 | 573,434,361 | |
| Total Assets | 1,088,463,810 | 876,763,017 | 3,626,764 | 4,126,021 | 1,092,090,574 | 880,889,038 | 23.98% |
| Long-Term Liabilities | 383,153,816 | 300,702,218 | 547,422 | 513,695 | 383,701,238 | 301,215,913 | |
| Other Liabilities | 54,220,828 | 54,156,346 | 118,658 | 53,487 | 54,339,486 | 54,209,833 | |
| Total Liabilities | 437,374,644 | 354,858,564 | 666,080 | 567,182 | 438,040,724 | 355,425,746 | 23.24% |
| Net Assets: | | | | | | | |
| Invested in Capital Assets - | | | | | | | |
| Net of Debt | 464,698,097 | 378,990,397 | 282,704 | 301,788 | 464,980,801 | 379,292,185 | |
| Restricted | 150,139,097 | 111,094,082 | | | 150,139,097 | 111,094,082 | |
| Unrestricted | 36,251,972 | 31,819,974 | 2,677,980 | 3,257,051 | 38,929,952 | 35,077,025 | |
| Total Net Assets | \$ 651,089,166 | \$ 521,904,453 | \$ 2,960,684 | \$ 3,558,839 | \$ 654,049,850 | \$ 525,463,292 | 24.47% |

The largest portion of the District’s net assets (71.09 percent) reflects its investment in capital assets (e.g. land, buildings, furniture and equipment, motor vehicles) less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets (22.96 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (5.95 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal year ended June 30, 2007, and June 30, 2006, are as follows:

| Operating Results for the Year | | | | | | |
|--|-----------------------|----------------------|---------------------|-------------------|-----------------------|----------------------|
| | Governmental | | Business-Type | | Total | |
| | Activities | | Activities | | | |
| | 6-30-07 | 6-30-06 | 6-30-07 | 6-30-06 | 6-30-07 | 6-30-06 |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 13,611,376 | \$ 12,110,266 | \$ 8,012,395 | \$ 7,057,611 | \$ 21,623,771 | \$ 19,167,877 |
| Operating Grants and Contributions | 30,662,856 | 28,133,635 | | | 30,662,856 | 28,133,635 |
| Capital Grants and Contributions | 85,566,489 | 38,201,714 | | | 85,566,489 | 38,201,714 |
| General Revenues: | | | | | | |
| Property Taxes, Levied for Operational Purposes | 143,633,620 | 116,114,859 | | | 143,633,620 | 116,114,859 |
| Property Taxes, Levied for Debt Service | 5,799,859 | 5,506,507 | | | 5,799,859 | 5,506,507 |
| Property Taxes, Levied for Capital Projects | 37,977,156 | 28,960,352 | | | 37,977,156 | 28,960,352 |
| Local Sales Taxes | 26,642,211 | 17,137,576 | | | 26,642,211 | 17,137,576 |
| Grants and Contributions Not Restricted to Specific Programs | 318,247,859 | 293,780,194 | | | 318,247,859 | 293,780,194 |
| Unrestricted Investment Earnings | 11,720,442 | 12,144,845 | 197,546 | 169,708 | 11,917,988 | 12,314,553 |
| Miscellaneous | 19,279,136 | 22,049,977 | | | 19,279,136 | 22,049,977 |
| Total Revenues | 693,141,004 | 574,139,925 | 8,209,941 | 7,227,319 | 701,350,945 | 581,367,244 |
| Functions/Program Expenses: | | | | | | |
| Instruction | 320,279,886 | 285,454,884 | | | 320,279,886 | 285,454,884 |
| Pupil Personnel Services | 26,571,094 | 23,764,750 | | | 26,571,094 | 23,764,750 |
| Instructional Media Services | 9,481,851 | 9,456,379 | | | 9,481,851 | 9,456,379 |
| Instruction and Curriculum Development Services | 8,999,208 | 9,088,378 | | | 8,999,208 | 9,088,378 |
| Instructional Staff Training Services | 9,590,108 | 8,052,983 | | | 9,590,108 | 8,052,983 |
| Instruction Related Technology | 5,817,654 | 4,210,967 | | | 5,817,654 | 4,210,967 |
| Board of Education | 2,198,040 | 1,643,566 | | | 2,198,040 | 1,643,566 |
| General Administration | 2,667,580 | 2,169,506 | | | 2,667,580 | 2,169,506 |
| School Administration | 31,744,739 | 27,011,932 | | | 31,744,739 | 27,011,932 |
| Facilities Acquisition and Construction | 13,332,062 | 9,250,352 | | | 13,332,062 | 9,250,352 |
| Fiscal Services | 2,190,039 | 2,185,931 | | | 2,190,039 | 2,185,931 |
| Food Services | 28,045,838 | 25,144,171 | | | 28,045,838 | 25,144,171 |
| Central Services | 8,317,630 | 3,548,220 | | | 8,317,630 | 3,548,220 |
| Pupil Transportation Services | 27,696,272 | 22,880,871 | | | 27,696,272 | 22,880,871 |
| Operation of Plant | 40,372,538 | 35,355,100 | | | 40,372,538 | 35,355,100 |
| Maintenance of Plant | 11,512,727 | 11,565,861 | | | 11,512,727 | 11,565,861 |
| Administrative Technology Services | 2,245,453 | 1,704,019 | | | 2,245,453 | 1,704,019 |
| Community Services | 826,818 | 690,445 | 8,808,096 | 6,931,797 | 9,634,914 | 7,622,242 |
| Interest on Long-Term Debt | 12,066,754 | 11,446,561 | | | 12,066,754 | 11,446,561 |
| Total Functions/Program Expenses | 563,956,291 | 494,624,876 | 8,808,096 | 6,931,797 | 572,764,387 | 501,556,673 |
| Increase (Decrease) in Net Assets | \$ 129,184,713 | \$ 79,515,049 | \$ (598,155) | \$ 295,522 | \$ 128,586,558 | \$ 79,810,571 |

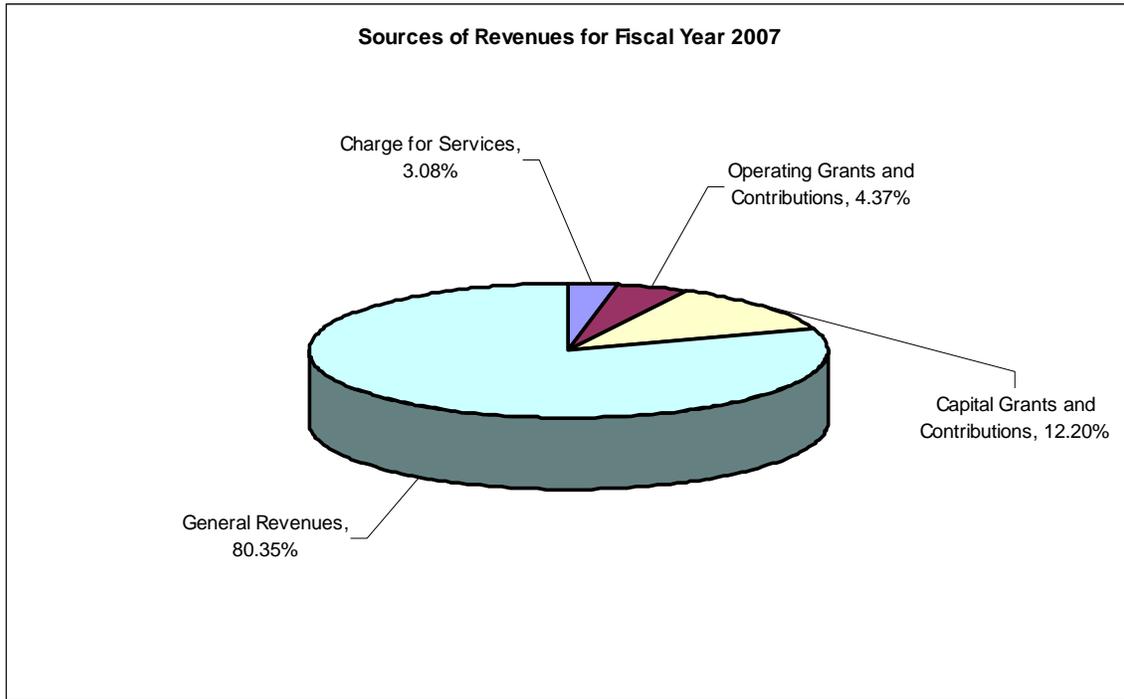
Total revenues increased by \$119,983,701, or 20.63 percent, primarily due to an increase in unweighted full-time student enrollment of 1,870.76 and due to Class Size Reduction Construction Program funds received for the construction of a new school. State revenues increased by \$86,406,432, or 30.62 percent.

Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities.

Instructional expenses increased by \$34,825,002, or 12.20 percent, from the previous year due mainly to an average of eight percent across-the-board pay raise, an increase in the District’s required contributions to the

Florida Retirement System, employment of additional instructional staff related to the opening of five new schools and student enrollment increases.



The total cost of all programs and services increased by \$71,207,714, or 14.20 percent. Teaching alone comprises approximately 55.92 percent of all expenditures. Teaching combined with other school-level programs such as transportation, media, counseling, psychological services, school administration, community services, capital outlay and operations and maintenance comprise 90.03 percent of total expenses. Curriculum development and staff training comprise 3.25 percent of total expenses. District services such as human resources, finance, purchasing, warehouse, data processing and mail couriers comprise 5.18 percent of total expenses and the activities of the PLACE program compromise 1.54 percent of total expenses.

Governmental Activities - By Function

| | Totals 6-30-07 | Percentage of Total Expenditures |
|---|-----------------------|--|
| School Level Services: | | |
| Instructional | \$ 320,279,886 | 55.92% |
| Pupil Personnel Services | 26,571,094 | 4.63% |
| Instructional Media Services | 9,481,851 | 1.65% |
| Instruction Related Technology | 5,817,654 | 1.02% |
| Pupil Transportation | 27,696,272 | 4.84% |
| Sub-Total - Direct Services to Students | <u>389,846,757</u> | 68.06% |
| | | |
| Operations and Maintenance of Plant | 51,885,265 | 9.06% |
| School Administration | 31,744,739 | 5.54% |
| Food Services | 28,045,838 | 4.90% |
| Community Services | 826,818 | 0.14% |
| Facilities Acquisitions and Construction | 13,332,062 | 2.33% |
| Sub-Total - Indirect Services to Students | <u>125,834,722</u> | 21.97% |
| | | |
| Total School Level Services | <u>515,681,479</u> | 90.03% |
| | | |
| Curriculum and Staff Development: | | |
| Instructional and Curriculum Development Services | 8,999,208 | 1.57% |
| Instructional Staff Training Services | 9,590,108 | 1.68% |
| Total Curriculum and Staff Development | <u>18,589,316</u> | 3.25% |
| | | |
| District Services: | | |
| Fiscal Services | 2,190,039 | 0.38% |
| Central Services | 8,317,630 | 1.45% |
| Board of Education | 2,198,040 | 0.38% |
| Administrative Technology Services | 2,245,453 | 0.39% |
| Interest on Long-Term Liabilities | 12,066,754 | 2.11% |
| General Administration | 2,667,580 | 0.47% |
| Total District Services | <u>29,685,496</u> | 5.18% |
| | | |
| Business Activity - PLACE Program | <u>8,808,096</u> | 1.54% |
| | | |
| Total Governmental Activities by Function | <u>\$ 572,764,387</u> | 100.00% |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$33,724,599, while the total fund balance is \$59,125,244. The unreserved fund balance increased by \$11,061,629, while the total fund balance increased by \$5,743,619, during the fiscal year. Key factors impacting fund balance are as follows:

- A decrease in the local property tax rate coupled with increased property values increased tax revenues by \$27,518,762.
- Total expenditures increased by \$56,501,171, or 14.12 percent, due mainly to an average eight percent across-the-board pay increase, employment of additional staff, and an increase in required contributions to the Florida Retirement System.

- Factors affecting the total fund balance increase include an increase in the unexpended balance of State categorical program revenues which are required to be carried forward to the following year to be expended for specific categorical educational programs.
- For the most part, increases in nonenergy related expenses closely parallel inflation and growth in the number of students.

The Capital Projects – Other Fund is used to account for resources generated by various sources for educational capital outlay needs. The fund balance for this fund at fiscal year-end is \$135,059,675. During the 2006-07 fiscal year, expenditures increased by \$52,344,217, or 42.30 percent. This is mainly due to the completion of six new schools, renovations of various facilities, and the purchase of site acquisitions for future schools.

An overall analysis of the District’s Capital Projects - Other Fund is presented below:

| Capital Projects - Other Fund | | | | |
|--------------------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|
| | <u>6-30-07</u> | <u>6-30-06</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
| Revenue | \$ 97,860,628 | \$ 62,995,444 | \$ 34,865,184 | 55.35% |
| Other Financing Sources | 91,896,392 | 93,211,494 | (1,315,102) | -1.41% |
| Beginning Fund Balance | <u>122,169,977</u> | <u>117,467,124</u> | <u>4,702,853</u> | <u>4.00%</u> |
| Total | <u>\$ 311,926,997</u> | <u>\$ 273,674,062</u> | <u>\$ 38,252,935</u> | <u>13.98%</u> |
| Expenditures | \$ 176,083,347 | \$ 123,739,130 | \$ 52,344,217 | 42.30% |
| Other Financing Uses | 783,975 | 27,764,955 | (26,980,980) | -97.18% |
| Ending Fund Balance | <u>135,059,675</u> | <u>122,169,977</u> | <u>12,889,698</u> | <u>10.55%</u> |
| Total | <u>\$ 311,926,997</u> | <u>\$ 273,674,062</u> | <u>\$ 38,252,935</u> | <u>13.98%</u> |

Business-type Activities

The business-type activity presented is the PLACE, a before and after school child care program. Total revenues of the program were \$8,012,395 and expenses totaled \$8,808,096. Expenses are supported by charges paid by users. The program had a decrease in net assets of \$598,155 due primarily to the cost of opening four new centers.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year, the District received \$6,378,294 of State formula revenues less than the initially budgeted amounts. This decrease was partially due to the over projection of students (full-time equivalent). The projected unweighted full-time equivalent student increase for the year (upon which the budget was based) was 2,536. The actual student increase for the year was 1,871. This reduction was substantially offset by tax collections that were \$4,434,162 and interest earnings that were \$2,186,355 higher than the initial revenue estimates.

Budget amendments for expenditures amounted to an increase of \$21,540,223, or 4.56 percent, to the original budget.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District’s investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$751,557,938 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Capital Assets (net of depreciation)

| | Governmental Activities | | Business-type Activity | | Total School District | | Percentage Change |
|--|-----------------------------|-----------------------------|---------------------------|-------------------------|-----------------------------|-----------------------------|----------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | |
| Land | \$60,284,274 | \$44,201,812 | \$ | \$ | \$60,284,274 | \$44,201,812 | 36.38% |
| Construction in Progress | 139,548,638 | 142,832,801 | | | 139,548,638 | 142,832,801 | -2.30% |
| Improvements Other Than Buildings | 9,402,914 | 8,547,819 | 6,827 | 7,272 | 9,409,741 | 8,555,091 | 9.99% |
| Buildings and Fixed Equipment | 494,890,659 | 340,100,553 | 31,421 | 33,496 | 494,922,080 | 340,134,049 | 45.51% |
| Furniture, Fixtures, and Equipment | 24,134,398 | 20,428,359 | 216,782 | 226,523 | 24,351,180 | 20,654,882 | 17.90% |
| Motor Vehicles | 20,962,861 | 15,195,121 | | | 20,962,861 | 15,195,121 | 37.96% |
| Audio Visual Materials and Computer Software, Net | 2,051,490 | 1,826,108 | 27,674 | 34,497 | 2,079,164 | 1,860,605 | 11.75% |
| Total | <u>\$751,275,234</u> | <u>\$573,132,573</u> | <u>\$282,704</u> | <u>\$301,788</u> | <u>\$751,557,938</u> | <u>\$573,434,361</u> | <u>31.06%</u> |

Additional information on the District’s capital assets can be found in Note 5 to the financial statements.

Long-term Debt

As of June 30, 2007, the District has total long-term debt outstanding of \$340,740,185. This amount is comprised of \$118,174,558 of bonds payable and \$222,565,627 of certificates of participation. During the year, retirement of debt amounted to \$11,115,000 and the District issued \$88,590,000 in sales tax revenue bonds to provide funds for the construction of Oakstead Elementary School, Double Branch Elementary School, Crews Lake Middle School, and a portion of New High School “EEE.”

The following is a summary of the District’s long-term debt as of June 30, 2007:

| | Outstanding Long-Term Debt | | |
|-------------------------------|------------------------------|------------------------------|---------------|
| | Total School District | | Percentage |
| | <u>2007</u> | <u>2006</u> | <u>Change</u> |
| SBE Bonds | \$ 17,056,632 | \$ 18,578,243 | -8.19% |
| District Revenue Bonds | 3,325,376 | 3,397,782 | -2.13% |
| Sales Tax Revenue Bonds | 92,472,550 | | |
| General Obligation Bonds | 5,320,000 | 10,400,000 | -48.85% |
| Certificates of Participation | <u>222,565,627</u> | <u>227,377,159</u> | -2.12% |
| Total | <u>\$ 340,740,185</u> | <u>\$ 259,753,184</u> | 31.18% |

The District has been given the following ratings on its Sales Tax Revenue Bonds, Series 2007:

| | Sales Tax Revenue Bonds | |
|-------------------|-------------------------|-------------------|
| | <u>Insured</u> | <u>Underlying</u> |
| Fitch Ratings | AAA | A |
| Standard & Poor's | AAA | A |

Additional information on the District’s long-term debt can be found in Notes 6 through 11 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Due to continued shortfalls in anticipated State tax revenues resulting from recent declines in home sales, the District has been notified by the Governor’s Office to expect a State revenue shortfall of four percent, or approximately \$6,632,507. Plans have been developed to contend with the revenues shortfall, including freezing instructional support allocations, reserving each department’s budgets by ten percent, eliminating all nonessential travel and leaving employee vacancies unfilled. The latest enrollment projections for the 2007-08 fiscal year indicate an increase over projections of approximately 1,720 in full-time equivalent students, which will offset the State revenue shortfall to some extent.

REQUESTS FOR INFORMATION

These financial statements are designed to provide the District’s citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. Questions concerning any of the information provided or requests for additional financial information should be addressed to:

Director of Finance Services
 District School Board of Pasco County
 7227 Land O’ Lakes Boulevard
 Land O’ Lakes, Florida 34638

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**EXHIBIT - A
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2007**

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| ASSETS | | | | |
| Cash | \$ 19,654,660 | \$ 15,154 | \$ 19,669,814 | \$ 1,529,135 |
| Cash with Fiscal Agent | 191,889 | | 191,889 | |
| Investments | 226,191,314 | 3,224,189 | 229,415,503 | 1,246,330 |
| Accounts Receivable | 1,942,619 | 104,717 | 2,047,336 | 152,146 |
| Capital Credits Receivable | 3,062,050 | | 3,062,050 | |
| Deferred Charges | 2,606,318 | | 2,606,318 | |
| Prepaid Items | | | | 1,115,421 |
| Due from Other Agencies | 77,306,738 | | 77,306,738 | 131,399 |
| Inventories | 6,232,988 | | 6,232,988 | |
| Capital Assets: | | | | |
| Land | 60,284,274 | | 60,284,274 | 300,483 |
| Construction in Progress | 139,548,638 | | 139,548,638 | |
| Improvements Other Than Buildings, Net | 9,402,914 | 6,827 | 9,409,741 | 11,115 |
| Leasehold Improvements, Net | | | | 22,091 |
| Buildings and Fixed Equipment, Net | 494,890,659 | 31,421 | 494,922,080 | 1,961,505 |
| Furniture, Fixtures, and Equipment, Net | 24,134,398 | 216,782 | 24,351,180 | 266,754 |
| Motor Vehicles, Net | 20,962,861 | | 20,962,861 | 5,561 |
| Audio Visual Materials and Computer Software, Net | 2,051,490 | 27,674 | 2,079,164 | 24,104 |
| TOTAL ASSETS | \$ 1,088,463,810 | \$ 3,626,764 | \$ 1,092,090,574 | \$ 6,766,044 |
| LIABILITIES | | | | |
| Salaries and Benefits Payable | \$ 5,446,959 | \$ 28,984 | \$ 5,475,943 | \$ 231,986 |
| Payroll Deductions and Withholdings | 1,407,400 | 13,877 | 1,421,277 | |
| Accounts Payable | 30,477,409 | 25,776 | 30,503,185 | 560,967 |
| Construction Contracts Payable | 219,054 | | 219,054 | |
| Construction Contracts Payable - Retainage | 7,573,395 | | 7,573,395 | |
| Due to Other Agencies | 3,501,486 | | 3,501,486 | |
| Deposits Payable | 149,246 | | 149,246 | |
| Accrued Interest Payable | 3,442,124 | | 3,442,124 | |
| Deferred Revenue | 2,003,755 | 50,021 | 2,053,776 | 147,312 |
| Long-Term Liabilities: | | | | |
| Portion Due Within One Year: | | | | |
| Notes Payable | | | | 109,226 |
| Obligations Under Capital Lease | | | | 12,033 |
| Bonds Payable | 13,138,302 | | 13,138,302 | |
| Certificates of Participation Payable | 4,981,532 | | 4,981,532 | |
| Estimated Insurance Claims Payable | 2,388,844 | | 2,388,844 | |
| Compensated Absences Payable | 19,154,846 | 164,227 | 19,319,073 | 52,401 |
| Portion Due After One Year: | | | | |
| Notes Payable | | | | 1,446,466 |
| Obligations Under Capital Lease | | | | 37,642 |
| Bonds Payable | 105,036,256 | | 105,036,256 | |
| Certificates of Participation Payable | 217,584,095 | | 217,584,095 | |
| Estimated Insurance Claims Payable | 4,483,054 | | 4,483,054 | |
| Compensated Absences Payable | 16,386,887 | 383,195 | 16,770,082 | |
| Total Liabilities | 437,374,644 | 666,080 | 438,040,724 | 2,598,033 |
| NET ASSETS | | | | |
| Invested in Capital Assets, Net of Related Debt | 464,698,097 | 282,704 | 464,980,801 | 1,121,362 |
| Restricted for: | | | | |
| State Categorical Programs | 14,152,390 | | 14,152,390 | |
| Debt Service | 12,942,771 | | 12,942,771 | |
| Capital Projects | 121,637,266 | | 121,637,266 | |
| Special Revenue | 1,406,670 | | 1,406,670 | |
| Other Purposes | | | | 2,689,884 |
| Unrestricted | 36,251,972 | 2,677,980 | 38,929,952 | 356,765 |
| Total Net Assets | 651,089,166 | 2,960,684 | 654,049,850 | 4,168,011 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,088,463,810 | \$ 3,626,764 | \$ 1,092,090,574 | \$ 6,766,044 |

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

**EXHIBIT - B
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007**

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities: | | | | |
| Instruction | \$ 320,279,886 | \$ 151,873 | \$ | \$ |
| Pupil Personnel Services | 26,571,094 | | | |
| Instructional Media Services | 9,481,851 | | | |
| Instruction and Curriculum Development Services | 8,999,208 | | | |
| Instructional Staff Training Services | 9,590,108 | | | |
| Instruction Related Technology | 5,817,654 | | | |
| Board of Education | 2,198,040 | | | |
| General Administration | 2,667,580 | | | |
| School Administration | 31,744,739 | | | |
| Facilities Acquisition and Construction | 13,332,062 | | | 83,486,225 |
| Fiscal Services | 2,190,039 | | | |
| Food Services | 28,045,838 | 12,582,463 | 15,100,164 | |
| Central Services | 8,317,630 | | | |
| Pupil Transportation Services | 27,696,272 | 877,040 | 15,562,692 | |
| Operation of Plant | 40,372,538 | | | |
| Maintenance of Plant | 11,512,727 | | | |
| Administrative Technology Services | 2,245,453 | | | |
| Community Services | 826,818 | | | |
| Interest on Long-Term Debt | 12,066,754 | | | 2,080,264 |
| Total Governmental Activities | 563,956,291 | 13,611,376 | 30,662,856 | 85,566,489 |
| Business-Type Activities: | | | | |
| PLACE Program | 8,808,096 | 8,012,395 | | |
| Total Primary Government | \$ 572,764,387 | \$ 21,623,771 | \$ 30,662,856 | \$ 85,566,489 |
| Component Units: | | | | |
| Educational Foundation | \$ 767,143 | \$ | \$ | \$ |
| Charter Schools | 7,284,546 | 163,881 | 140,191 | 393,145 |
| Total Component Units | \$ 8,051,689 | \$ 163,881 | \$ 140,191 | \$ 393,145 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes, Levied for Operational Purposes | | | | |
| Property Taxes, Levied for Debt Service | | | | |
| Property Taxes, Levied for Capital Projects | | | | |
| Local Sales Taxes | | | | |
| Grants and Contributions Not Restricted to Specific Programs | | | | |
| Unrestricted Investment Earnings | | | | |
| Miscellaneous | | | | |
| Total General Revenues | | | | |
| Change in Net Assets | | | | |
| Net Assets - July 1, 2006 | | | | |
| Net Assets - June 30, 2007 | | | | |

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

EXHIBIT - B

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|-----------------------|---------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-Type Activities | Total | |
| \$ (320,128,013) | \$ | \$ (320,128,013) | \$ |
| (26,571,094) | | (26,571,094) | |
| (9,481,851) | | (9,481,851) | |
| (8,999,208) | | (8,999,208) | |
| (9,590,108) | | (9,590,108) | |
| (5,817,654) | | (5,817,654) | |
| (2,198,040) | | (2,198,040) | |
| (2,667,580) | | (2,667,580) | |
| (31,744,739) | | (31,744,739) | |
| 70,154,163 | | 70,154,163 | |
| (2,190,039) | | (2,190,039) | |
| (363,211) | | (363,211) | |
| (8,317,630) | | (8,317,630) | |
| (11,256,540) | | (11,256,540) | |
| (40,372,538) | | (40,372,538) | |
| (11,512,727) | | (11,512,727) | |
| (2,245,453) | | (2,245,453) | |
| (826,818) | | (826,818) | |
| (9,986,490) | | (9,986,490) | |
| <u>(434,115,570)</u> | | <u>(434,115,570)</u> | |
| | <u>(795,701)</u> | <u>(795,701)</u> | |
| <u>(434,115,570)</u> | <u>(795,701)</u> | <u>(434,911,271)</u> | |
| | | | (767,143) |
| | | | <u>(6,587,329)</u> |
| | | | <u>(7,354,472)</u> |
| 143,633,620 | | 143,633,620 | |
| 5,799,859 | | 5,799,859 | |
| 37,977,156 | | 37,977,156 | |
| 26,642,211 | | 26,642,211 | |
| 318,247,859 | | 318,247,859 | 7,705,418 |
| 11,720,442 | 197,546 | 11,917,988 | 109,112 |
| 19,279,136 | | 19,279,136 | 616,197 |
| <u>563,300,283</u> | <u>197,546</u> | <u>563,497,829</u> | <u>8,430,727</u> |
| 129,184,713 | (598,155) | 128,586,558 | 1,076,255 |
| <u>521,904,453</u> | <u>3,558,839</u> | <u>525,463,292</u> | <u>3,091,756</u> |
| <u>\$ 651,089,166</u> | <u>\$ 2,960,684</u> | <u>\$ 654,049,850</u> | <u>\$ 4,168,011</u> |

**EXHIBIT - C
PASCO COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007**

| | General Fund | Capital Projects - Other Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash | \$ 19,334,293 | \$ | \$ 320,367 | \$ 19,654,660 |
| Investments | 14,345,585 | 132,523,193 | 45,688,948 | 192,557,726 |
| Accounts Receivable | 926,801 | 71,876 | 32,485 | 1,031,162 |
| Accrued Interest Receivable | | | 1,892 | 1,892 |
| Due from Other Funds | 47,833,310 | | | 47,833,310 |
| Due from Other Agencies | 1,619,286 | 61,870,848 | 13,728,843 | 77,218,977 |
| Inventories | 4,850,444 | | 1,359,375 | 6,209,819 |
| TOTAL ASSETS | \$ 88,909,719 | \$ 194,465,917 | \$ 61,131,910 | \$ 344,507,546 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Salaries and Benefits Payable | \$ 5,345,855 | \$ | \$ 101,055 | \$ 5,446,910 |
| Payroll Deductions and Withholdings | 1,224,332 | | 179,420 | 1,403,752 |
| Accounts Payable | 19,563,556 | 6,038,628 | 929,812 | 26,531,996 |
| Construction Contracts Payable | | 219,054 | | 219,054 |
| Construction Contracts Payable - Retainage | | 6,649,679 | 923,716 | 7,573,395 |
| Due to Other Funds | | 46,498,881 | 1,068,265 | 47,567,146 |
| Due to Other Agencies | 3,501,486 | | | 3,501,486 |
| Deposits Payable | 149,246 | | | 149,246 |
| Deferred Revenue | | | 2,003,755 | 2,003,755 |
| Total Liabilities | 29,784,475 | 59,406,242 | 5,206,023 | 94,396,740 |
| Fund Balances: | | | | |
| Reserved for State Categorical Programs | 14,152,390 | | | 14,152,390 |
| Reserved for Encumbrances | 11,248,255 | 42,123,375 | 8,572,170 | 61,943,800 |
| Reserved for Debt Service | | | 16,384,895 | 16,384,895 |
| Unreserved: | | | | |
| Designated, Reported in: | | | | |
| General Fund: | | | | |
| Designated for Compensated Absences | 4,159,407 | | | 4,159,407 |
| Designated for Self Insurance | 3,051,665 | | | 3,051,665 |
| Special Revenue Funds: | | | | |
| Designated for Compensated Absences | | | 977,040 | 977,040 |
| Undesignated, Reported in: | | | | |
| General Fund | | | | |
| General Fund | 26,513,527 | | | 26,513,527 |
| Special Revenue Funds | | | 413,300 | 413,300 |
| Capital Projects Funds | | 92,936,300 | 29,578,482 | 122,514,782 |
| Total Fund Balances | 59,125,244 | 135,059,675 | 55,925,887 | 250,110,806 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 88,909,719 | \$ 194,465,917 | \$ 61,131,910 | \$ 344,507,546 |

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

**EXHIBIT - D
PASCO COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007**

Total Fund Balances - Governmental Funds \$ 250,110,806

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 751,201,759

Capital credits to be received in future years are not available to liquidate liabilities in governmental funds, but are accrued in the government-wide statements. 3,062,050

Debt issuance costs and underwriter's discounts are not expended in the government-wide statements but are reported as deferred charges, and amortized over the life of the debt. 2,606,318

Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due. (3,442,124)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 23,388,807

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

| | | |
|---------------------------------------|----------------|---------------|
| Bonds Payable | \$ 118,174,558 | |
| Certificates of Participation Payable | 222,565,627 | |
| Compensated Absences Payable | 35,098,265 | (375,838,450) |
| | | |

Total Net Assets - Governmental Activities **\$ 651,089,166**

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

EXHIBIT - E
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

| | General Fund | Capital Projects - Other Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--|--------------------------------|--------------------------------|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Direct | \$ 500,497 | \$ | \$ 4,949,459 | \$ 5,449,956 |
| Federal Through State | 50,110 | | 44,201,157 | 44,251,267 |
| State | 298,361,739 | 50,018,343 | 20,199,093 | 368,579,175 |
| Local | 163,341,806 | 47,842,285 | 59,082,660 | 270,266,751 |
| Total Revenues | 462,254,152 | 97,860,628 | 128,432,369 | 688,547,149 |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 278,358,371 | | 20,533,054 | 298,891,425 |
| Pupil Personnel Services | 23,242,401 | | 3,177,924 | 26,420,325 |
| Instructional Media Services | 9,111,778 | | 187,382 | 9,299,160 |
| Instruction and Curriculum Development Services | 6,481,830 | | 2,760,962 | 9,242,792 |
| Instructional Staff Training Services | 6,189,466 | | 3,297,839 | 9,487,305 |
| Instruction Related Technology | 5,505,627 | | 234,400 | 5,740,027 |
| Board of Education | 2,196,541 | | | 2,196,541 |
| General Administration | 1,448,829 | | 1,167,830 | 2,616,659 |
| School Administration | 31,362,443 | | | 31,362,443 |
| Facilities Acquisition and Construction | 2,287,349 | 4,534,049 | 1,520,622 | 8,342,020 |
| Fiscal Services | 2,222,823 | | 77,362 | 2,300,185 |
| Food Services | 234,606 | | 27,683,566 | 27,918,172 |
| Central Services | 6,800,487 | | 390,570 | 7,191,057 |
| Pupil Transportation Services | 25,092,635 | | 379,060 | 25,471,695 |
| Operation of Plant | 39,209,655 | | 106,146 | 39,315,801 |
| Maintenance of Plant | 12,334,981 | | 14,354 | 12,349,335 |
| Administrative Technology Services | 2,815,871 | | | 2,815,871 |
| Community Services | 639,172 | | 125,482 | 764,654 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | 22,329 | 171,549,298 | 31,009,771 | 202,581,398 |
| Other Capital Outlay | 1,122,387 | | 1,962,420 | 3,084,807 |
| Debt Service: | | | | |
| Principal | | | 11,115,000 | 11,115,000 |
| Interest and Fiscal Charges | | | 12,955,133 | 12,955,133 |
| Total Expenditures | 456,679,581 | 176,083,347 | 118,698,877 | 751,461,805 |
| Excess (Deficiency) of Revenues Over Expenditures | 5,574,571 | (78,222,719) | 9,733,492 | (62,914,656) |
| Other Financing Sources (Uses) | | | | |
| Transfers In | | | 16,507,160 | 16,507,160 |
| Proceeds from Sales Tax Bonds Issued | | 88,590,000 | | 88,590,000 |
| Premium on Sales Tax Bonds | | 3,306,392 | 744,964 | 4,051,356 |
| Proceeds from Sale of Capital Assets | 169,048 | | | 169,048 |
| Transfers Out | | (783,975) | (15,923,185) | (16,707,160) |
| Total Other Financing Sources (Uses) | 169,048 | 91,112,417 | 1,328,939 | 92,610,404 |
| Net Change in Fund Balances | 5,743,619 | 12,889,698 | 11,062,431 | 29,695,748 |
| Fund Balances, July 1, 2006 | 53,381,625 | 122,169,977 | 44,863,456 | 220,415,058 |
| Fund Balances, June 30, 2007 | \$ 59,125,244 | \$ 135,059,675 | \$ 55,925,887 | \$ 250,110,806 |

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

EXHIBIT - F
PASCO COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Governmental Funds \$ 29,695,748

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

| | |
|--|--------------|
| Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. | 178,795,948 |
| Capital assets donated to the District increase net assets on the statement of activities. However, they do not provide current financial resources and are not reported as revenues in the governmental funds. | 171,133 |
| The undepreciated cost of capital assets disposed of during the period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. | (807,632) |
| Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Additionally, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt. | (80,341,978) |
| Capital credits are not available to liquidate liabilities in governmental funds, but are accrued in governmental activities in the statement of net assets. | 3,062,050 |
| In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. | (2,039,904) |
| Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities. | (794,962) |
| Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. | 1,444,310 |

Change in Net Assets - Governmental Activities \$ 129,184,713

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

**EXHIBIT - G
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Fiscal Year Ended June 30, 2007**

| | General Fund | | | |
|--|----------------------|----------------------|----------------------|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Direct | \$ 1,021,888 | \$ 500,000 | \$ 500,497 | \$ 497 |
| Federal Through State | 890,000 | 47,177 | 50,110 | 2,933 |
| State | 306,338,625 | 299,379,631 | 298,361,739 | (1,017,892) |
| Local | <u>148,839,783</u> | <u>159,182,858</u> | <u>163,341,806</u> | <u>4,158,948</u> |
| Total Revenues | <u>457,090,296</u> | <u>459,109,666</u> | <u>462,254,152</u> | <u>3,144,486</u> |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 307,497,544 | 299,674,262 | 278,358,371 | 21,315,891 |
| Pupil Personnel Services | 20,347,865 | 23,807,977 | 23,242,401 | 565,576 |
| Instructional Media Services | 9,617,943 | 10,067,108 | 9,111,778 | 955,330 |
| Instruction and Curriculum Development Services | 4,934,119 | 6,629,356 | 6,481,830 | 147,526 |
| Instructional Staff Training Services | 5,263,557 | 7,128,327 | 6,189,466 | 938,861 |
| Instruction Related Technology | 3,939,997 | 5,635,807 | 5,505,627 | 130,180 |
| Board of Education | 1,519,055 | 2,200,220 | 2,196,541 | 3,679 |
| General Administration | 1,144,692 | 1,647,941 | 1,448,829 | 199,112 |
| School Administration | 27,475,460 | 32,126,596 | 31,362,443 | 764,153 |
| Facilities Acquisition and Construction | 1,679,035 | 3,246,794 | 2,287,349 | 959,445 |
| Fiscal Services | 1,908,618 | 3,479,645 | 2,222,823 | 1,256,822 |
| Food Services | | 281,717 | 234,606 | 47,111 |
| Central Services | 6,367,756 | 7,485,038 | 6,800,487 | 684,551 |
| Pupil Transportation Services | 24,605,704 | 28,522,314 | 25,092,635 | 3,429,679 |
| Operation of Plant | 41,056,036 | 43,942,684 | 39,209,655 | 4,733,029 |
| Maintenance of Plant | 11,654,738 | 13,044,666 | 12,334,981 | 709,685 |
| Administrative Technology Services | 2,911,670 | 3,303,345 | 2,815,871 | 487,474 |
| Community Services | 604,474 | 699,959 | 639,172 | 60,787 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | | 22,330 | 22,329 | 1 |
| Other Capital Outlay | | <u>1,122,400</u> | <u>1,122,387</u> | <u>13</u> |
| Total Expenditures | <u>472,528,263</u> | <u>494,068,486</u> | <u>456,679,581</u> | <u>37,388,905</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(15,437,967)</u> | <u>(34,958,820)</u> | <u>5,574,571</u> | <u>40,533,391</u> |
| Other Financing Sources | | | | |
| Proceeds from Sale of Capital Assets | <u>75,000</u> | <u>169,000</u> | <u>169,048</u> | <u>48</u> |
| Net Change in Fund Balances | (15,362,967) | (34,789,820) | 5,743,619 | 40,533,439 |
| Fund Balances, July 1, 2006 | <u>53,378,625</u> | <u>53,381,625</u> | <u>53,381,625</u> | |
| Fund Balances, June 30, 2007 | <u>\$ 38,015,658</u> | <u>\$ 18,591,805</u> | <u>\$ 59,125,244</u> | <u>\$ 40,533,439</u> |

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

**EXHIBIT - H
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2007**

| | <u>Business-Type Activities - Nonmajor Enterprise Fund PLACE Program</u> | <u>Governmental Activities - Internal Service Funds</u> |
|---|--|---|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 15,154 | \$ 191,889 |
| Investments | 3,224,189 | 33,633,588 |
| Accounts Receivable | 104,717 | 643,401 |
| Due From Other Agencies | | 87,761 |
| Inventories | | 23,169 |
| Total Current Assets | <u>3,344,060</u> | <u>34,579,808</u> |
| Noncurrent Assets: | | |
| Improvements Other Than Buildings, Net | 6,827 | |
| Buildings and Fixed Equipment, Net | 31,421 | |
| Furniture, Fixtures, and Equipment, Net | 216,782 | 73,475 |
| Computer Software, Net | 27,674 | |
| Total Noncurrent Assets | <u>282,704</u> | <u>73,475</u> |
| TOTAL ASSETS | <u>\$ 3,626,764</u> | <u>\$ 34,653,283</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Salaries and Benefits Payable | \$ 28,984 | \$ 49 |
| Payroll Deductions and Withholdings | 13,877 | 3,648 |
| Accounts Payable | 25,776 | 3,945,413 |
| Deferred Revenue | 50,021 | |
| Total Current Liabilities | <u>118,658</u> | <u>3,949,110</u> |
| Noncurrent Liabilities: | | |
| Portion Due Within One Year: | | |
| Compensated Absences Payable | 164,227 | 144,489 |
| Estimated Insurance Claims Payable | | 2,388,844 |
| Portion Due After One Year: | | |
| Compensated Absences Payable | 383,195 | 298,979 |
| Estimated Insurance Claims Payable | | 4,483,054 |
| Total Noncurrent Liabilities | <u>547,422</u> | <u>7,315,366</u> |
| Total Liabilities | <u>666,080</u> | <u>11,264,476</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 282,704 | 73,475 |
| Unrestricted | 2,677,980 | 23,315,332 |
| Total Net Assets | <u>2,960,684</u> | <u>23,388,807</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,626,764</u> | <u>\$ 34,653,283</u> |

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

EXHIBIT - J
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

| | Business-Type Activities - Nonmajor Enterprise Fund PLACE Program | Governmental Activities - Internal Service Funds |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Services | \$ 8,015,930 | \$ 11,582,922 |
| Cash Received from Premiums | | 57,943,272 |
| Cash Received from Other Operating Revenues | | 1,219,763 |
| Cash Payments to Suppliers for Goods and Services | (1,761,603) | (59,140,121) |
| Cash Payments to Employees for Services | (6,940,839) | (1,980,481) |
| Cash Payments for Insurance Claims | | (10,797,482) |
| | <u>(686,512)</u> | <u>(1,172,127)</u> |
| Net Cash Used by Operating Activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Insurance Loss Recoveries | | 442,143 |
| Transfer from Other Funds | | 200,000 |
| | | <u>642,143</u> |
| Net Cash Provided by Noncapital Financing Activities | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (37,693) | |
| | <u>(37,693)</u> | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Income | 197,546 | 1,403,915 |
| | <u>197,546</u> | <u>1,403,915</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | | |
| | (526,659) | 873,931 |
| Cash and Cash Equivalents, Beginning | 3,766,002 | 32,951,546 |
| | <u>3,766,002</u> | <u>32,951,546</u> |
| Cash and Cash Equivalents, Ending | <u>\$ 3,239,343</u> | <u>\$ 33,825,477</u> |

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

| | | |
|--|---------------------|-----------------------|
| Operating Loss | \$ (794,677) | \$ (601,748) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation | 55,753 | 16,788 |
| Changes in Assets and Liabilities: | | |
| Increase in Accounts Receivable | (46,486) | (113,505) |
| Increase in Due From Other Agencies | | (87,761) |
| Decrease in Inventory | | 17,180 |
| Increase (Decrease) in Accounts Payable | (8,179) | 282,616 |
| Increase in Salaries and Benefits Payable | 23,329 | 49 |
| Increase in Payroll Deductions and Withholdings | | 3,209 |
| Increase (Decrease) Deferred Revenue | 50,021 | (113,650) |
| Increase in Compensated Absences Payable | 33,727 | 102,667 |
| Decrease in Estimated Insurance Claims Payable | | (677,972) |
| | <u>108,165</u> | <u>(570,379)</u> |
| Total Adjustments | <u>108,165</u> | <u>(570,379)</u> |
| Net Cash Used by Operating Activities | <u>\$ (686,512)</u> | <u>\$ (1,172,127)</u> |

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

**EXHIBIT - K
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2007**

| | Pension Trust Fund | Private-Purpose Trust Fund | Agency Funds |
|---|-----------------------------|----------------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash | \$ 262,598 | \$ | \$ 5,421,454 |
| Investments | 8,111,927 | 27,033 | 32,040 |
| Accounts Receivable | | | 11,998 |
| Interest Receivable | 59,031 | | |
| Inventories | | | 39,890 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u><u>\$ 8,433,556</u></u> | <u><u>\$ 27,033</u></u> | <u><u>\$ 5,505,382</u></u> |
| LIABILITIES | | | |
| Accounts Payable | \$ | \$ | \$ 75,187 |
| Due to Other Funds | | | 266,164 |
| Internal Accounts Payable | | | 5,164,031 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u> </u> | <u> </u> | <u><u>\$ 5,505,382</u></u> |
| NET ASSETS | | | |
| Assets Held in Trust for Pension Benefits | 8,433,556 | | |
| Assets Held in Trust for Medical Benefits | | 27,033 | |
| | <u> </u> | <u> </u> | |
| Total Net Assets | <u>8,433,556</u> | <u>27,033</u> | |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 8,433,556</u></u> | <u><u>\$ 27,033</u></u> | |

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

EXHIBIT - L
PASCO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2007

| | <u>Pension Trust Fund</u> | <u>Private-Purpose Trust Fund</u> |
|---|-----------------------------------|---|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 1,264,056 | \$ |
| Investment Earnings: | | |
| Net Increase in Fair Value of Investments | 33,691 | |
| Interest, Dividends, and Other | <u>411,065</u> | <u>1,381</u> |
| Net Investment Income | <u>444,756</u> | <u>1,381</u> |
| Total Additions | <u>1,708,812</u> | <u>1,381</u> |
| DEDUCTIONS | | |
| Benefits Paid to Participants | 501,580 | |
| Administrative Expenses | <u>1,600</u> | |
| Total Deductions | <u>503,180</u> | |
| Change in Net Assets | 1,205,632 | 1,381 |
| Net Assets, July 1, 2006 | <u>7,227,924</u> | <u>25,652</u> |
| Net Assets, June 30, 2007 | <u>\$ 8,433,556</u> | <u>\$ 27,033</u> |

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

EXHIBIT – M
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Pasco County School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Pasco County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Units.** The component units' columns in the basic financial statements, Exhibits A and B, include the financial data for Academy at the Farm, Inc.; Countryside Montessori Charter School, Inc. (the Montessori Center); Dayspring Academy for Education and the Arts (the Dayspring Academy); The Language Academy Charter School, Inc. (the Language Academy); Athenian Academy of Pasco County, Inc. (the Athenian Academy); and the Pasco Education Foundation, Inc. (the Foundation).

The School Board has entered into charters with Academy at the Farms, Inc.; Montessori Center; Dayspring Academy; Language Academy; and Athenian Academy charter schools. The charters were created pursuant to authority established by Section 1002.33, Florida Statutes. Charter schools are publicly financed, small and specialized schools, which operate under the auspices of the School Board. The charters between the School Board and charter schools allow School Board administrators a limited role in monitoring charter schools' finances, business operations and student progress, and little participation in its teaching practices. The charter schools receive funding similar to other public schools in the District.

- Academy at the Farm, Inc., focuses on creatively integrating equestrian, horticultural, and farm animal components into an interactive, inclusive learning environment.

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

- Montessori Center's programs focus on providing an alternative elementary education program.
- Dayspring Academy emphasizes the fine arts, offering students specialized instruction in dance, music, and art.
- Language Academy's focus is to create an atmosphere where language and content learning are reinforced in a variety of modalities. The Language Academy ceased operations in May 2007.
- Athenian Academy is a K through 5th grade school offering students a program that incorporates the Greek language and culture.

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

Annual audits of the discretely presented component units' financial statements are conducted by independent certified public accountants, with the exception of the Language Academy which did not obtain an audit. Financial statements for the component units may be obtained at the component unit's or the District's administrative offices.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the School District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component units. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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

The effects of interfund activity have been eliminated from the government-wide financial statements.

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

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources which are restricted for capital outlay purposes.

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

- Nonmajor Enterprise – Pasco Learning and Activity Centers of Enrichment (PLACE) Fund – to account for the financial resources of the District’s PLACE programs, a before and after school child care program.
- Internal Service Funds – to account for the District’s fully insured programs for employee group health; individual self-insurance programs for property, casualty, liability, workers’ compensation, and the pharmacy program; the employee assistance program; graphics services; the energy management program; and exclusive agreements administered by the School Board.
- Pension Trust Fund – to account for resources used to finance the early retirement program.
- Private-Purpose Trust Fund – to account for resources legally held in the Baertschi Trust and administered by the District’s Student Services Department devoted to providing financial assistance for medical care benefits to students in Pasco County. All resources of the fund, including any earnings on invested resources, may be used to support qualifying activities. There is no requirement that any portion of these resources be preserved as capital.
- Agency Funds – to account for resources of the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities; and the Assist Believe and Care (ABC) program which is funded by employee and public donations to assist financially disadvantaged students in District schools.

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise and internal service funds are from services provided for before and after school child care and charges for employee health insurance premiums. The principal operating expenses for the enterprise and internal service funds include salaries and benefits, administrative expenses, claims, and insurance premiums for excess coverage. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

The Pasco Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash and cash equivalents as those accounts used as demand deposit accounts, all highly liquid investments with an original maturity of three months or less, cash held by fiscal agents, and amounts on deposit in money market accounts.

Investments consist of amounts placed in the State Board of Administration Debt Service accounts for investment of debt service moneys, amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost.

Investments made locally consist of money market and bond mutual funds, corporate debt obligations, and collateralized mortgage obligations and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. The valuation of the inventories is based on various methods and is presented at the lower of cost or market. Warehouse (including purchased foods and supplies used by the District's Food and Nutrition Service), maintenance, and transportation items are based on a weighted average. Technology Services items and inventory kept at the schools (mainly bookstore and concession stand supplies) are specifically identified and stated at actual cost. Telecommunications and graphics services inventory items are stated at last invoice price, which approximates the first-in, first-out basis. The United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Land and buildings acquired or constructed prior to July 1, 1972, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, \$1,348,251 of stated land values and \$15,047,877 of stated building values are based on these estimates.

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

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

| <u>Description</u> | <u>Estimated Lives</u> |
|--|------------------------|
| Improvements Other than Buildings | 15 years |
| Buildings and Fixed Equipment | 10 - 40 years |
| Furniture, Fixtures, and Equipment | 6 years |
| Motor Vehicles | 5 years |
| Audio Visual Materials and Computer Software | 5 years |

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

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

➤ **State Revenue Sources**

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

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

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

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

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

➤ **District Property Taxes**

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

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

The School Board adopted the 2006 tax levy on September 12, 2006. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

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- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2007, the District has the following investments and maturities:

| Investment | Maturities | Fair Value |
|--|--|------------------------------|
| State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool | 26 Day Average | \$ 215,033,559 |
| State Board of Administration Debt Service Accounts | 6 Months | 441,141 |
| Wachovia Public Funds - State and Municipal Money Market | limited withdrawal interest bearing account | 1,022,551 |
| Wertz York Short-term Government Bond Mutual Fund | 6 months | 16,541,426 |
| Collateralized Mortgage Obligations | weighted average - 2 years | <u>4,547,826</u> |
| Total Investments, Primary Government | | <u><u>237,586,503</u></u> |
| Component Units: | | |
| Money Market Fund | | 293,922 |
| Corporate Bonds | | 619,290 |
| Mutual Funds | | <u>333,118</u> |
| Total Investments, Reporting Entity | | <u><u>\$ 238,832,833</u></u> |

The District also held invested funds on deposit in the operating account in the amount of \$20,284,000 in a money market mutual fund pursuant to a master banking services agreement with a financial institution. These investments ranged daily up to \$30,387,000, with an average monthly investment of \$8,368,485.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy authorizes investments in securities exceeding one year if the maturities of such investments are made to coincide as nearly as practical with cash flow needs as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

- Section 218.415(17), Florida Statutes, provides the authority to invest in the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool and limits investments in money market funds to Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section

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280.02, Florida Statutes. The District's investment policy authorizes the District to participate in the State Board of Administration Investment Pool. The policy also authorizes the District to invest in interest-bearing time deposits or savings accounts, direct obligations of the United States Treasury, money market funds with the Securities and Exchange Commission, and United States government funds registered under the Investment Act of 1940. The policy further provides that the securities shall only be purchased from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, Florida based regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1, or from primary security dealers as designated by the Federal Reserve of New York.

- The District's investments in the State Board of Administration Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2007, the District's investment in the Local Government Surplus Funds Trust Fund investment pool, the State Board of Education Bond Investment Funds, and the Wachovia Public Funds – State and Municipal Money Market mutual fund, are unrated.
- The District's investment in the Wertz York Short-term Government Bond Mutual Fund (Core Fund) was rated AA Af/S1+ by Standard and Poor's. Investments in the Collateralized Mortgage Obligations were rated AAA by Bloomberg.

Concentration of Credit Risk

- The District's investment policy places no limit on the amount that may be invested in any one issuer; however, the policy does provide that certain market conditions require investment in certain securities over other investments under different market conditions. It is the policy of the District to diversify its investment portfolio to protect against issuer defaults.

4. RECEIVABLES

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

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.

As of June 30, 2007, the various components of deferred revenue reported in the governmental funds were as follows:

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| | Unavailable | Unearned |
|---|--------------|------------|
| Class Size Reduction Construction Funds Appropriated for the District | \$ 1,767,522 | \$ |
| Food and Nutrition Services Program Prepaid Meals | | 236,233 |
| Total Deferred Revenue for Governmental Funds | \$ 1,767,522 | \$ 236,233 |

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

| | Balance 7-1-06 | Additions | Deletions | Balance 6-30-07 |
|---|-------------------|----------------|----------------|--------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 44,201,812 | \$ 16,082,462 | \$ | \$ 60,284,274 |
| Construction in Progress | 142,832,801 | 169,084,738 | 172,368,901 | 139,548,638 |
| Total Capital Assets Not Being Depreciated | 187,034,613 | 185,167,200 | 172,368,901 | 199,832,912 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 28,860,532 | 1,406,810 | | 30,267,342 |
| Buildings and Fixed Equipment | 559,287,077 | 172,368,900 | | 731,655,977 |
| Furniture, Fixtures, and Equipment (1) | 58,666,398 | 9,785,276 | 5,230,442 | 63,221,232 |
| Motor Vehicles | 30,214,589 | 8,754,481 | 2,142,773 | 36,826,297 |
| Audio Visual Materials and Computer Software | 6,242,440 | 723,571 | 8,168 | 6,957,843 |
| Total Capital Assets Being Depreciated | 683,271,036 | 193,039,038 | 7,381,383 | 868,928,691 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 20,312,713 | 551,715 | | 20,864,428 |
| Buildings and Fixed Equipment | 219,186,524 | 17,578,794 | | 236,765,318 |
| Furniture, Fixtures, and Equipment (1) | 38,238,039 | 5,511,983 | 4,663,188 | 39,086,834 |
| Motor Vehicles | 15,019,468 | 2,747,449 | 1,903,481 | 15,863,436 |
| Audio Visual Materials and Computer Software | 4,416,332 | 497,103 | 7,082 | 4,906,353 |
| Total Accumulated Depreciation | 297,173,076 | 26,887,044 | 6,573,751 | 317,486,369 |
| Total Capital Assets Being Depreciated, Net | 386,097,960 | 166,151,994 | 807,632 | 551,442,322 |
| Governmental Activities Capital Assets, Net | \$ 573,132,573 | \$ 351,319,194 | \$ 173,176,533 | \$ 751,275,234 |

Note: (1) Includes Internal Service Fund assets of \$95,813 and \$22,338 of accumulated depreciation.

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| | Balance 7-1-06 | Additions | Deletions | Balance 6-30-07 |
|---|-------------------|--------------------|-----------------|--------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | \$ 7,424 | \$ | \$ | \$ 7,424 |
| Buildings and Fixed Equipment | 34,575 | | | 34,575 |
| Furniture, Fixtures, and Equipment | 337,700 | 37,694 | 10,241 | 365,153 |
| Computer Software | 37,909 | | | 37,909 |
| Total Capital Assets Being Depreciated | 417,608 | 37,694 | 10,241 | 445,061 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 152 | 445 | | 597 |
| Buildings and Fixed Equipment | 1,079 | 2,075 | | 3,154 |
| Furniture, Fixtures, and Equipment | 111,177 | 46,410 | 9,216 | 148,371 |
| Computer Software | 3,412 | 6,823 | | 10,235 |
| Total Accumulated Depreciation | 115,820 | 55,753 | 9,216 | 162,357 |
| Business-Type Activities Capital Assets, Net | \$ 301,788 | \$ (18,059) | \$ 1,025 | \$ 282,704 |

Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|----------------------|
| GOVERNMENTAL ACTIVITIES | |
| Instruction | \$ 20,044,260 |
| Pupil Personnel Services | 68,704 |
| Instructional Media Services | 287,141 |
| Instruction and Curriculum Development Services | 112,716 |
| Instructional Staff Training Services | 45,146 |
| General Administration | 501 |
| School Administration | 34,943 |
| Facilities Acquisition and Construction | 5,008,955 |
| Fiscal Services | 5,372 |
| Food Services | 12,199 |
| Central Services | 87,547 |
| Pupil Transportation Services | 943,200 |
| Operation of Plant | 5,379 |
| Maintenance of Plant | 177,954 |
| Community Services | 53,027 |
| Total Depreciation Expense - Governmental Activities | \$ 26,887,044 |
| BUSINESS-TYPE ACTIVITIES | |
| PLACE Program | \$ 55,753 |

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6. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on April 1, 1992, which was characterized as a lease-purchase agreement, with the Florida School Boards Association and supplemental arrangements dated December 1, 1996, March 1, 2004, September 15, 2004, July 1, 2005, and December 23, 2005, with the Pasco County School Board Leasing Corporation whereby the District secured financing of various educational facilities in the total amount of \$106,770,000, \$63,970,000, \$4,546,000, \$66,415,000, and \$785,612, respectively. The financing was accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District. On March 1, 2004, the financing agreements with the Florida School Boards Association were assigned to the Pasco County School Board Leasing Corporation.

As a condition of the financing arrangement, the District has given ground leases on District property to the Pasco School Board Leasing Corporation, with a rental fee of \$1 per year. The initial terms of the leases are 34 years (commencing on December 1, 1996), 30 years (commencing on March 1, 2004), 14 years (commencing on September 15, 2004), 25 years (commencing on July 1, 2005), and 15 years (commencing on December 23, 2005). These leases are referred to as the Series 1996 Project, the Series 2004A Project, the Series 2004-QZAB Project, the Series 2005A and 2005B Project, and the Series 2005-QZAB Project, respectively. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to full lease term from the date of inception of the arrangement.

The District properties included in the ground lease dated April 1, 1992, originally funded from the Certificates of Participation Series 1992A, include all or a portion of the sites for the following school facilities:

Series 1992A Certificates of Participation (Refunded by Series 1996 Certificates of Participation)

Cotee River Elementary School – New School
Seven Springs Middle School – New School
West Zephyrhills Elementary School Addition
Lake Myrtle Elementary School ESE Addition
Mitty P. Locke Elementary School ESE Addition
R. B. Stewart Middle School ESE Addition
Hudson Elementary School Media Center Addition

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The District properties included in the ground lease under the agreement dated December 1, 1996, include land on which some projects are to be constructed. The projects funded from the Series 1996, Certificates of Participation, are as follows:

Series 1996 Certificates of Participation

New Schools:

- Sand Pine Elementary School
- James E. Marlowe Elementary School
- Chasco Elementary School
- J.W. Mitchell High School
- Wesley Chapel High School
- Pine View Elementary School

The District properties included in the ground lease agreement dated March 1, 2004, funded from the Series 2004A, Certificates of Participation, include all or a portion of the sites for the following school facilities:

Series 2004A Certificates of Participation

New Schools:

- Paul R. Smith Middle School
- Wiregrass Ranch High School

The District properties included in the ground lease agreement dated September 15, 2004, funded from the Series 2004-QZAB, Certificates of Participation, include roofing and HVAC renovations for the following school facilities:

Series 2004-QZAB Certificates of Participation

- Bayonet Point Middle School
- Chasco Middle School
- Cypress Elementary School
- Gulf High School
- Gulf Middle School
- Hudson High School
- Mittyte P. Locke Elementary School
- Lacoochee Elementary School
- Pasco High School
- Rodney B. Cox Elementary School
- Sanders Elementary School
- Woodland Elementary School
- T. E. Weightman Middle School
- Ridgewood High School
- Zephyrhills High School

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The District properties included in the ground lease agreement dated July 1, 2005, funded from the Series 2005A and B, Certificates of Participation, include all or a portion of the sites for the following school facilities:

Series 2005A and B Certificates of Participation

New Schools:

Gulf Highlands Elementary School
Trinity Oaks Elementary School
Dr. John Long Middle School

The District properties included in the ground lease agreement dated December 23, 2005, funded from the Series 2005-QZAB, Certificates of Participation, include reroofing repairs for the following school facilities:

Series 2005-QZAB Certificates of Participation

Fox Hollow Elementary School
Mary Giella Elementary School
Moore Mickens Education Center
Hudson Elementary School
Calusa Elementary School

The lease payments for the Series 1996, Series 2004A and Series 2005A, Certificates are payable by the District, semiannually, on August 1 and February 1 at interest rates ranging from 4.90 to 5.07 percent, 2.00 to 5.00 percent, and 3.00 to 5.00 percent, respectively. Lease payments for the variable rate portion of the Series 1996, Certificates are payable on the first business day of each month at an interest rate of 5.07 percent. Interest payments for the Series 2005B, Certificates are payable weekly at auction interest rates set weekly until the final maturity date. The lease payments for the Series 2004-QZAB, Certificates are payable by the District, semiannually, on September 15 and March 15 at an interest rate of 1.10 percent. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

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| <u>Fiscal Year Ending June 30</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| 2008 | \$ 15,057,142 | \$ 4,875,000 | \$ 10,182,142 |
| 2009 | 15,059,514 | 5,060,000 | 9,999,514 |
| 2010 | 15,031,899 | 5,225,000 | 9,806,899 |
| 2011 | 15,055,988 | 5,460,000 | 9,595,988 |
| 2012 | 15,087,100 | 5,700,000 | 9,387,100 |
| 2013-2017 | 75,285,150 | 32,615,000 | 42,670,150 |
| 2018-2022 | 81,569,365 | 48,336,612 | 33,232,753 |
| 2023-2027 | 76,907,110 | 56,240,000 | 20,667,110 |
| 2028-2031 | 61,655,427 | 56,685,000 | 4,970,427 |
| Subtotal | 370,708,695 | 220,196,612 | 150,512,083 |
| Add: Unamortized Premium on Debt | 2,369,015 | 2,369,015 | |
| Total Minimum Lease Payments | <u>\$ 373,077,710</u> | <u>\$ 222,565,627</u> | <u>\$ 150,512,083</u> |

7. INTEREST RATE SWAP AGREEMENT

Objectives of the Interest Rate Swap Agreement – In order to protect against the potential of rising interest rates, the District entered into a pay-fixed, receive-variable interest rate swap agreement with Ambac Financial Services, LP (Ambac) on December 1, 1996, for \$80,370,000 of the \$106,770,000 Series 1996, Certificates of Participation, at a cost less than what the District would have paid to issue all fixed rate debt at the time of issuance of the Series 1996, Certificates of Participation, in December 1996. The intention of the swap agreement was effectively to change the District's variable interest rate on the certificates to a synthetically fixed rate of 5.07 percent.

Terms – The variable rate Series 1996 Certificates of Participation and related swap agreement mature on August 1, 2026. The swap's notional amount of \$80,370,000 matches the \$80,370,000 variable-rate certificates of participation. The swap agreement was entered into at the same time the Series 1996, Certificates of Participation, were issued. Beginning in the 2010-11 fiscal year, the notional value of the swap and principal amount of the variable debt decline. Under the swap agreement, the District pays the trustee, U.S. Bank, a fixed payment of 5.07 percent and Ambac pays the trustee the variable interest payment, for the certificates of participation which is based on the Bond Market Association Municipal Swap Index.

Fair Value – Because interest rates have declined since inception of the swap agreement, the swap has a negative fair value of \$7,391,812, as of June 30, 2007. Ambac, using a proprietary valuation model, estimated the fair value. The model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value. All rates used in the valuation are mid-market levels (mid-way between bid and ask), or are model-based mid-market levels when mid-market levels are not available. The fair values

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provided take certain factors into consideration, including liquidity of the swap market and the uniqueness of the deal structure as noted in the agreements.

Credit Risk – According to terms of the swap agreement, the District is not exposed to credit risk. A rise or decline in interest rates does not affect or change the net amount of the payments made by the District to the trustee.

Collateral Agreement – The swap agreement includes a collateral agreement, which requires Ambac to provide full collateralization of the fair market value of the swap agreement should Ambac's credit rating fall below AA- as issued by Standard & Poor's or below Aa3 as issued by Moody's Investors Service. Collateral may be in the form of cash or securities.

Termination Risk – The District or Ambac may terminate the swap agreement if the other party fails to perform under the terms of the swap agreement. Termination due to lack of performance would be considered a termination event. The swap agreement also includes an early termination date of all payment obligations, provided that, if the date selected would result in a payment to Ambac, the District provides evidence satisfactory to Ambac that such payment will be made. Upon occurrence of a termination event, the District has the option to make such payment in equal annual installments over a period of time equal to or greater than five years, up to a maximum time ending on the final maturity date of the certificates of participation.

8. BONDS PAYABLE

Bonds payable at June 30, 2007, are as follows:

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| Bond Type | Amount Outstanding | Original Amount | Interest Rates (Percent) | Annual Maturity To |
|---|------------------------------|--------------------|--------------------------------|--------------------------|
| State School Bonds: | | | | |
| Series 1998A | \$ 85,000 | \$ 2,200,000 | 4.5 | 2008 |
| Series 1999A | 1,565,000 | 2,000,000 | 4.00 - 4.75 | 2019 |
| Series 2000A | 125,000 | 900,000 | 5.000 - 5.125 | 2010 |
| Series 2002B | 1,325,000 | 1,755,000 | 3.375 - 5.375 | 2015 |
| Series 2003A | 1,835,000 | 1,990,000 | 3.0 - 5.0 | 2023 |
| Series 2004A | 1,365,000 | 1,445,000 | 3.000 - 4.625 | 2024 |
| Series 2005A | 8,835,000 | 8,910,000 | 4.0 - 5.0 | 2025 |
| Series 2005B, Refunding | 1,740,000 | 1,740,000 | 5.0 | 2020 |
| District Revenue Bonds: | | | | |
| Series 2003, Refunding | 3,380,000 | 3,660,000 | 2.300 - 4.625 | 2033 |
| Series 2007, Sales Tax | 88,590,000 | 88,590,000 | 4.0 - 5.0 | 2014 |
| District General Obligation Bonds: | | | | |
| Series 2000, Refunding | <u>5,320,000</u> | 28,660,000 | 5.0 | 2007 |
| Subtotal | 114,165,000 | | | |
| Unamortized Premium on Debt | 4,080,069 | | | |
| Unamortized Discount on Debt | <u>(70,511)</u> | | | |
| Total Bonds Payable | <u>\$ 118,174,558</u> | | | |

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

➤ **State School Bonds**

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

➤ **District Revenue Bonds**

District Revenue Bonds, Refunding Series 2003 – These bonds are authorized by Chapter 79-547 and 79-548, Special Acts of 1979, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Pasco County from the State's Pari-Mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

Sales Tax Revenue Bonds, Series 2007 – These bonds are authorized by the Constitution and Laws of the State of Florida, particularly Chapter 1001, Florida Statutes, Chapter 212, Part I, Florida

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Statutes, Chapter 2006-340, Laws of Florida, and other applicable provisions of law. The bonds are secured by a pledge of the proceeds received pursuant to an Interlocal Agreement from the levy by the County and collection by the Florida Department of Revenue of a one cent local infrastructure sales surtax. These bonds were issued for the purpose of providing funds, together with other available funds of the District, to finance the acquisition and construction of elementary, middle, and high schools within the District.

➤ **District General Obligation Bonds**

General Obligation Bonds, Series 2000, Refunding, are authorized by Article VII, Section 12 of the Constitution of the State of Florida and secured by a pledge of property taxes levied, pursuant to Chapters 1010 and 1011, Florida Statutes.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

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| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---------------------------------------|-----------------------|-----------------------|----------------------|
| State School Bonds: | | | |
| 2008 | \$ 1,881,418 | \$ 1,090,000 | \$ 791,418 |
| 2009 | 1,877,511 | 1,135,000 | 742,511 |
| 2010 | 1,915,749 | 1,225,000 | 690,749 |
| 2011 | 1,921,343 | 1,290,000 | 631,343 |
| 2012 | 1,958,841 | 1,390,000 | 568,841 |
| 2013-2017 | 9,303,420 | 7,510,000 | 1,793,420 |
| 2018-2022 | 2,902,366 | 2,450,000 | 452,366 |
| 2023-2025 | 838,750 | 785,000 | 53,750 |
| Total State School Bonds | 22,599,398 | 16,875,000 | 5,724,398 |
| District Revenue Bonds: | | | |
| 2008 | 10,363,565 | 6,185,000 | 4,178,565 |
| 2009 | 14,218,825 | 10,370,000 | 3,848,825 |
| 2010 | 14,211,925 | 10,785,000 | 3,426,925 |
| 2011 | 14,147,125 | 11,215,000 | 2,932,125 |
| 2012 | 14,134,030 | 11,775,000 | 2,359,030 |
| 2013-2017 | 42,745,448 | 39,165,000 | 3,580,448 |
| 2018-2022 | 1,110,606 | 600,000 | 510,606 |
| 2023-2027 | 1,104,231 | 740,000 | 364,231 |
| 2028-2032 | 1,105,394 | 925,000 | 180,394 |
| 2033 | 219,713 | 210,000 | 9,713 |
| Total District Revenue Bonds | 113,360,862 | 91,970,000 | 21,390,862 |
| General Obligation Bonds: | | | |
| 2008 | 5,453,000 | 5,320,000 | 133,000 |
| Total General Obligation Bonds | 5,453,000 | 5,320,000 | 133,000 |
| Subtotal | 141,413,260 | 114,165,000 | 27,248,260 |
| Unamortized Premium on Debt | 4,080,069 | 4,080,069 | |
| Unamortized Discount on Debt | (70,511) | (70,511) | |
| Total | \$ 145,422,818 | \$ 118,174,558 | \$ 27,248,260 |

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PASCO COUNTY
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9. DEFEASED DEBT

In prior years, portions of the State Board of Education Capital Outlay Bonds (SBE Bonds), Series 1998A and 2000A, were defeased in substance by placing a portion of the proceeds of new SBE Bonds in an irrevocable trust to provide for all future debt service payments on the old SBE Bonds. Accordingly, the trust account assets and the liability for the in-substance defeased SBE Bonds are not included in the District's financial statements. On June 30, 2007, SBE Bonds, Series 1998A, totaling \$1,175,000 outstanding, and SBE Bonds, Series 2000A, totaling \$615,000 outstanding are considered defeased in substance.

10. ESTIMATED ARBITRAGE REBATE

In accordance with United States Treasury Department regulations, the District made an arbitrage rebate payment of \$314,908 and a yield restriction payment of \$224,137 on February 12, 2002, for the arbitrage earnings from the investment of proceeds from the Certificates of Participation, Series 1996, totaling \$106,770,000. These payments were made from the District's Capital Projects – Other Fund. Subject to calculation assumptions, the cumulative arbitrage amount for all funds equals (\$1,932,070). Because the accrued rebate is negative, the District is eligible to apply for a refund of the prior rebate payments which the District plans to do during the 2007-08 fiscal year.

11. CHANGES IN LONG-TERM LIABILITIES

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

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| Description | Balance 7-1-06 | Additions | Deductions | Balance 6-30-07 | Due in One Year |
|---|-----------------------|-----------------------|----------------------|-----------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Certificates of Participation Payable | \$ 224,901,612 | \$ | \$ 4,705,000 | \$ 220,196,612 | \$ 4,875,000 |
| Add: Unamortized Premium on Debt | <u>2,475,547</u> | | <u>106,532</u> | <u>2,369,015</u> | <u>106,532</u> |
| Total Certificates of Participation Payable | <u>227,377,159</u> | | <u>4,811,532</u> | <u>222,565,627</u> | <u>4,981,532</u> |
| Bonds Payable | 32,400,000 | 88,590,000 | 6,825,000 | 114,165,000 | 12,595,000 |
| Add: Unamortized Premium (Discount) on Debt | <u>(23,975)</u> | <u>4,051,356</u> | <u>17,823</u> | <u>4,009,558</u> | <u>543,302</u> |
| Total Bonds Payable | <u>32,376,025</u> | <u>92,641,356</u> | <u>6,842,823</u> | <u>118,174,558</u> | <u>13,138,302</u> |
| Estimated Insurance Claims Payable | 7,549,871 | 10,119,509 | 10,797,482 | 6,871,898 | 2,388,844 |
| Compensated Absences Payable (1) | <u>33,399,163</u> | <u>21,706,130</u> | <u>19,563,560</u> | <u>35,541,733</u> | <u>19,154,846</u> |
| Total Governmental Activities | <u>\$ 300,702,218</u> | <u>\$ 124,466,995</u> | <u>\$ 42,015,397</u> | <u>\$ 383,153,816</u> | <u>\$ 39,663,524</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Compensated Absences Payable | <u>\$ 513,695</u> | <u>\$ 579,015</u> | <u>\$ 545,288</u> | <u>\$ 547,422</u> | <u>\$ 164,227</u> |

Note: (1) Includes balances at June 30, 2007, of the Internal Service Funds of \$443,468 with \$144,489 due in one year, and additions and deductions of \$247,156 and \$102,667, respectively.

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

12. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2007-08 fiscal year budget as a result of purchase orders outstanding at June 30, 2007.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

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| Funds | Interfund | |
|-----------------------------|----------------------|----------------------|
| | Receivables | Payables |
| Major Funds: | | |
| General | \$ 47,833,310 | \$ |
| Capital Projects: | | |
| Other | | 46,498,881 |
| Nonmajor Governmental Funds | | 1,068,265 |
| Fiduciary Funds | | 266,164 |
| Total | <u>\$ 47,833,310</u> | <u>\$ 47,833,310</u> |

Interfund receivables and payables are temporary loans of cash between funds allowable under Section 1011.09, Florida Statutes, for a period of less than 13 months. The temporary loans do not restrict, impede, or limit implementation or fulfillment of the original purpose for which the moneys were received in the fund providing the advancement.

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

| Funds | Interfund | |
|-----------------------------|----------------------|----------------------|
| | Transfers In | Transfers Out |
| Major Funds: | | |
| Capital Projects: | | |
| Other | \$ | \$ 783,975 |
| Nonmajor Governmental Funds | 16,507,160 | 15,923,185 |
| Internal Service Funds | 200,000 | |
| Total | <u>\$ 16,707,160</u> | <u>\$ 16,707,160</u> |

Interfund transfers represent permanent transfers of moneys between funds. In general, funds are transferred from Capital Projects to the Debt Service Funds to make debt service payments for certificates of participation. The transfer to the Internal Service Funds is to provide funding for environmental regulation compliance issues.

14. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2006-07 fiscal year:

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| <u>Source</u> | <u>Amount</u> |
|---|------------------------------|
| Florida Education Finance Program | \$ 210,168,920 |
| Categorical Educational Programs: | |
| Class Size Reduction Operating | 50,218,424 |
| Transportation | 15,562,691 |
| Instructional Materials | 6,687,431 |
| Other | 5,584,716 |
| Class Size Reduction Construction | 50,018,343 |
| Gross Receipts Tax (Public Education Capital Outlay) | 16,678,822 |
| Workforce Development Program | 3,831,157 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 2,595,064 |
| Discretionary Lottery Funds | 2,507,677 |
| Reading Programs | 1,411,078 |
| Charter School Capital Outlay Funding | 804,121 |
| Food Service Supplement | 461,380 |
| Mobile Home License Tax | 430,770 |
| Pari-Mutuel Tax | 223,250 |
| Fuel Tax Refund | 180,512 |
| School Health Supplement | 165,826 |
| Full Service Schools | 110,596 |
| Miscellaneous | <u>938,397</u> |
| Total | <u><u>\$ 368,579,175</u></u> |

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

15. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2006 tax roll for the 2006-07 fiscal year:

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| | Milla ges | Taxes Levied |
|---|-----------|----------------|
| <u>GENERAL FUND</u> | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 4.921 | \$ 127,973,649 |
| Basic Discretionary Local Effort | 0.510 | 13,238,653 |
| Supplemental Discretionary Local Effort | 0.250 | 5,883,846 |
| <u>DEBT SERVICE FUNDS</u> | | |
| Voted Tax: | | |
| Interest and Sinking | 0.228 | 5,903,514 |
| <u>CAPITAL PROJECTS FUNDS</u> | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.500 | 38,839,123 |
| Total | 7.409 | \$ 191,838,785 |

16. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System (FRS). FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS.

Benefits in the Plan vest at six years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

A Deferred Retirement Option Program (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.

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Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2006-07 fiscal year, contribution rates were as follows:

| Class or Plan | Percent of Gross Salary | |
|--|-------------------------|-----------------|
| | Employee | Employer (A) |
| Florida Retirement System, Regular | 0.00 | 9.85 |
| Florida Retirement System, Elected County Officers | 0.00 | 16.53 |
| Florida Retirement System, Senior Management Service | 0.00 | 13.12 |
| Teacher's Retirement System, Plan E | 6.25 | 11.35 |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans | 0.00 | 10.91 |
| Florida Retirement System, Reemployed Retiree | (B) | (B) |

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$18,282,148, \$23,094,197, and \$28,676,402, respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan. Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Elected County Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 1,275 District participants in PEORP during the 2006-07 fiscal year. Required employer contributions made to the program for the fiscal year ending June 30, 2007, totaled \$3,853,246.

Pension Reporting. The financial statements and other supplementary information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial

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statements, required supplementary information, actuarial report, and other relevant information, may be obtained from the Florida Department of Management Services, Division of Retirement.

17. EARLY RETIREMENT PLAN

Plan Description

As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (Plan) effective July 1, 1983, and amended as of January 1, 1997. The Plan is a single-employer defined benefit pension plan. The purpose of the Plan is to provide District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 16, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement. The Board administers Plan assets in a Pension Trust Fund and is responsible for their investments. The Board acts as the administrative agent for the Plan.

Based on an actuarial report as of July 1, 2005, employee membership data related to the Plan was as follows:

| | |
|---|-------------------------|
| Retirees and Beneficiaries Currently Receiving Benefits | 91 |
| Active Plan Participants | <u>3,487</u> |
| Total | <u><u>3,578</u></u> |

A summary of eligibility and benefits follows:

➤ Eligibility

The participant must have elected early retirement under FRS; attained the age of 50 but not have attained the age of 62 upon early retirement; been credited with at least 25 years (and who have reached the final step on the appropriate salary schedule) of service under FRS upon early retirement; and (for nonunion contract employees) completed at least 12 years of service in the District.

➤ Benefits

The amount of the monthly benefit will be equal to the reduction imposed on the retirement benefit by FRS due to early retirement. The benefit amount will be based on the initial benefit amount determined by FRS prior to any cost-of-living adjustments and will remain unchanged, once established, unless a specific increase is authorized by the Board. Effective July 1, 1997, the amount of early retirement benefits for new participants ages 50 through 54 has been reduced to a flat 35 percent of FRS benefit, with this reduction phased-in over a period of four years. Total benefits

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provided by the Plan for the fiscal years ending June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$529,305, \$609,545, and \$501,580, respectively.

Summary of Significant Accounting Policies

Significant accounting policies related to basis of accounting and method of asset valuation are disclosed in Note 1. Investment disclosures related to the Pension Trust Fund are in Note 3.

Contributions and Reserves

The District's Early Retirement Plan was established by the Board on July 1, 1983, and amended as of July 1, 1997. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the Plan for the year and amortization payments sufficient to completely amortize the initial unfunded liability within 30 years from the effective date and any subsequent increase in the unfunded liability within 30 years of being so increased, based on an actuarial study. The Plan, as amended, resulted in revisions on the amortization of the initial unfunded liability.

Periodic employer contributions to the Plan are determined on an actuarial basis using the "Entry Age Normal Cost Method". Annual pension cost is funded on a current basis. Pursuant to Section 112.64, Florida Statutes, the unfunded actuarial accrued liability is funded over a 30-year period for participants prior to July 1, 1997, and funded over a 40-year period for the revised plan. Periodic contributions for both normal cost and the amortization of the unfunded actuarial liability are based on the level percentage of payroll method.

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

Total contributions to the Plan in the 2006-07 fiscal year, amounting to \$1,264,056, all of which were paid by the Board, were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at July 1, 2005.

The computation of the annual required contributions for the 2006-07 fiscal year was based on the same: (a) actuarial assumptions, (b) benefit provisions, (c) actuarial funding method, and (d) other significant factors used to determine annual required contributions in the previous years.

All of the assets in the District's Pension Trust Fund are legally required reserves. None of the assets have been designated by the Board for any other specific purpose.

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Costs of administering the plan are financed through the Plan's resources (employer contributions and investment earnings).

Concentrations

The Plan's investments at June 30, 2007, consisted of the following:

| | Balance June 30, 2007 | Percentage of Plan Net Assets |
|--|--------------------------|----------------------------------|
| Collateralized Mortgage Obligations | \$ 4,547,826 | 54.30% |
| Money Market | 262,598 | 3.14% |
| Investment in State Board of Administration Pool | 3,564,101 | 42.56% |
| Total | \$ 8,374,525 | 100.00% |

Trend Information

Schedule of Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Plan Assets | Actuarial Accrued Liability Entry Age (1) | Unfunded Actuarial Accrued Liability (2) | Funded Ratio (3) | Covered Payroll | Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll |
|--------------------------------|--------------------------------------|--|---|---------------------|--------------------|---|
| 1998 | \$ 1,934,101 | \$ 10,149,571 (4) | \$ 8,215,470 | 19.1% | \$ 89,677,642 (4) | 9.2% |
| 1999 | 2,581,300 | 11,368,316 (4) | 8,787,016 | 22.7% | 95,976,496 (4) | 9.2% |
| 2000 | 3,202,191 | 12,152,701 (4) | 8,950,510 | 26.3% | 101,477,155 (4) | 8.8% |
| 2001 | 4,192,866 | 13,304,440 (4) | 9,111,574 | 31.5% | 107,293,070 (4) | 8.5% |
| 2002 | 5,187,341 | 14,424,748 (4) | 9,237,407 | 36.0% | 106,204,704 (4) | 8.7% |
| 2003 | 5,859,574 | 13,630,135 (4) | 7,770,561 | 43.0% | 105,127,379 (4) | 7.4% |
| 2004 | 5,868,121 | 13,736,412 (4) | 7,868,291 | 42.7% | 117,802,339 (4) | 6.7% |
| 2005 | 6,519,604 | 17,408,848 (4) | 10,889,244 | 37.4% | 130,477,299 (4) | 8.3% |
| 2006 | 7,230,174 (5) | 18,124,077 (6) | 10,893,903 (4) | 39.9% | 130,477,299 (4) | 8.3% |
| 2007 | 8,433,556 (5) | 19,297,524 (6) | 10,863,968 (4) | 43.7% | 130,477,299 (4) | 8.3% |

- Notes: (1) The actuarial method used is the Entry Age Normal Cost Method.
(2) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.
(3) The percentage funded is derived by dividing the actuarial value of assets by the actuarial accrued liability.
(4) Based on data from an actuarial valuation report as of July 1, 2005.
(5) Based on the District's financial statements.
(6) The Actuarial Accrued Liability is the Unfunded Actuarial Accrued Liability plus the Actuarial Values of Plan assets.

Isolated analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a

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going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan.

Trends in the unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation, and aids analysis of the progress made in accumulating assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

Schedule of Employer Contributions:

| Year Ended June 30 | Annual Required Contribution | Percentage Contribution |
|--------------------------|------------------------------------|----------------------------|
| 1998 | \$ 635,788 | 100% |
| 1999 | 674,799 | 100% |
| 2000 | 759,816 | 100% |
| 2001 | 806,371 | 100% |
| 2002 | 874,746 | 100% |
| 2003 | 926,422 | 100% |
| 2004 | 807,918 | 100% |
| 2005 | 926,422 | 100% |
| 2006 | 1,202,825 | 100% |
| 2007 | 1,264,056 | 100% |

Additional information of the latest actuarial valuation is as follows:

| | |
|-------------------------------|--------------------|
| Valuation Date | July 1, 2005 |
| Actuarial Cost Method | Entry Age Normal |
| Amortized Method | Level Percent Open |
| Remaining Amortization Period | 40 Years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return* | 6.25% |
| Projected Salary Increases* | 5.00% |
| * Includes inflation at: | 3.25% |
| Cost-of-living adjustments | None |

18. POSTEMPLOYMENT BENEFITS

Pursuant to Section 112.0801, Florida Statutes, the District pays a portion of the cost of health and dental care insurance benefits for retired former employees. For those employees who retire, the School Board contributes the same amount toward the retiree's health insurance premium each year as it does toward the regular employee's premium. This contribution begins upon retirement and continues until the retiree is eligible to receive Medicare benefits. This contribution is contingent upon the retiree meeting the following conditions: 1) 30 years of service under the Florida Retirement System or 25 years of service under the

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Florida Retirement System and at least age 50 at retirement; 2) 20 years of service in the District; 3) contributes his/her health insurance subsidy received from the State of Florida toward the cost of this medical premium; and 4) continues to participate in one of the Board-approved health plans after retirement.

In addition, the District contributed \$20 toward health insurance premiums for eligible former employees. This contribution will continue as long as the employee maintains health benefits through the District. At June 30, 2007, benefits are being provided to 320 retired former employees. The cost of the benefits provided is recognized as an expense each month as premiums are paid. For the 2006-07 fiscal year, the District's premiums totaled \$1,142,796 for all postemployment benefits.

19. MEMBERSHIP IN NONPROFIT CORPORATION

The District participated in a nonprofit electric cooperative, the Withlacoochee River Electric Cooperative, Inc., established under the provisions of Chapter 425, Florida Statutes. In accordance with this statute, revenues in excess of operating expenses, unless determined by a vote of the membership, are distributed by the Cooperative on a pro rata basis to its members. The policy of the Cooperative is to credit the excess revenue to the members' accounts. Capital credits are distributed only after the Cooperative attains a certain margin of profit required by the Rural Electrification Administration. At June 30, 2007, the accumulated credits to the District's accounts are \$3,062,050. During the 2006-07 fiscal year, the District received capital credits of \$137,253.

20. CONSTRUCTION CONTRACT COMMITMENTS

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

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| Project | Contract Amount | Completed to Date | Balance Committed |
|--|-----------------------|----------------------|----------------------|
| Double Branch Elementary School "J": | | | |
| Architect | \$ 406,250 | \$ 363,528 | \$ 42,722 |
| Construction Manager | 9,962,547 | 9,752,726 | 209,821 |
| New River Elementary School "M": | | | |
| Architect | 537,747 | 381,702 | 156,045 |
| Construction Manager | 12,705,800 | 2,695,310 | 10,010,490 |
| Gulf Trace Elementary School "N": | | | |
| Architect | 590,650 | 456,810 | 133,840 |
| Construction Manager | 12,406,337 | 3,673,577 | 8,732,760 |
| Veteran's Elementary School "P": | | | |
| Architect | 643,750 | 327,871 | 315,879 |
| Construction Manager | 9,593,927 | | 9,593,927 |
| Charles S. Rushe Middle School "EE": | | | |
| Architect | 800,000 | 698,060 | 101,940 |
| Construction Manager | 28,251,583 | 27,053,339 | 1,198,244 |
| Crews Lake Middle School "FF": | | | |
| Architect | 1,192,000 | 834,241 | 357,759 |
| Construction Manager | 29,357,000 | 7,576,742 | 21,780,258 |
| Sunlake High School "DDD": | | | |
| Architect | 1,066,400 | 987,575 | 78,825 |
| Construction Manager | 32,758,606 | 29,861,367 | 2,897,239 |
| High School "FFF": | | | |
| Architect | 1,592,500 | 366,000 | 1,226,500 |
| R. B. Stewart Middle School Renovations: | | | |
| Architect | 1,100,670 | 1,014,752 | 85,918 |
| Construction Manager | 16,233,097 | 13,035,867 | 3,197,230 |
| Total | \$ 159,198,864 | \$ 99,079,467 | \$ 60,119,397 |

21. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, general liability, property/casualty, and prescription plan coverages are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with insurance administrators to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

A liability in the amount of \$6,534,963 was actuarially determined to cover estimated incurred, but not reported, workers' compensation, automobile liability, general liability, and property/casualty insurance

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claims payable at June 30, 2007. The District provides a prescription plan for employees on a self-insured basis, which is administered by an insurance carrier under an agreement wherein the District reimburses the insurance carrier for claims paid on a monthly basis. A liability in the amount of \$336,935 was determined to cover prescription plan claims payable at June 30, 2007.

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

| Fiscal Year | Beginning-of-Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|-------------|------------------------------------|--|-----------------|----------------------------|
| 2005-06 | \$ 7,140,686 | \$ 11,125,064 | \$ 10,715,879 | \$ 7,549,871 |
| 2006-07 | 7,549,871 | 10,119,509 | 10,797,482 | 6,871,898 |

Health care, hospitalization, dental care, mental health care, life insurance, and vision care coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

22. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2006-07 fiscal year:

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| | Total | Group Health Insurance | Flexible Benefit Plan | Property, Casualty, Workers' Compensation | Prescription Plan Insurance | Employee Assistance Program | District Graphics Services | Energy Management Program | Exclusive Agreements |
|---|----------------------|------------------------|-----------------------|---|-----------------------------|-----------------------------|----------------------------|---------------------------|----------------------|
| Total Assets | \$ 34,653,283 | \$ 3,041,924 | \$ 1,463,262 | \$ 21,328,473 | \$ 756,044 | \$ 43,239 | \$ 347,913 | \$ 6,077,096 | \$ 1,595,332 |
| Liabilities and Net Assets: | | | | | | | | | |
| Accounts Payable | \$ 3,945,413 | \$ 2,907,634 | \$ 264,288 | \$ 293,663 | \$ 4,092 | \$ 4,160 | \$ 3,477 | \$ 468,099 | \$ |
| Salaries and Benefits Payable | 49 | | | | | | 25 | 24 | |
| Payroll Deductions and Withholdings | 3,648 | 1,896 | | 798 | | 149 | 640 | 165 | |
| Estimated Insurance Claims Payable | 6,871,898 | | | 6,534,963 | 336,935 | | | | |
| Compensated Absences Payable | 443,468 | 131,083 | | 183,767 | | 38,930 | 48,227 | 41,461 | |
| Net Assets: | | | | | | | | | |
| Invested in Capital Assets | 73,475 | | | | | | 1,195 | | 72,280 |
| Unrestricted Net Assets | 23,315,332 | 1,311 | 1,198,974 | 14,315,282 | 415,017 | | 294,349 | 5,567,347 | 1,523,052 |
| Total Liabilities and Net Assets | \$ 34,653,283 | \$ 3,041,924 | \$ 1,463,262 | \$ 21,328,473 | \$ 756,044 | \$ 43,239 | \$ 347,913 | \$ 6,077,096 | \$ 1,595,332 |
| Revenues: | | | | | | | | | |
| Premium Contributions | \$ 58,258,188 | \$ 38,841,424 | \$ 1,190,873 | \$ 9,651,456 | \$ 8,574,435 | \$ | \$ | \$ | \$ |
| Charges for Services | 11,582,922 | | | | | | 712,421 | 10,870,501 | |
| Insurance Loss Recoveries | 442,144 | | | 442,144 | | | | | |
| Interest Income | 1,403,914 | 21,569 | 56,160 | 920,075 | | 115 | 17,380 | 318,488 | 70,127 |
| Other | 1,219,762 | 2,225 | 90,845 | 448,249 | | 233,270 | 1,575 | 137,253 | 306,345 |
| Total Revenues | 72,906,930 | 38,865,218 | 1,337,878 | 11,461,924 | 8,574,435 | 233,385 | 731,376 | 11,326,242 | 376,472 |
| Total Expenses | 71,662,620 | 38,938,932 | 1,190,873 | 10,689,767 | 8,162,318 | 233,385 | 774,958 | 11,430,615 | 241,772 |
| Transfers In | 200,000 | | | 200,000 | | | | | |
| Change in Net Assets | \$ 1,444,310 | \$ (73,714) | \$ 147,005 | \$ 972,157 | \$ 412,117 | \$ | \$ (43,582) | \$ (104,373) | \$ 134,700 |

23. LITIGATION

The Board is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the Board's attorney, should not materially affect the financial condition of the District.

24. SUBSEQUENT EVENTS

On June 5, 2007, the School Board approved a resolution to issue Certificates of Participation, Series 2007A and 2007B, totaling \$143,605,000. The proceeds of the certificates (\$143,692,964) were received on July 10, 2007. The proceeds will be used to finance the cost of acquisition and/or construction of Charles S. Rushe Middle School, Gulf Trace Elementary School, Veteran's Elementary School, Sunlake High School, New River Elementary School, and Ridgewood High School classroom additions. For the Certificates of Participation, Series 2007A (which represent \$76,045,000 of the issue), interest is payable semiannually on August 1 and February 1 commencing August 1, 2007. Interest rates range from 3.82 to 4.73 percent and principal is payable annually beginning August 1, 2008, and matures August 1, 2027. For the Certificates of Participation, Series 2007B (which represent \$67,560,000 of the issue), interest payments are payable weekly at auction rates with principal payable annually beginning August 1, 2028, and matures on August 1, 2032.

EXHIBIT - M (Continued)
PASCO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

In addition, the District also entered into an interest rate swap agreement in relation to the Series 2007B, Certificates, effective July 10, 2007. The intention of the swap agreement was effectively to change the District's variable interest rate on the certificates to a synthetically fixed rate of 4.428 percent. This agreement runs concurrently with the Series 2007B certificates and also matures on August 1, 2032.

As discussed in Note 3, at June 30, 2007, the Pasco County District School Board had \$215,033,559 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the District and the State Board of Administration. The District had \$185,155,670 invested in the Pool as of January 15, 2008.

FEDERAL REPORTS AND SCHEDULES

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pasco County District School Board as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of certain school internal funds and the aggregate discretely presented component units, as described in our report on the Pasco County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Pasco Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1 and 2, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative 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 which are not material to the basic financial statements which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** and the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** sections of this audit report.

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
January 15, 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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 APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2007. The District's major Federal programs are identified in the ***SUMMARY OF AUDITOR'S RESULTS*** section of the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which are described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

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

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

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

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
January 15, 2008

**PASCO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007**

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) |
|--|---|--|----------------------------------|
| United States Department of Agriculture: | | | |
| Indirect: | | | |
| Florida Department of Agriculture and Consumer Services: Food Donation | 10.550(2) | None | \$ 1,522,994 |
| Florida Department of Education: Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | 321 | 3,257,246 |
| National School Lunch Program | 10.555 | 300 | 9,737,634 |
| Summer Food Service Program for Children | 10.559 | 323 | 88,264 |
| Total Child Nutrition Cluster | | | 13,083,144 |
| Child and Adult Care Food Program | 10.558 | None | 32,646 |
| Total United States Department of Agriculture | | | 14,638,784 |
| United States Department of Justice: | | | |
| Indirect: | | | |
| Pasco County Sheriff's Department: Public Safety Partnership and Community Policing Grants | 16.710 | None | 61,708 |
| United States Department of Labor: | | | |
| Indirect: | | | |
| Florida Department of Education: National Farmworker Jobs Program | 17.264 | 405 | 121,389 |
| United States Department of Education: | | | |
| Direct: | | | |
| Funds for the Improvement of Education | 84.215 | N/A | 88,772 |
| Indirect: | | | |
| Special Education Cluster: Florida Department of Education: Special Education - Grants to States Special Education - Preschool Grants | 84.027 84.173 | 262, 263 267 | 12,304,882 326,959 |
| Total Special Education Cluster | | | 12,631,841 |
| Adult Education - State Grant Program | 84.002 | 191, 193 | 459,502 |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 222, 223, 226, 228 | 11,759,174 |
| Migrant Education - State Grant Program | 84.011 | 217 | 197,976 |
| Vocational Education - Basic Grants to States | 84.048 | 151 | 633,702 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 103 | 283,543 |
| Education for Homeless Children and Youth | 84.196 | 127 | 82,674 |
| State Grants for Innovative Programs | 84.298 | 113 | 133,358 |
| Education Technology State Grants | 84.318 | 121 | 126,930 |
| Comprehensive School Reform Demonstration | 84.332 | 128 | 95,345 |
| English Language Acquisition Grants | 84.365 | 102 | 303,815 |
| Improving Teacher Quality State Grants | 84.367 | 224 | 2,260,663 |
| Pasco-Hernando Community College: Tech-Prep Education | 84.243 | None | 90,670 |
| University of South Florida: Education Research, Development and Dissemination | 84.305 | None | 261,507 |
| Total Indirect | | | 29,320,700 |
| Total United States Department of Education | | | 29,409,472 |
| United States Department of Health and Human Services: | | | |
| Direct: | | | |
| Head Start | 93.600(3) | N/A | 4,762,268 |
| Corporation for National and Community Service: | | | |
| Direct: | | | |
| Retired and Senior Volunteer Program | 94.002 | N/A | 125,482 |
| Indirect: | | | |
| Florida Department of Education: Learn and Serve America - School and Community Based Programs | 94.004 | 234 | 28,002 |
| Total Corporation for National and Community Service | | | 153,484 |

**PASCO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2007**

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) |
|---|---|--|----------------------------------|
| Department of Homeland Security: | | | |
| Indirect: | | | |
| Florida Department of Law Enforcement: Homeland Security Grant Program | 97.067 | None | 3,512 |
| United States Department of Defense: | | | |
| Direct: | | | |
| Air Force Junior Reserve Officers Training Corps | None | N/A | 70,839 |
| Army Junior Reserve Officers Training Corps | None | N/A | 137,576 |
| Navy Junior Reserve Officers Training Corps | None | N/A | 292,082 |
| Total United States Department of Defense | | | 500,497 |
| Total Expenditures of Federal Awards | | | <u>\$ 49,651,114</u> |

- Notes:
- (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2006-07 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 - Food Donation. Represents the amount of donated food received during the 2006-07 fiscal year. Commodities are valued at fair value as determined at the time of donation.
 - (3) Head Start. Expenditures include \$200,780 for grant number/program year 04CH3070/38 and \$4,561,488 for grant number/program year 04CH3070/39.

**PASCO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SUMMARY OF AUDITOR'S RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section __.505, the following is a summary of the results of the audit of the Pasco County District School Board for the fiscal year ended June 30, 2007:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be significant deficiencies, though none of the significant deficiencies was considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- No significant deficiencies in internal control over major Federal programs were reported.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Food Donation (CFDA No. 10.550); Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553), National School Lunch Program (CFDA No. 10.555), and Summer Food Service Program for Children (CFDA No. 10.559)]; and Special Education Cluster [Special Education – Grants to States (CFDA No. 84.027) and Special Education – Preschool Grants (CFDA No. 84.173)].
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$1,489,533.
- The low risk entity threshold was not applied.

**PASCO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FINDINGS AND RECOMMENDATIONS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)

Finding Type: Noncompliance

Questioned Costs: Not Applicable

Cash Management. Title 34, Section 80.21(i), Code of Federal Regulations, provides that subgrantees shall promptly, but at least quarterly, remit interest earned on cash advances to the appropriate Federal agency. The subgrantee may keep interest amounts up to \$100 per year for administrative expenses. The Florida Department of Education (FDOE) has instructed the district school boards to remit interest earned on Federal cash advances to the FDOE Comptroller's Office. During the 2006-07 fiscal year, the District had interest earnings, totaling \$43,568.32, on advances of Federal cash; however, the District did not remit the earnings, net of the \$100 administrative expenses, to FDOE, contrary to the requirements of Title 34, Section 80.21(i), Code of Federal Regulations.

Recommendation: The District should develop procedures to ensure that interest earnings on cash advances are remitted to FDOE, as required. Additionally, the District should remit interest earnings, totaling \$43,468.32, to FDOE.

District Contact Person: Tammy Taylor, Internal Audit & Federal Grants Manager

*PASCO COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007*

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

| Audit Report No. and Awards Finding No. | Program/Area | Brief Description | Status | Comments |
|---|--------------|-------------------|--------|----------|
|---|--------------|-------------------|--------|----------|

No Federal findings in the prior year.

MANAGEMENT RESPONSE SECTION



District School Board of Pasco County

7227 Land O' Lakes Boulevard • Land O' Lakes, Florida 34638 • 813/794-2000

Heather Fiorentino, Superintendent

www.pasco.k12.fl.us

January 14, 2008

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin:

We appreciate the efforts of your professional staff in analyzing the District School Board of Pasco County's operations.

The following paragraphs enumerate various actions the District will take and provides clarification applicable to certain findings and recommendations listed in the preliminary and tentative operational audit report for the fiscal year ended June 30, 2007.

Finding #1, Inventories – Separation of Duties: Asset custody, record keeping responsibilities and access to the inventory storage areas for the maintenance and telecommunications inventories will be separated to the extent practical with existing personnel. Compensating controls over warehouse inventories that minimize the risk for errors or fraud are already in place and the District feels that the cost to implement additional controls would exceed the benefits derived.

Finding #2, Construction Projects: The District will enhance its monitoring procedures over payments to construction management entities to ensure payments are properly supported by detailed invoices. The District will establish procedures to document and maintain evidence that the process of selecting subcontractors by construction management entities is fair and equitable. The District will include penalty clauses in all future construction contracts in accordance with Section 1013.47, Florida Statutes.

Finding #3, Board Meetings and Minutes: The District has changed its procedures to ensure that minutes of all meetings subject to the provisions of the Sunshine Law are prepared, reviewed, corrected and timely approved.

Finding #4, Unclaimed Property: The District agrees with the recommendation and will fully comply by reporting and remitting all unclaimed property that has remained unclaimed by the owner for more than one year to the State of Florida. We are currently doing our due diligence to contact the property owners.

Finding #5, Strategic Planning: The District's strategic plan, [Living the Vision 2008-2013](#), contains goals, objectives and strategies designed to take the District into the next five years. The District will use the strategic plan to establish priorities and make spending decisions.

- 2 -

January 14, 2008

Finding #6, Fingerprinting: The District has implemented a three year phase-in plan beginning in 2006-07. All background screenings will be completed by the July 1, 2009 deadline.

Finding #7, Capital Outlay - Architect Insurance: The District will establish procedures to ensure that all contracted architect firms are adequately and properly insured for coverage such as professional liability, errors and omissions, and general, automobile, and workers' compensation liability.

Finding #8, Educational Facilities - Safety Procedures: The District has taken steps to ensure compliance with Section 1013.13, Florida Statutes.

Finding #9, Tangible Personal Property: A list of all items discovered missing during the physical inventory will be reported to the Pasco Sheriff's Office in a timely fashion. During this year's reconciliation, those items will be either found or written off on a subsequent board meeting prior to the end of this fiscal year

The District will enhance its procedures to ensure that all property is appropriately marked as property of the District.

Finding #10, Charter School Monitoring: The District will enhance its monitoring procedures to ensure that the charter schools are in compliance with the contract provisions regarding insurance coverage.

Finding #11, Information Technology – Back-up Tape Procedures: The District will develop detailed data back-up tape procedures and in order to ensure data security, back-up tape data will be transferred to an off-site storage site on a weekly basis.

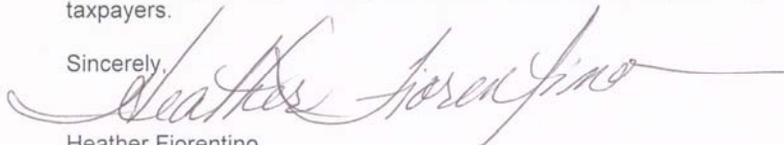
Finding #12, Information Technology – Disaster Recovery: The District will enhance its Disaster Recovery plan. These procedures will specify staff responsibilities and operational management in order to minimize disruptions to key data, telecommunications, and computer operations.

Finding #13, Information Technology – Program Change Controls: – The District will develop procedures to improve the separation of incompatible duties, approval process by supervisors and maintaining documentation of user approvals for modifications.

Federal Finding #1, Cash Management: The District understands the requirements to remit interest on at least a quarterly basis to the Florida Department of Education Comptroller's Office. We are currently up to date through the quarter ending June 30, 2007.

Please be assured that these procedures will be enhanced to strengthen existing internal accounting control systems, which permit the District to be as effective and efficient as practical, utilizing our limited resources and providing accountability to our taxpayers.

Sincerely,



Heather Fiorentino
Superintendent