AUDITOR GENERAL

DAVID W. MARTIN, CPA

DUVAL COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2007

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

	District No.
Martha E. Barrett	*1*
Nancy S. Broner	*2*
Kristanna B. Barnes	*3*
Brenda A. Priestly Jackson, Chairman through 11-20-06	*4*
Betty S. Burney, Vice-Chairman from 11-21-06	*5*
Victoria L. Drake, Vice-Chairman through 11-20-06; Chairman from 11-21-06	*6*
Thomas L. Hazouri	*7*

Dr. Joseph J. Wise, 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.

DUVAL COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Duval 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: Ad Valorem Taxation

The District incurred costs of $24,134,525 from its capital outlay millage levy funds that were not, of record, allowable under the provisions of Section 1011.71(2), Florida Statutes.

Finding No. 2: Purchasing Practices – Computer Software

District records did not evidence the reasonableness of the direct negotiation process for purchases of instructional software costing $21,134,525 or that the receipt of training and consulting services was properly monitored.

Finding No. 3: Competitive Selection of Professional Services

The District did not utilize the public announcement and formal competitive selection and negotiation process, contrary to Section 287.055, Florida Statutes, when acquiring construction-related services for numerous maintenance and construction projects.

Finding No. 4: Related Party Transactions

Contrary to the provisions of Sections 112.313(7) and 1001.42(10)(i), Florida Statutes, the District entered into a banking services agreement with a bank that employs a District School Board member.

Finding No. 5: Third-Party Administrator – Employee Benefits Cafeteria Plan

The District could improve its monitoring and accountability procedures for moneys held by a third-party administrator for the District's employee benefits cafeteria plan.

Finding No. 6: Allocation of Interest Earnings

The District did not properly allocate interest earnings on pooled investments to the respective funds owning the investments.

Finding No. 7: Information Technology – Access Authorization Controls

The District's access controls within its enterprise resource planning environment and the supporting network environment needed improvement.

Finding No. 8: Internal Audit Function

Although the Board had adopted a policy and designated the Board as an audit committee, the Board had not met as an audit committee and had not planned, initiated, or reviewed any internal audit activities.

Finding No. 9: Decentralized Collection Procedures

Improvements were needed in the District's collection procedures at decentralized locations.

Finding No. 10: Food Service – Cash Collections

The District's food service cash collections were not always timely deposited.

Finding No. 11: Schultz Center Regional Professional Development Academy

The Schultz Center for Teaching and Leadership could not demonstrate the ability to be self-supporting through fees for services, grants, or private contributions without District support.

Finding No. 12: Monitoring of Charter Schools

District charter school monitoring procedures did not include verifying that insurance coverage required by the charter school agreements was maintained.

Finding No. 13: Cell Phones

District procedures were not adequate to ensure that cell phone use was in accordance with Board Policy. Additionally, a cell phone provider incorrectly charged the District a monthly wireless E911 fee.

Finding No. 14: Construction Administration - Board Policies

Instances were noted in which change orders exceeded the Board policy dollar threshold without Board approval, and a Board policy had not been established to prequalify contractors.

Finding No. 15: Land Acquisitions and Appraisals

The Board was not, of record, provided with copies of the appraisals for a land purchase and was not advised, of record, that the recommended purchase price exceeded the average of the two appraisals received by the District.

Finding No. 16: Construction Administration

The District's administration of construction management and design-build projects could be enhanced by requiring that copies of subcontractor bid tabulations and subcontracts be provided and maintained, that documentation of self-performed work benefits the District, that District records evidence verification of appropriate licensure of project subcontractors, and that final payments are not made prior to the Board's final acceptance of the project.

Finding No. 17: Design-Build Contract

Contrary to the requirements of Section 287.055(9), Florida Statutes, District records did not evidence that a licensed design professional prepared a design criteria package and was designated to serve as the District's representative for the New High School "AAA" design-build project.

Finding No. 18: Inspections of Relocatable Facilities

The District's annual relocatable inspection report summaries indicated that a substantial percentage of the District's relocatable classrooms did not meet the standards to be rated satisfactory.

Finding No. 19: Information Technology – District Security Program

The District's entitywide security program needed improvement.

Finding No. 20: Information Technology – Disaster Recovery Plan

The District's disaster recovery plan had not been officially adopted and lacked certain key provisions.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Food Donation, Child Nutrition Cluster and Magnet Schools Assistance Program 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, with the exception of the Child Nutrition Cluster. In addition, we noted internal control and compliance findings that are summarized below.

Federal Awards Finding No. 1: Procurement – Contract Monitoring

District procedures were not adequate for monitoring the contract payments made to the food service management company, and other terms and conditions of the food service management agreement.

Federal Awards Finding No. 2: Program Income – Exclusive Beverage Contract

The District did not properly allocate a portion of the program income from its exclusive beverage contract to the food service program.

Federal Awards Finding No. 3: Special Tests and Provisions – Competitive Food Sales

The District did not comply with applicable Federal Regulations and State rules relating to the sale of competitive food and beverage items.

Federal Awards Finding No. 4: Cash Management – Food Service Program

Contrary to Federal regulation, the District's food service program subsidized the cost of certain nonprogram food service activities.

Federal Awards Finding No. 5: Allowable Costs/Cost Principles – Contract Provisions

Improvements were needed in District procedures to provide for required provisions in contracts funded with Federal moneys.

Federal Awards Finding No. 6: Debarment and Suspension

District records did not always evidence compliance with Federal suspension and debarment requirements.

Federal Awards Finding No. 7: Matching, Level of Effort, and Earmarking – Planning Costs

The District reported expenditures for planning activities in its Magnet Schools Assistance Program for the second and third award years that exceeded the program requirements by $366,984.

Federal Awards Finding No. 8: Allowable Costs/Cost Principles – Documentation of Employee Time and Effort

Enhancements were needed in District procedures for documenting salaries and benefits charged to the Magnet Schools Assistance Program.

Federal Awards Finding No. 9: Activities Allowed or Unallowed

The District's contracted payments to the Schultz Center for Teaching and Leadership from the Improving Teacher Quality State Grants program included costs that do not appear necessary and reasonable for the program, resulting in payment amounts exceeding the Center's costs by $483,408 for the 2006-07 fiscal year.

Audit Objectives and Scope

Our audit objectives were to determine whether the Duval 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 the 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 Randy R. Arend, CPA, and supervised by John P. Duffy, 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. The information technology portion of this audit was coordinated by Heidi Burns, CPA, CISA, and supervised by Nancy Reeder, CPA, CISA. Please address inquiries regarding information technology findings included in this report to Jon Ingram, CPA, CISA, Audit Manager, via e-mail at joningram@aud.state.fl.us or by telephone at (850) 488-0840.

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

Material Weaknesses

Finding No. 1: Ad Valorem Taxation

The District incurred costs, totaling $24,134,525, from its capital outlay millage levy funds that were not, of record, allowable under the provisions of Section 1011.71(2), Florida Statutes. Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not more than 2 mills for capital outlay purposes. This section also provides the allowable uses of capital outlay millage levy proceeds which includes, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; school bus purchases; purchases of new and replacement equipment; and payments due under lease-purchase agreements for educational facilities and sites.

On May 1, 2007, the Board approved purchasing several vendors' instructional software programs from its Local Capital Improvement (LCI) Fund with projected costs totaling $21,260,645. The LCI Fund is used to account for the capital outlay millage levy funds received. As of October 16, 2007, District purchases of the software programs totaled $21,134,525 from the LCI Fund, of which $9,831,946 was purchased as of June 30, 2007; however, instructional software is not specifically included as an allowable use of capital outlay millage proceeds. Additionally, the District recorded a $3 million budgeted transfer from the LCI Fund to the General Fund to reimburse the cost of certain textbook purchases during the 2006-07 fiscal year. Although the purchase of the opening day collection for a new school's library media center is an allowable use of capital outlay millage proceeds, the purchase of textbooks using these proceeds is not provided for in law. As a result of the software purchases and transfers for textbooks, disbursements totaling $12,831,946 as of June 30, 2007, represent questioned costs of the LCI Fund for the 2006-07 fiscal year.

We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the costs, totaling $12,831,946, from unrestricted resources instead of from capital outlay millage proceeds. Further, the District made other revisions to its financial statements to transfer capital outlay millage moneys from the LCI Fund for other allowable capital outlay millage expenditures made in the General Fund, and the Board approved budget amendments for the revised transfer amounts. Additionally, the District intends to reimburse the LCI Fund for the $11,302,579 in instructional software expenditures incurred after June 30, 2007.

Recommendation: The District should enhance procedures to ensure that it limits use of capital outlay millage funds to the purposes set forth in Section 1011.71(2), Florida Statutes.

Finding No. 2: Purchasing Practices – Computer Software

District purchases, totaling $21,134,525, for instructional software and related services, discussed in Finding No. 1, were acquired through direct negotiation with vendors pursuant to State Board of Education Rule

6A-1.012(10), Florida Administrative Code (State Board Rule). Our review of District records supporting these costs disclosed the following:

- Although requested, the District could not provide records to evidence the basis upon which it determined the reasonableness of the costs and related benefits of the purchases. We were provided documentation evidencing that District personnel had attended several meetings with vendors and requested price proposals and other information from the software vendors regarding the software products. While the State Board Rule allows purchases by direct negotiations, to ensure that negotiated purchases are reasonable, documentation should be maintained to evidence consideration of various purchase options, and that prices paid for similar purchases by other school districts were obtained and evaluated.
- The contracts require the vendors to maintain the software for a designated time period which began upon purchase. However, implementation of one software product was incomplete at purchase with anticipated implementation for 15 schools during the 2007-08 fiscal year, 28 during the 2008-09 fiscal year, and 52 during the 2009-10 fiscal year. As a result, software maintenance valued at $462,000 could expire before all software is implemented. Similarly, anticipated implementation of another software product was scheduled for 19 high schools during the 2007-08 fiscal year, but 29 middle schools were not planned for implementation until the 2008-09 fiscal year, after a full year of maintenance and support expires. Since the software products were not fully implemented at all sites upon purchase, the usefulness of the maintenance services and related costs was limited.
- The District did not, of record, monitor the use of training and consulting days purchased with the software. The services provided by a software purchase included 1,475 training and consulting days valued at $1,650 per day, or $2,433,750; and another purchase included 1,520 on-site support days costing $840 per day, or $1,276,800. An additional software purchase included a dedicated systems engineer for two years and up to 759 training days over three years (with annual limits). Although there was a limited period of time for using the training and consulting days, and additional costs for extra days, District personnel did not, of record, monitor the use of the days to ensure they were being utilized at an appropriate rate.

Recommendation: The District should strengthen its procedures for negotiated purchases to ensure that documentation of negotiations is prepared and maintained evidencing the procurement process and consideration of cost saving options. In addition, the District should implement procedures to properly monitor the receipt of training and consulting services, and document whether such services are consistent with contract terms.

Significant Deficiencies

Finding No. 3: Competitive Selection of Professional Services

The District did not utilize the public announcement and formal competitive selection and negotiation process specified in Section 287.055, Florida Statutes, when acquiring construction-related services for numerous maintenance and construction projects. Section 287.055, Florida Statutes, the Consultants' Competitive Negotiation Act, provides that professional services, including architectural, professional engineering, landscape architecture, and registered surveying services, be acquired pursuant to a formal competitive selection and negotiation process. The act generally requires that the District publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project with a basic construction cost that is estimated by the District to exceed $250,000, or when a planning or study activity fee is estimated to exceed $25,000. Additionally, the act provides that a continuing contract for professional services may be entered

into for construction projects when the construction costs do not exceed $1 million, for a study activity when the fee for such professional service does not exceed $50,000, or for work of a specified nature as outlined in the contract.

The District entered into continuing contracts with 42 firms for a variety of services, such as architectural, professional engineering (civil, electrical, mechanical, HVAC, etc.), construction management (construction, electrical, mechanical, HVAC), professional surveying, environmental, and planning. The contracts specified that the District would issue a written authorization to activate the firms for specific projects; however, the annual contracts did not identify or list individual construction projects or outline and describe any work of a specified nature. District records indicate that activations, totaling $27,448,127, were issued to 34 firms during the 2006-07 fiscal year.

Our review disclosed that, contrary to Section 287.055, Florida Statutes, the District utilized continuing contracts for numerous construction and maintenance related projects without going through the public announcement and formal competitive selection and negotiation process. For example, our review of activations issued to six firms during their annual contract period disclosed the following:

No.	Type of Service Provider	Annual Activations		Construction
		Number	Amount	Budgets (1)
1	Construction Manager A	35	$ 5,272,554	$ 5,272,554
2	Construction Manager B	45	4,595,042	4,595,042
3	Electrical Contractor	55	3,659,200	3,659,200
4	Architectural A	12	326,567	2,568,000
5	Architectural B	11	157,978	2,072,300
6	Engineering	15	407,000	3,756,000

Note (1): The activation amounts were listed as the construction budget amounts for the first three service providers because the budget amounts were not readily available.

For the activations issued to these six firms, we noted the following:

- The District issued 30 activations, totaling $13,488,858, for construction projects which individually exceeded $250,000. Additionally, the engineering firm was issued activations for two camera system projects with estimated construction costs of $950,000 and $963,000, respectively, on two consecutive days. However, the construction contractors and engineering firm were not selected pursuant to a public announcement and formal competitive selection and negotiation process.
- Each of the firms was issued activations within the one year period for projects with construction costs exceeding the $1 million threshold for continuing contracts. The $1 million threshold pertains to the cumulative sum of all activations under the continuing contract. We were advised by District personnel that it was their understanding the $1 million threshold applied to each activation rather than the sum of all activations.
- The activations issued to the electrical contractor were for construction self-performed by the contractor based on a negotiated guaranteed maximum price, which is not a professional service as defined in Section 287.055, Florida Statutes. For these activations, the electrical contractor was acting as both the construction manager and the contractor, and no subcontractor bids or proposals were obtained to evidence the reasonableness of the guaranteed maximum price. The District had similar arrangements

with three other electrical contracting firms under continuing construction manager contracts and issued activations totaling approximately $2 million to those three firms during the 2006-07 fiscal year. Additional discussion regarding activations to electrical contractors is included in Finding No. 16.

Additionally, the use of continuing construction manager contracts for minor repair and renovation projects appears contrary to Section 1013.45(1), Florida Statutes, which provides for selecting a construction management entity using the process provided by Section 287.055, Florida Statutes, for construction of new facilities or major additions to existing facilities. The District utilized its continuing construction manager contracts for projects such as minor remodeling and renovation, window replacements, security and camera systems, fire alarm systems, emergency generator systems, technology infrastructure upgrades, plumbing and chiller repairs and upgrades, HVAC upgrades, etc.

In these circumstances, it is not evident that the District obtained these services at the lowest possible price consistent with desired quality and performance. The Legislature has recognized in Section 287.001, Florida Statutes, that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Absent utilization of the required competitive selection process, the District's ability to demonstrate the fair, equitable, and economical procurement of professional and construction services is limited.

Recommendation: The District should ensure that professional services are obtained pursuant to competitive selection and negotiation when the construction cost or the fee for professional services is estimated to exceed the thresholds specified in Section 287.055, Florida Statutes. In addition, the District should strengthen its contracting procedures to ensure that construction contracts are competitively awarded when required by law to ensure the efficient and effective use of District resources.

Auditor's Clarification:

In response to Finding No. 3, the District indicates that under its interpretation of the definitions and processes outlined in Section 1013.45(1)(c), Florida Statutes, and Section 287.055, Florida Statutes, a project includes minor construction, rehabilitation or renovation activities, not just new facilities and major additions to existing facilities. The District also indicates that it was in compliance with the procurement requirements for professional services because the initial selection process for the continuing contract was for a procurement of over $250,000, and individual project activations did not exceed $1 million. However, pursuant to several Attorney General opinions, the continuing contract provision in Section 287.055, Florida Statutes, has been interpreted to constitute a narrow exception to the competitive negotiation process when an existing continuing contract is in place. We therefore recommend that the District obtain an opinion from the Attorney General regarding its interpretation of Section 287.055, Florida Statutes.

Finding No. 4: Related Party Transactions

Contrary to the provisions of Sections 112.313(7) and 1001.42(10)(i), Florida Statutes, the District entered into a banking services agreement with a bank that employs a District School Board member. Section 112.313(7), Florida Statutes, provides that no public officer or employee of an agency shall have or hold any employment or contractual relationship with any business entity which is doing business with an agency of which he or she is an officer or employee. Section 1001.42(10)(i), Florida Statutes, provides that no contract for materials, supplies, or

services shall be made with any member of a district school board, a district school board superintendent, or any business organization in which a district school board member or superintendent has any financial interest whatsoever.

On January 2, 2007, the Board unanimously approved entering into a contract with a bank for an initial term of February 1, 2007, through January 31, 2012. In addition to acting as a depository for District funds, the banking services agreement provided for other banking services, including a positive pay security feature, account reconciliation services, an investment account, and an electronic accounts payable function.

Contrary to the provisions of Sections 112.313(7) and 1001.42(10)(i), Florida Statutes, the banking services contract was with a financial institution that was also listed as a school board member's employer and mortgage holder on the 2006 statement of financial interests filed with the Florida Commission on Ethics. Although Section 112.313(12), Florida Statutes, provides several exceptions to the restrictions in Section 112.313(7), Florida Statutes, including an exception allowing an agency to do business with a bank acting as a depository of funds under certain conditions, in these circumstances the bank is providing other services in addition to acting as a depository that are not addressed in the exemption.

Recommendation: The District should take appropriate actions to comply with the provisions of Sections 112.313(7) and 1001.42(10)(i), Florida Statutes.

Finding No. 5: Third-Party Administrator – Employee Benefits Cafeteria Plan

The District could improve its monitoring and accountability procedures for moneys held by a third-party administrator for the District's employee benefits cafeteria plan. The District contracted with a third-party administrator (TPA) to manage certain insurance coverages, including employee day care and medical reimbursement programs, that are part of the District's cafeteria (flexible spending) plan. Under the plan, the District provided an annual per employee $250 flexible benefit contribution and a $500 to $800 medical savings account contribution, and employees could purchase additional insurance coverages through payroll deduction. The District benefit contribution and the payroll deduction amounts were all deposited to a District bank account administered by the TPA. During the 2006-07 fiscal year, the District and participating employees made plan contributions totaling approximately $28 million, most of which were pretax deductions. Under the terms of the plan, any unspent moneys revert to the District at the end of the plan year, but are restricted for future employee benefit programs. At June 30, 2007, the cafeteria plan bank account balance totaled $7,175,712.

Although the TPA performed monthly bank account reconciliations of the plan bank account and the District obtained a service organization audit report, as described in *Statement of Auditing Standards No. 70*, issued by the American Institute of Certified Public Accountants, addressing the suitability of policies and procedures placed in operation for the TPA, we noted certain deficiencies with regard to the District's flexible spending plan, as follows:

- The District did not report the flexible spending plan bank account balance, or the related liability and net assets account balances, on its financial statements. The bank account balance was comprised of $1,225,649 held for insurance premium payments due during the summer months, $3,447,815 held for the current plan year employee day care and medical reimbursement programs, $1,825,727 held in unspent (forfeited) employee day care and medical reimbursement moneys from the prior plan year, and $676,521 comprising accumulated interest earnings, stale-dated checks, unreconciled remittances, and other miscellaneous amounts. We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the flexible spending plan account balances.
- Although the TPA reported that $1,825,727 was subject to reversion for the cafeteria plan year ending September 30, 2006, the District had not withdrawn such forfeited amounts from the bank account as of November 7, 2007. The withdrawal of forfeited balances at the conclusion of each plan year reduces the risk that such amounts will be used in error for subsequent year plan benefits and provides greater accountability for plan assets.
- The TPA also acts as the District's agent of record for procuring various cafeteria plan insurance products and receives commissions from the insurance products purchased. The District's agreement with the TPA has been in effect since January 1, 1995. The District typically renews insurance products each year as long as the insurance provider provides quality service at a reasonable cost. The TPA is mainly compensated through commissions, and also charges fees for certain services; however, the District does not request information from the TPA regarding commissions received, or routinely monitor to ensure commissions and fees are reasonable in comparison to the services provided.

Recommendation: The District should implement controls to ensure cafeteria plan activities and account balances are properly reported on its financial statements. The District should also establish procedures to periodically monitor the reasonableness of commissions received by the TPA relative to the cost of the services and insurance products provided.

Finding No. 6: Allocation of Interest Earnings

The District did not properly allocate interest earnings on pooled investments to the respective funds owning the investments. Section 1011.09(1), Florida Statutes, requires that district school boards credit interest or profits on investments to the specific budgeted fund that produced the earnings. The District invests a substantial portion of its moneys not needed for current operating purposes in a pooled account with the State Board of Administration (SBA); however, District records did not evidence that the interest allocations were based on the respective fund's ownership interest in the investment balance. As a result, interest earnings on significant amounts of restricted moneys were not correctly allocated to the funds that owned the investments during the 2006-07 fiscal year.

We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the interest earnings in the funds that owned the investments. For example, these adjustments included correcting a $3,993,965 overstatement of interest earnings in the General Fund and a $3,194,140 understatement of interest earnings in the Local Capital Improvement Fund.

Recommendation: The District should properly account for and allocate the interest earned on its investments to the appropriate funds that own the investments.

Finding No. 7: Information Technology – Access Authorization Controls

The District's access controls within its enterprise resource planning environment and the supporting network environment needed improvement. Developing and maintaining a structured approach to general controls over information technology operations enables the proper use of the application, data management, and technological solutions put in place. Security considerations for all components of a system environment, including application, operating system, network, and physical levels, contribute to the reliability and integrity of the applications and data processed therein.

Our audit disclosed the following deficiencies related to access authorization and authentication controls within the District's enterprise resource planning environment providing application processing for its administrative systems, including general ledger, accounts payable, human resources, and payroll functions:

- Certain District staff's system access privileges had not been properly segregated or limited to those necessary to the performance of assigned job responsibilities. Segregation of incompatible duties is fundamental to the reliability of an organization's internal controls. Preventing one person from controlling all stages of a process minimizes the likelihood that errors or fraud could occur without detection. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of the specific deficiencies.
- Certain control deficiencies existed in the enterprise resource planning environment, including the supporting network environment, related to password and user workstation controls. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of the specific deficiencies.

Proper controls to restrict access to application software processing functions are necessary to protect the integrity, confidentiality, and availability of the District's information resources.

Recommendation: The District should take appropriate steps to strengthen its access authorization and authentication controls within the enterprise resource planning environment.

Additional Matters

Finding No. 8: Internal Audit Function

Although the Board had adopted a policy and designated the Board as an audit committee, the Board had not met as an audit committee and had not planned, initiated, or reviewed any internal audit activities. Section 1001.42(10)(l), Florida Statutes, provides that a school board may employ an internal auditor to perform ongoing financial verification of the financial records of the school district and provides that the internal auditor shall report directly to the school board or its designee. Board Policy BE, *School Board Meetings*, was adopted on November 1, 2005, and provides for several standing Board committees, including an audit committee consisting of the seven school Board members. The policy also provides that the audit committee shall schedule meetings at least twice annually, and is responsible for reviewing internal and external audit reports, recommending audits of District activities or areas to the superintendent, periodically submitting summary reports to the Board of all

audits reviewed, reviewing and approving the annual plan for internal audit activities, reviewing management's implementation of recommendations made by internal auditors, making recommendations related to the effectiveness of the internal audit effort, and reviewing the adequacy of the internal audit budget in relation to planned activities.

Our review disclosed that as of October 1, 2007, the Board had not met as an audit committee and, therefore, had not planned, initiated, or reviewed any internal audit activities. The District has an Internal Auditing Department; however, the Internal Auditing Department was primarily responsible for conducting audits of the school internal accounts and organizationally reported to the Chief Business Officer. The District has also recently established a fraud, waste, and abuse reporting process, including a telephone hotline, that provides for the reporting of such suspected activity to the District's Police Department.

A functioning internal audit committee, along with periodic risk assessments, internal audit plans based on the risk assessments, and the performance of internal audit activities can provide the District assurance that management and internal controls are adequately designed and operating effectively, and can evaluate compliance with school board and administrative policies and procedures, as well as State and Federal guidelines.

Recommendation: Considering the size and complexity of District operations, the Board should make additional efforts in performing its audit committee responsibilities, including providing for an internal audit function to perform periodic risk assessments identifying and prioritizing high risk areas, planning and performing internal audit activities, and reporting the results of such activities to the audit committee.

Finding No. 9: Decentralized Collection Procedures

Improvements were needed in the District's collection procedures at decentralized locations. While the majority of the District's revenues are received by wire transfers and direct deposits, cash and checks are also collected at various decentralized locations and forwarded to the central cashier in the District Office for deposit. We noted the following deficiencies in the District's internal controls over the collection and transfer of cash and checks:

- Certain decentralized collection locations did not document the receipt date of collections or the date moneys were transferred to the central cashier. For example, certain collections in the risk management and human resources departments were not documented at the point of receipt, or for the date of transfer to the central cashier.
- Checks collected at the decentralized locations were not restrictively endorsed until the central cashier prepared the deposit.
- Several instances were noted where collections received at decentralized locations were not timely transferred to the central cashier. Our review of 12 daily cash receipt logs prepared by the central cashier disclosed seven instances where the check date was more than 30 days prior to the deposit date.

In these circumstances, cash and check collections are exposed to increased risk of loss or theft while awaiting deposit.

Recommendation: The District should strengthen its procedures to require restrictive endorsements of all checks upon receipt and to document the initial collection and transfer of collections to the central cashier for timely deposit.

Finding No. 10: Food Service – Cash Collections

The District's food service cash collections were not always timely deposited. The District reported local food service revenues totaling approximately $15.7 million for the 2006-07 fiscal year. Our review indicated that controls over District food service collections were generally adequate; however, we noted a certain control weakness over food service sales and collections as discussed below.

School cafeteria staff recapped the daily point-of-sale information, submitted reports and cashier tapes to the District's food service office, and prepared the deposits for pick-up twice a week by a contracted armored car service. Our review of collections and deposits at three schools for the month of April 2007 disclosed that, for one school tested, the cash deposits were not timely provided to the armored car service, and were not posted to the District's bank account until 5 to 12 calendar days after the date of collection. Subsequent to our inquiries, District staff advised us that cafeteria staff would be reminded to ensure that daily collections are deposited timely.

Recommendation: The District should continue its efforts to ensure that daily food service collections are deposited timely.

Finding No. 11: Schultz Center Regional Professional Development Academy

As similarly noted in our report No. 2006-002, the Schultz Center for Teaching and Leadership (Center) could not demonstrate the ability to be self-sustaining, through fees for services, grants, or private contributions, without District support. The Board entered into a memorandum of agreement on December 5, 2000, with the Schultz Center for Teaching and Leadership, Inc. (Corporation), for the purpose of establishing the general terms, conditions, roles, and responsibilities for the collaborative development and establishment of a regional professional development academy. The Board and the Corporation subsequently established the Center under the authority of Section 1012.985, Florida Statutes. The stated intent of this section was to establish a Statewide system of professional development … consisting of a network of professional development academies in each region of the State that are operated in partnership with area business partners to develop and deliver high-quality training programs purchased by school districts. This section also requires that a regional professional development academy, such as the Center, demonstrate the ability to be self-supporting within one year after opening through fees for services, grants, or private contributions.

The District is essentially incurring the costs to operate the Center and providing the majority of professional development services with District personnel. The District's annual operating agreement with the Center required that the Center deliver hours of training; however, the cost of the training was negotiated based upon the costs of operating the Center and providing training-related goods and services. Accordingly, based upon the

Center's estimated operating costs, the District provided funding totaling $3,308,381 and $4,064,843 for the 2005-06 and 2006-07 fiscal years, respectively. The Center was required to provide a minimum of 300,000 hours of training; however, the training was mainly developed and provided by District personnel as an in-kind service to the Center.

The following tabulation summarizes the District's support to the Center for professional development and training services, and provides a comparison to the Center's training, program, management, and general expenses for the 2005-06 and 2006-07 fiscal years:

Description	Fiscal Year 2005-06	Fiscal Year 2006-07
District Support to Schultz Center		
Cash Payments to Center		
Contracted Cash Payments for Training	$ 3,259,575	$ 3,796,767
Other Cash Payments	48,806	268,076
Subtotal Cash Payments to Center	3,308,381	4,064,843
In-Kind Support to Center		
Estimated District In-Kind Staff Support	2,041,345	3,730,381
Estimated District In-Kind Operating Support (1)	250,000	275,000
Subtotal In-Kind Support	2,291,345	4,005,381
District Cash and In-Kind Support to Center	$ 5,599,726	$ 8,070,224
District Cash Payments Compared to Center Expenses		
Total Cash Payments to Center (from above)	$ 3,308,381	$ 4,064,843
Center Program, Management, and General Expenses (2)		
Training and Other Programs (3) (4)	2,407,269	3,208,729
Management and General (3)	259,525	372,706
Total Program, Management, and General Expenses	2,666,794	3,581,435
Cash Payments in Excess of Expenses	$ 641,587	$ 483,408

Notes: (1) Includes estimated utilities, maintenance, custodial, and supplies.
(2) Excludes donor restricted Federal and State grant and depreciation expenses.
(3) From the Center's audited financial statements.
(4) Primarily for District professional development and training programs.

This tabulation shows that the District, in addition to providing facilities and in-kind staff, operating, and other support to the Center, also provided cash payments sufficient to cover the Center's cost of training-related goods and services, and the Center's management and general expenses, and provided additional cash of $641,587 and $483,408 for the 2005-06 and 2006-07 fiscal years. Additionally, the Center lease agreement generally requires that the District be responsible for all facility operational, maintenance, and repair costs, although Section 1012.985(1)(g), Florida Statutes, requires that the Center be responsible for these costs.

In these circumstances, after six years of operation, it appears that without the District's support the Center could not demonstrate the ability to be self-supporting through fees for services, grants, or private contributions as

statutorily intended. Additionally, as further discussed in Federal Awards Finding No. 9, such an arrangement where the Center is financially dependent upon the District could raise potential concerns regarding the reasonableness of transactions between the parties because they are at less than "arms length."

Recommendation: The District should take appropriate action to evaluate the Center's ability to operate on a self-supporting basis as statutorily intended. This evaluation should include consideration of any necessary modifications to the Center agreements to ensure the Center is responsible for all facility operational, maintenance, and repair costs as required by law.

Auditor's Clarification:

In response to Finding No. 11, the District indicates that it does not concur that without the District's support, the Center is not self-supporting. However, the District does indicate that it will continue to evaluate the Center's ability to operate on a self-supporting basis as statutorily intended.

Finding No. 12: Monitoring of Charter Schools

District charter school monitoring procedures did not include verifying that the charter schools maintained the insurance coverage required by the charter school agreements. During the 2006-07 fiscal year, the District sponsored four charter schools, one of which was a component unit of another governmental entity. A fifth charter school commenced operations effective July 1, 2007. Although requested, District staff could not readily locate documentation to evidence charter school insurance coverage for the 2006-07 fiscal year because of changes in personnel responsible for maintaining these records. With regard to insurance coverage for the 2007-08 fiscal year, the charter school agreements required, in part, that the charter schools provide evidence of:

- Insurance coverage effective July 1 through June 30 for general liability of $1 million per occurrence and $2 million annual aggregate; automobile liability of $500,000 for bodily injury and $250,000 for property damage per occurrence; workers' compensation of $500,000 per occurrence; professional liability of $1 million per occurrence; property and contents of $100,000 per occurrence; and fidelity bond of $100,000 per person.
- Renewal or replacement of insurance coverage no less than 30 days before the expiration or termination of the required insurance for which evidence was provided.
- The District, board members, employees, and agents of the Board named as additional insureds for the coverage noted.
- Subcontractor's evidence of insurance coverage when providing any of the charter school's services with similar limits and additional insured requirements that apply to the school.
- A 60 day cancellation notice provision.

We requested copies of insurance certificates for the five charter schools. Our review disclosed the following:

- One charter school provided a copy of an insurance application effective beginning November 16, 2007, for general liability, professional liability, and property and contents coverage only. Evidence of the other required coverage was not available.
- One insurance certificate was not provided to the District until November 2007, subsequent to our inquiries.
- One charter school did not provide evidence of fidelity bond coverage and, for its subcontracted payroll processing services, did not provide evidence that the subcontractor obtained workers' compensation

coverage for the charter school. Also, the insurance certificates provided did not list the School Board as an additional insured.

- Cancellation provisions ranged from 10 to 45 days, rather than the required 60 days.

Recommendation: The District should ensure that its charter school monitoring procedures include verifying that insurance coverage required by the charter school agreements is properly maintained.

Finding No. 13: Cell Phones

The District provided cellular telephones (cell phones) to certain employees for use in performing their duties. According to District records, approximately 450 cell phones were used during the 2006-07 fiscal year at a cost of approximately $300,000.

United States Treasury Regulations, Section 1.274-5T(e), provides that an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T(e). Because cell phones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which require employees to submit records to the District to establish the amount, date, place, and business purpose for each business use. A notated copy of the employee's cell phone bill is an example of such record.

Board Policy GBEB, *Telephone Calls and Facsimiles*, provides that employees shall not make personal long distance or cell phone calls or send facsimiles at School District expense except with appropriate supervisor approval. The charge for any such calls or facsimiles shall be reimbursed by the employee to the School District. Our review of District procedures over cell phone use disclosed the following:

- The District had not established formal policies and procedures for monitoring the use of District cell phones for business purposes, and did not routinely monitor personal use of District cell phones. Employees were not required to reimburse the District for personal use of the phones.
- The District did not include the value of cell phone services in the employees' income reported on the 2006 calendar year W-2 forms. Since records were not monitored for the business use of cell phones, the District should have reported to the Internal Revenue Service (IRS) the value of cell phone services provided to each employee assigned a cell phone.
- One of the District's cell phone providers incorrectly charged the District a monthly 50 cent wireless E911 fee for each District cell phone. The September 2006 invoice included a $146 charge for the wireless E911 fee. Section 365.172(8)(a), Florida Statutes, provides that a 50 cent per month wireless E911 fee be collected by cell phone providers on each service number, except that State and local governments are not considered customers for purposes of collecting this fee.

Subsequent to audit inquiry, the District examined its options regarding cell phones and, on October 2, 2007, the Board approved revisions to Policy GBEB. The revised Board Policy abolished the practice of providing key

staff with cell phones and, instead, provided for payment of a stipend for each employee required to possess a cell phone to perform his or her duties.

Recommendation: The District should continue its efforts to ensure compliance with cell phone use in accordance with Federal requirements. The District should also seek reimbursement of the wireless E911 fees charged to and paid by the District in error.

Finding No. 14: Construction Administration - Board Policies

The District's procedure for approval of change orders was not consistent with Board policy, and the Board had not adopted a policy, procedures, and rules relating to prequalification of contractors desiring to work on District construction projects as discussed below:

- **Construction Change Orders**. The District's procedure for approval of change orders was not consistent with Board policy. Section 1013.48, Florida Statutes, authorizes the Board to adopt policies allowing a designated individual to approve change orders in the name of the Board for preestablished amounts, provided that approvals shall be for the purpose of expediting the work in progress and shall be reported to the Board and entered into its official minutes. Pursuant to Board policy, authority was delegated to a designated individual for approval of additive change orders to $50,000, and for all deductive change orders. However, we noted that District procedure allowed the designated individual to approve change orders up to $50,000 or 5 percent of the original contract amount. We noted seven change orders not approved by the Board that exceeded the $50,000 limit in the Board policy, ranging from $134,181 to $250,413. A similar finding was noted in our report No. 2006-002.
- **Prequalifying Contractors**. The Board had not adopted a policy, procedures, and rules relating to prequalification of contractors desiring to work on District construction projects. Section 4.1(8), *State Requirements for Educational Facilities – 1999*, prescribes uniform requirements for the prequalification of contractors and requires that the Board hold a public hearing to discuss its intent to prequalify contractors and the proposed policy, procedures, and rules relating to prequalification. The District developed written procedures addressing the prequalification of contractors and used the procedures to prequalify contractors; however, the Board had not held a public hearing regarding its intent to prequalify contractors and the proposed policy, procedures, and rules relating to prequalification. Additionally, the Board had not adopted a policy and procedures for the prequalification of contractors. Properly prequalifying contractors may provide the District with additional assurance that contractors are qualified for the projects to be performed and have historically complied with plans, specifications, time schedules, and warranties, and have properly compensated subcontractors.

When change orders exceed the Board policy dollar threshold without Board approval, and contractors are not prequalified pursuant to Board policy, the risk increases that performance on construction projects may be inconsistent with Board intentions.

Recommendation: All change orders exceeding the Board policy for approval by the designated individual should be presented to, and approved by, the Board. In addition, the District should hold the required public hearing regarding its intent to prequalify contractors, and adopt policies, procedures, and rules as necessary to ensure that all potential contractors are prequalified prior to awarding bids.

Finding No. 15: Land Acquisitions and Appraisals

Our review of Board minutes for a land purchase disclosed that the Board was not, of record, provided with copies of the appraisals and was not advised, of record, that the recommended purchase price exceeded the average of the two appraisals received by the District. Additionally, the Board was not advised that, because the

recommended purchase price exceeded the average of the appraisals, its vote would have to be extraordinary (majority plus one) in order to comply with Section 1013.14(1)(b), Florida Statutes. Section 1013.14(1)(b), Florida Statutes, provides that the Board shall obtain at least two appraisals pursuant to Section 253.025(6)(b), Florida Statutes, for land purchases that exceed $500,000. This statute further provides that, if the purchase price exceeds the average appraised value, the Board is required to approve the purchase by extraordinary vote.

The Board approved the land purchase for a future high school site on June 5, 2007. The purchase was for 100 acres of uplands and 60.4 acres of wetlands at a cost of $20,000,000, and District personnel indicated in the recommendation to the Board that the purchase price was appraised value. The purchase price was based, in part, on two appraisals obtained in November 2006 for a 92 acre site consisting of approximately 53.1 acres of uplands and 38.9 acres of wetlands. One appraisal indicated a per acre value of $170,000 for uplands and $3,500 for wetlands, and the other appraisal indicated a per acre value of $187,016 for uplands and $6,000 for wetlands. The average of these two appraisals was $178,508 per acre for uplands and $4,750 for wetlands. The District did not request appraisals for the 160 acre site purchased, which included the 92 acres that were the subject of the appraisals. Using the average appraisals for the 92 acre site, the average appraised value of the property recommended for purchase equated to $18,137,700. Therefore, the recommended purchase price exceeded the average appraised value by $1,862,300. Upon inquiry, we were advised by District personnel that because the purchase price was within the range of upland values provided by one appraiser (from $121,681 per acre to $212,065 per acre) and comparable sales included in the appraisals, it was considered to be appraised value. The closing for the land purchase was scheduled for December 18, 2007.

The land purchase recommendation was included on the Board's consent agenda and, although the Board's vote on the agenda was unanimous, the action taken by the Board may have been different with the additional details relating to the appraisal information.

Recommendation: Appraisal information should be provided, of record, to the Board for its consideration prior to approving future acquisitions of real property so that the Board can be aware of variations between appraised values and recommended purchase prices.

Finding No. 16: Construction Administration

Enhancements could be made in District controls over design-build and construction management projects. Section 1013.45(1), Florida Statutes, provides the authority for the District to contract for the construction or renovation of facilities using various delivery methods, including design-build (DB) and construction management (CM). Under the DB and CM processes, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. DB and CM firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District.

The District's Facilities Planning and Construction Department is responsible for the administration of the construction program. As similarly noted in our report No. 2006-002, our review of the District's construction program administration disclosed the following deficiencies:

- District records did not always evidence that District personnel attended the bid openings or obtained copies of subcontractor bid tabulations. For example, although several subcontractors were used on the $11.8 million Nutrition Service Center and the $18 million Chaffee Trail Elementary School projects, documentation related to the bid openings and bid tabulations were not available to document the process for selecting subcontractors on the projects. Copies of bid tabulations should be maintained by the District to evidence that subcontractor bids were solicited; a District representative monitored the subcontractor bid opening; that subcontracts were properly evaluated and awarded; and to assist District personnel in monitoring subcontractor payments.
- District records generally did not evidence that copies of subcontracts were routinely requested or obtained. The District's standard CM and DB agreements required that copies of subcontracts be provided to the District upon request. Copies of subcontracts should be maintained for verifying contractor billings; monitoring project contingency funds; and ensuring that cost savings are maximized under the GMP.
- The CM agreements provide that the CM contractor may self-perform work on a project if the contractor either submits a bid in accordance with an advertisement or provides detailed documentation based on cost scheduled and quotes to justify the economic benefit to the District and improvement in the project schedule prior to publication of the advertisement. However, we noted that activations were issued to electrical contractors (as discussed in Finding No. 3) to self-perform work without documented justification to forego the bid process. For example, without documented justification for the CMs to self-perform work, the District issued a $743,176 activation to an electrical contractor to self-perform upgrading computer labs at 21 schools, and activations of $86,264 and $68,318 were issued to another electrical contractor to self-perform replacing emergency generators at two schools. Activations to electrical contractors totaled approximately $5.6 million during the 2006-07 fiscal year.
- District procedures did not provide for verifying that project subcontractors were appropriately licensed. Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Verification of subcontractor licenses provides the District additional assurance that the subcontractors met the qualifications to perform the work for which they were engaged.
- Final payment for the $11.8 million Nutrition Service Center project was made without the Board's final acceptance of the project. Section 1013.50, Florida Statutes, and Section 4.2(3), *State Requirements for Educational Facilities (SREF) – 1999*, provide that final payment shall not be made to the contractor until the Board has accepted the project.

Recommendation: The District should establish monitoring procedures for its construction projects that include maintaining copies of subcontractor bid tabulations and awarded subcontract agreements; justification for work self-performed by construction managers; verification of subcontractor licensure; and ensuring that final payments are not made prior to Board acceptance of the project.

Finding No. 17: Design-Build Contract

Contrary to the requirements of Section 287.055(9), Florida Statutes, District records did not evidence that a licensed design professional prepared a design criteria package and was designated to serve as the District's representative when selecting and contracting with a design-build firm for the New High School "AAA" design-build project. Section 287.055, Florida Statutes (the Consultant's Competitive Negotiation Act), provides

authority for the District to secure design-build services and related professional services such as architecture, professional engineering, landscape architecture, or registered surveying and mapping, through competitive selection and negotiation. Section 287.055(9), Florida Statutes, provides that the District may secure design-build services by either (1) contracting with a design criteria professional to prepare a design criteria package in which the project would be subsequently bid or (2) by engaging a firm whereby the selected firm will subsequently establish a guaranteed maximum price and guaranteed completion date. In the latter option, the District shall employ or retain a licensed design professional appropriate to the project to serve as the District's representative. Additionally, the design criteria package must be prepared by a design criteria professional employed by or retained by the agency.

On October 6, 2005, the District contracted with a design-build firm to construct New High School "AAA" with a construction budget of $75 million. The design-build contract required that the firm establish a guaranteed maximum price and guaranteed completion date, thereby requiring that a licensed design professional be employed or retained for the project. Although the District had a licensed design professional on staff, District records did not evidence that the design professional prepared and sealed a design criteria package or was designated as the District's representative for the project. On March 6, 2007, the Board approved increasing the professional services fee by $2.3 million to provide additional design services for locating the school at a new site. To ensure that the District's design needs are sufficiently met, employment or retention of a licensed design professional to prepare a design criteria package and serve as the District's representative is essential. As of December 5, 2007, construction had not begun.

Recommendation: For future design-build projects, the District should employ or retain a licensed design professional, as required, to prepare a design criteria package and serve as the District's representative when contracting with a design-build firm that will subsequently establish a guaranteed maximum price.

Finding No. 18: Inspections of Relocatable Facilities

The District's annual relocatable inspection report summaries indicated that a substantial percentage of the District's relocatable classrooms did not meet the standards to be rated satisfactory. Section 5(2), *State Requirements for Educational Facilities (SREF) - 1999*, requires that all District relocatable buildings be inspected for compliance with the standards for satisfactory buildings. Annual inspection reports for all relocatables designed as classrooms or spaces intended for student occupancy shall be filed with the Board; corrections shall be adopted by the Board; and the inspection report for each relocatable shall be posted therein. Relocatables which fail to meet the standards shall not be reported as satisfactory and may not be used as classrooms.

The District's Code Enforcement Department is responsible for performing the required inspections for relocatable buildings. Upon completion, the inspection reports are provided to the Facilities Planning Department for review and follow-up. The District's relocatable inspection report summaries for the last two fiscal years disclosed the following.

Relocatable Inspection Report Summary

Fiscal Year	Number of Relocatables	Unsatisfactory Relocatables	Percent Unsatisfactory
2005-06	477	318	67%
2006-07	569	473	83%

The 2006-07 inspection report summary projected a cost of $34 million to correct all the deficiencies, including $31.5 million to provide for covered walkways. Further, for 186 unsatisfactory relocatables cited during the 2006-07 fiscal year, the lack of covered walkways was the only deficiency noted. The District reported expenditures of approximately $1.4 million for relocatable maintenance in the 2006-07 fiscal year, and anticipates budgeting approximately $1 million per year for the next five years. In these circumstances, it is not evident that the District is making significant progress in ensuring that its relocatables comply with State standards for educational facilities. A similar finding was noted in our report No. 2006-002.

Recommendation: The District should strengthen its efforts to ensure that all relocatables used as classrooms comply with State requirements.

Finding No. 19: Information Technology - District Security Program

The District's entitywide security program needed improvement. An entitywide program for security planning and management is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. The program establishes a framework and continuing cycle for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of procedures. Risk identification and impact analysis helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accepting residual risk. Principles that help ensure that information security policies address current risks include performing periodic risk assessments to determine needs, promoting security awareness, and monitoring the effectiveness of the policies and controls.

The following deficiencies were noted in the District's entitywide security program:

- Although the District has initiated risk analysis procedures through the development and implementation of policies and procedures, the District had not completed a formal, comprehensive risk assessment documenting vulnerabilities, acceptable levels of risk, mitigation factors, and acceptance of residual risk. The District's Technology Division developed an Information Security Doctrine to provide a uniform set of information technology (IT) security standards and procedures to effectively manage and protect the District's IT resources. As of October 25, 2007, the Doctrine remained in draft form and some related Standard Operating Procedures (SOPs) had not been developed or approved, including information classification guidelines and information handling procedures. Additionally, not all procedures had been sufficiently documented such that compliance with a given security standard could be assured. For example, the District had not documented how the events selected for logging on the network domain controllers and member servers would achieve the standard related to event monitoring. Further, the District had not documented, by position and responsibility, those access accounts requiring elevated privileges in order to manage and monitor those account types in association with SOPs related to access standards.

- The District did not have a security training program in place to facilitate employees' on-going awareness education and training on security responsibilities, including data classification and acceptable or prohibited methods for storage and transmission, password protection and usage, and workstation controls. While all users acknowledged agreement to the terms of the District's Acceptable Use Policy upon initially activating their network logon ID, users were not required to periodically reconfirm their understanding and agreement to the terms and responsibilities outlined in the policy.

A formal security program, including a documented risk framework, is necessary to evidence the District's exercise of due diligence in the management, use, planning, development, maintenance, or operation of information systems. Additionally, the establishment of associated policies and procedures and security awareness reduces the risks for inadequate or inconsistently applied controls and unclear, misunderstood, and improperly implemented responsibilities that could result in insufficient protection of sensitive or critical resources.

Recommendation: The District should complete a comprehensive risk assessment as the starting point for identifying risks and determining the District's needs. The IT Security Doctrine, along with supporting policy, SOPs, and compliance measures, should be completed and implemented to mitigate the identified risks and maintain the confidentiality, availability, and integrity of information resources. Management should also promote security awareness through adequate training programs, and establish an ongoing monitoring process of the IT environment, the security program, and specific security controls.

Finding No. 20: Information Technology – Disaster Recovery Plan

The District's disaster recovery plan had not been officially adopted and lacked certain key provisions. Contingency planning is an element of information technology controls established to manage the availability of valuable data and computer resources in the event of a processing disruption. The primary objective of contingency planning is to provide the entity a plan for continuing critical operations. The success and effectiveness of disaster recovery planning requires elements such as alternate site processing arrangements, testing, and a commitment from management.

The District's Business Resumption Plan provided for using another facility within the District as an alternate processing site, and was designed upon the methodology of assessing needs and creating an incident recovery plan and schedule at the time of an event. As of October 25, 2007, the Plan remained in draft form, had not been formally tested, and did not address the need for an alternate processing site outside of the District's proximity. An approved and tested disaster recovery plan is necessary for the District to efficiently and effectively continue operations with minimal loss in the event of a processing disruption.

Recommendation: The District should maintain a management-approved comprehensive disaster recovery plan. Because the District's Business Resumption Plan relies on identifying critical resources and needs at the time of a disaster, depending on event severity, periodic testing of Plan elements is necessary for promoting readiness, proving feasibility, and preventing omission of key procedures or decision points. Additionally, the District should consider the need for a remote alternate processing site and recovery procedures in the event of a disaster affecting the entire local area.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in the 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 Duval 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 97.

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 Balances – Budget and 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 Assets and Liabilities – Fiduciary Funds.*
EXHIBIT – L	*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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Duval 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 20. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Duval 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 Duval 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 23 through 33) 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 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District School Board of Duval County (the "District") has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2007. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the School Board (the "Board"). The intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview 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 the individual funds.

The Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 35 to 76.

FINANCIAL HIGHLIGHTS

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

- The District's total assets exceeded its total liabilities at June 30, 2007, by $914,462,875 (net assets).
- The District's net assets increased by $91,210,989, which represents an 11 percent increase from the 2005-06 fiscal year (after adjustments totaling $2,983,141 to reduce beginning net assets for corrections to prior period balances).
- The District's total government-wide revenues of $1,197,863,227 were comprised of general revenues of $1,078,636,812, or 90 percent of total revenues, and program specific revenues from charges for services, operating grants and contributions, and capital grants and contributions of $119,226,415, or 10 percent of total revenues.
- The District's total expenses for governmental activities of $1,106,652,238 were offset by program specific revenues of $119,226,415. The remaining expenses were funded from general revenues.
- The District's governmental funds reported combined ending fund balances of $335,099,935, or an increase of $27,164,407 in the 2006-07 fiscal year in comparison with the prior year (after adjustments totaling $4,523,141 to reduce beginning fund balances for corrections to prior period balances).
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $41,238,344 at June 30, 2007, or 4.7 percent of total General Fund expenditures.
- The General Fund total fund balance was $100,474,629 as of June 30, 2007, which represents an increase of 25.1 percent as compared to the prior year (after an adjustment of $5,166,736 to reduce beginning fund balance for a correction to the prior period balance). The increase in total fund balance of the General Fund is mainly attributed to the increases in State and local revenues of $63,708,092 and $18,587,136, respectively.
- The District's investment in capital assets (net of accumulated depreciation) increased by $41,122,595, or 5.5 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements consist of three components:

- Government-Wide Financial Statements;
- Fund Financial Statements;
- Notes to Financial Statements.

In addition to the basic financial statements, this report also contains other required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information regarding the overall financial position of the District, in a manner similar to a private-sector business. The statements include a statement of net assets and a statement of activities designed to provide consolidated financial information about the activities of the primary government presented on the accrual basis of accounting. Specifically:

- 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 measure of the financial health of the District.
- The Statement of Activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indicator of whether the District's financial position is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements, including instruction, pupil personnel services, instructional support services, administrative support services, facility maintenance, transportation, food services, and other functions. Property taxes, State and Federal assistance, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported in these statements. The District currently does not report any business-type activities, which would include functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include not only the District itself (the primary government), but also report the combined activities of three legally separate charter schools (discrete component units) for which the District is financially accountable. Financial information for these discrete component units is reported separately from the financial information presented for the primary government itself. The Duval School Board Leasing Corporation, although also legally separate, was formed to facilitate financing for the acquisition of facilities and equipment. 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

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. All of the funds of the District can be classified into one of the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Therefore, 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 and 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 for this fiscal year are the General Fund, Debt Service - Other Debt Service Fund, and Capital Projects – Local Capital Improvement Fund. Data from 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 is provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The District maintains proprietary funds for its Internal Service Funds. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Funds to account for its self-insurance program, including workers' compensation, general liability, and automobile liability coverage, and its District printing operations. The District's Internal Service Funds are included within governmental activities in the government-wide financial statements because the services predominantly benefit the District's governmental functions.

Fiduciary Funds. Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as school and activity funds, commonly called the school internal funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. 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's only Fiduciary Funds are the Agency Funds used to account for resources held for the school internal funds.

Notes to Financial Statements

The notes to the basic financial statements provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets, End of Year

	Governmental Activities		Percent Change
	6-30-07	6-30-06	
Current and Other Assets	$ 468,628,435	$ 404,442,875	15.9%
Capital Assets	791,671,820	750,549,225	5.5%
Total Assets	1,260,300,255	1,154,992,100	9.1%
Long-Term Liabilities	255,323,341	275,846,049	-7.4%
Other Liabilities	90,514,039	52,911,024	71.1%
Total Liabilities	345,837,380	328,757,073	5.2%
Net Assets:			
Invested in Capital Assets - Net of Debt	614,326,140	549,729,072	11.8%
Restricted	280,886,334	247,345,800	13.6%
Unrestricted	19,250,401	29,160,155	-34.0%
Total Net Assets	914,462,875	826,235,027	10.7%
Adjustment to Net Assets		(2,983,141)	-100.0%
Total Net Assets, Restated	$ 914,462,875	$ 823,251,886	11.1%

By far the largest portion of the District's net assets (67.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide education and related services to the students of Duval County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

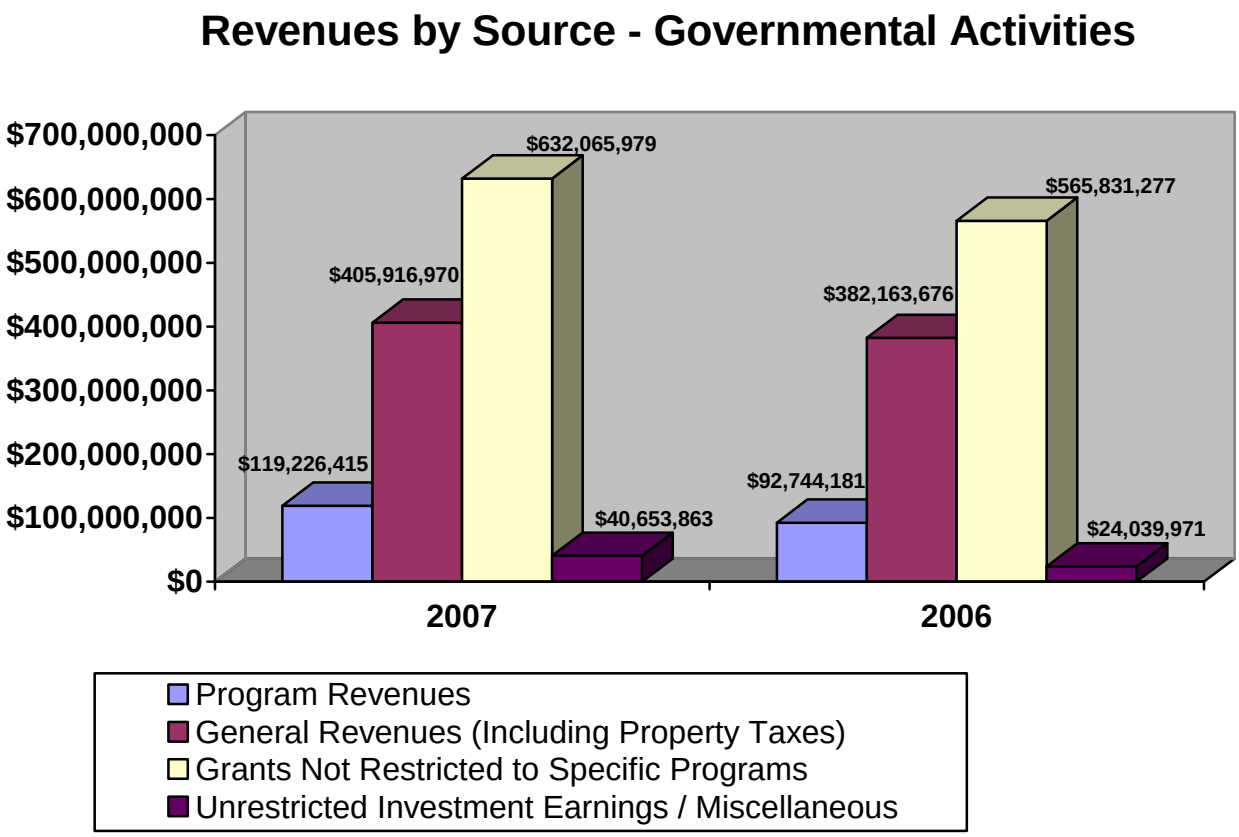
The restricted portion of the District's net assets (30.7 percent) represents resources that are subject to external restrictions on how they may be used. The District's unrestricted net assets (2.1 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The District's total net assets increased by $91,210,989 during the 2006-07 fiscal year. The increase represents the degree to which ongoing revenues have exceeded ongoing expenses. Details of the revenues and expenses comprising the increase are as follows:

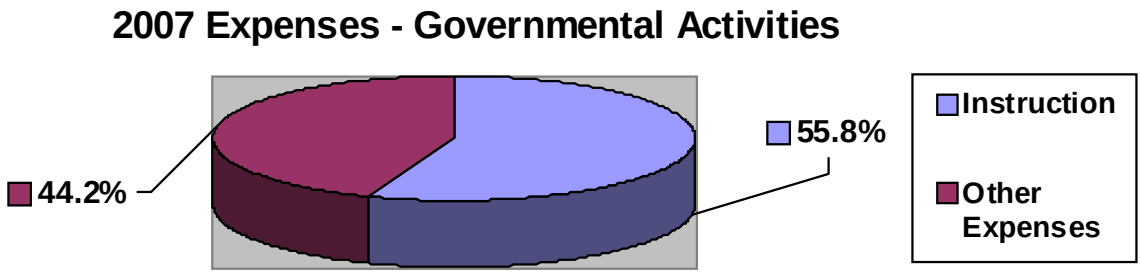
Operating Results
for the Fiscal Year Ended

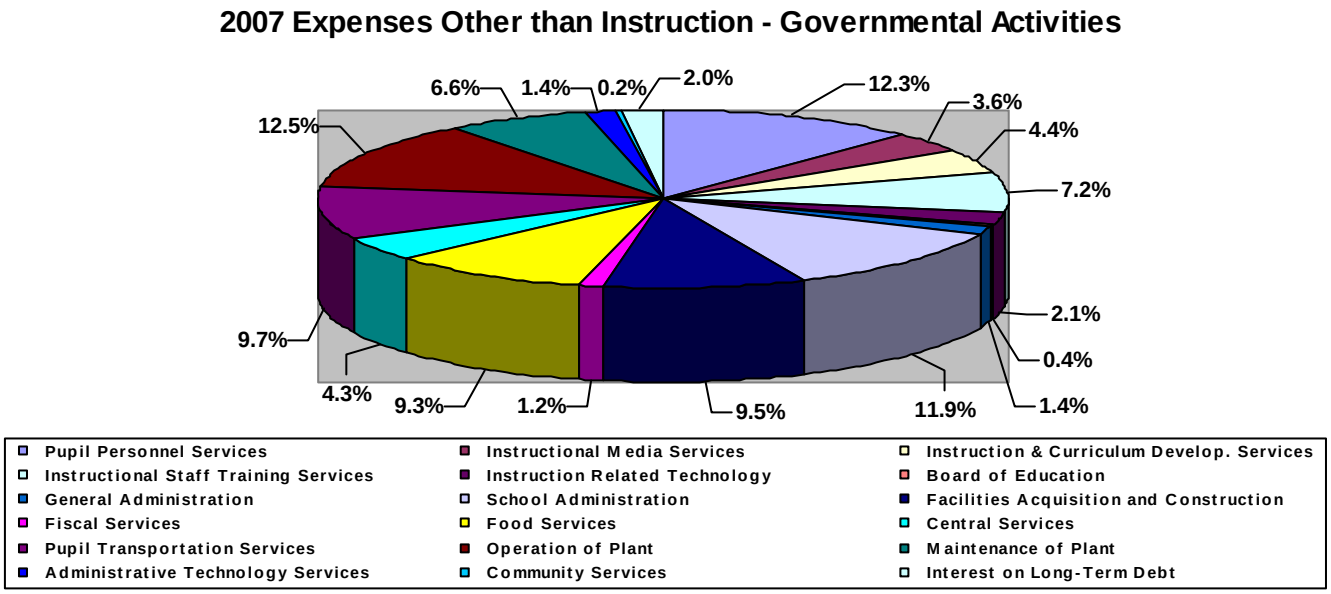
	Governmental Activities		Percent Change
	6-30-07	6-30-06	
Program Revenues:			
Charges for Services	$ 25,700,050	$ 26,121,447	-1.6%
Operating Grants and Contributions	47,997,638	45,770,657	4.9%
Capital Grants and Contributions	45,528,727	20,852,077	118.3%
General Revenues:			
Property Taxes Levied for Operational Purposes	287,708,806	272,216,105	5.7%
Property Taxes Levied for Debt Service	17,273,770	19,491,295	-11.4%
Property Taxes Levied for Capital Projects	100,934,394	90,456,276	11.6%
Grants and Contributions Not Restricted to Specific Programs	632,065,979	565,831,277	11.7%
Unrestricted Investment Earnings	22,143,346	13,728,006	61.3%
Miscellaneous	18,510,517	10,311,965	79.5%
Total Revenues	1,197,863,227	1,064,779,105	12.5%
Functions/Program Expenses:			
Instruction	617,619,961	560,826,730	10.1%
Pupil Personnel Services	60,271,038	62,701,243	-3.9%
Instructional Media Services	17,502,009	17,220,291	1.6%
Instruction and Curriculum Development Services	21,544,786	21,785,102	-1.1%
Instructional Staff Training Sevices	34,975,813	33,292,113	5.1%
Instruction Related Technology	10,409,163	9,587,351	8.6%
Board of Education	2,017,645	1,683,054	19.9%
General Administration	6,995,107	7,661,149	-8.7%
School Administration	58,392,208	40,733,928	43.4%
Facilities Acquisition and Construction	46,642,063	34,893,677	33.7%
Fiscal Services	6,014,874	5,819,582	3.4%
Food Services	45,293,724	43,767,714	3.5%
Central Services	20,986,324	20,276,104	3.5%
Pupil Transportation Services	47,271,858	45,782,751	3.3%
Operation of Plant	60,709,214	61,200,190	-0.8%
Maintenance of Plant	32,502,883	30,734,973	5.8%
Administrative Technology Services	6,846,454	6,570,050	4.2%
Community Services	774,638	1,381,756	-43.9%
Interest on Long-Term Debt	9,882,476	10,670,426	-7.4%
Total Functions/Program Expenses	1,106,652,238	1,016,588,184	8.9%
Increase in Net Assets	$ 91,210,989	$ 48,190,921	89.3%

The majority of the District's revenues for current operations are provided through the State's Florida Education Finance Program (FEFP), State categorical educational programs, and local property taxes. The majority of these revenues are included in general revenues, which provide about 90 percent of total revenues, whereas program revenues provide only about 10 percent. The majority of program revenues (86.8 percent) are in the facilities acquisition and construction, food services, and pupil transportation services activities.



The FEFP funding formula is used to allocate State revenue sources for current District operations and, utilizing student enrollment data, is designed to maintain equity in funding across all Florida school districts considering funding ability based on taxable local property values. Although student enrollment decreased by 1,187 students, from 127,217 in the 2005-06 fiscal year to 126,030 in the 2006-07 fiscal year, the District experienced increases in FEFP, State categorical programs, and local property tax revenues. During the 2006-07 fiscal year, State FEFP funding increased by $36,982,986, or 10 percent. State categorical program funding increased by $28,374,123, or 24.4 percent, mainly from increased class size reduction funding. Local property tax revenues increased by $23,753,294, or 6.2 percent, mainly from increasing property values. The change in local property tax revenues was comprised of increases in taxes levied for operational purposes (General Fund) and capital outlay (Capital Projects – Local Capital Improvement Fund) of $15,492,701 and $10,478,118, respectively, and a decrease in taxes levied for debt service of $2,217,525.





Instructional activities represent the majority of the District's expenses, totaling approximately 55.8 percent of total governmental expenses in the 2006-07 fiscal year. Overall, total expenses increased by $90,064,054 or 8.9 percent, as compared to total revenues which increased by $133,084,122, or 12.5 percent.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management.

Governmental Funds

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

As of June 30, 2007, the District's governmental funds reported combined ending fund balances of $335,099,935, or an increase of $27,164,407 in comparison with the prior year (after adjustments totaling $4,523,141 to reduce beginning fund balances for corrections to prior period balances). Of the total combined ending fund balances, $166,155,076, or 49.6 percent, constitutes unreserved fund balances which are generally available for spending at the District's discretion considering each fund's established purpose. The remaining fund balances of $168,944,859 are reserved to indicate they are not available for new spending. The reserved fund balances include: 1) $61,787,460 to pay future debt service costs; 2) $59,052,378 for liquidation of contracts and outstanding purchase orders at year-end; 3) $41,797,883 for State categorical programs; 4) $4,258,080 for inventories purchased and available for issuance; and 5) $2,049,058 for future employee benefits cost reductions. The District's total governmental fund revenues increased by $125,725,753, or 11.8 percent in comparison to the prior year; the expenditures increased by $74,027,787 or 6.8 percent.

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 of the General Fund was $41,238,344, while total fund balance was $100,474,629. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 4.7 percent of total General Fund expenditures, while total fund balance represents 11.3 percent of total General Fund expenditures.

The District's General Fund total fund balance for the 2006-07 fiscal year increased by $20,179,311, or 25.1 percent, as compared to the prior fiscal year (after an adjustment of $5,166,736 to reduce beginning fund balance for a correction to the prior period balance). Key factors contributing to this increase are as follows:

- An increase in revenues of $81,724,584 comprised mainly of increases in State and local revenue sources. State revenues increased by $63,708,092, mainly from increased State FEFP and categorical funding, and local revenues increased by $18,587,136, mainly from increases in local property tax revenues.
- An increase in expenditures of $75,283,838, mainly from increases in salaries and benefits expenditures.
- Total expenditures exceeded total revenues by $7,422,486.
- Transfers in from other funds exceeded transfers out by $27,592,725.

The Debt Service – Other Debt Service Fund has a total fund balance of $42,308,490, all of which is reserved for the payment of debt service. The majority of the balance resulted from the issuance of the Series 2005 Crossover Refunding Certificates of Participation for which amounts are held in an irrevocable trust fund by the escrow agent in order to pay interest on the Series 2005 Certificates, and principal and interest on the Series 2000 Certificates to be refunded, up to and including the July 1, 2009, crossover date. The remaining fund balance represents assets restricted for the District's other Certificates of Participation and Qualified Zone Academy Bonds financing arrangements. There was a net increase in fund balance of $810,796, mainly from interest earnings on investments held by the escrow agent and transfers of funds to accumulate sinking fund assets for the future retirement of Qualified Zone Academy Bonds.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $132,914,391, all of which is restricted for the acquisition, construction, and maintenance of capital assets. Although local property tax revenues increased in comparison to the prior fiscal year, the fund balance decreased by $4,625,633, or 3.4 percent, primarily from increased expenditures for facilities maintenance and construction projects.

Proprietary Funds

The District's Proprietary Funds provide the same type of information found in the government-wide financial statements. The Internal Service Fund's unrestricted net assets totaled $30,343,597 at the end of the current fiscal year. The District experienced an increase in net assets of $5,025,810, or 19.9 percent, in comparison to the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

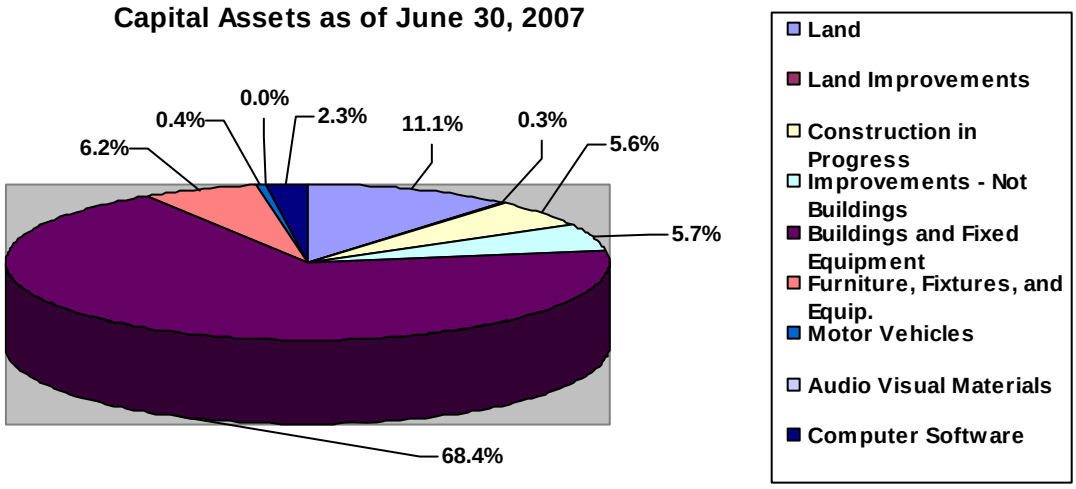
Differences between the original budget and the final amended budget were relatively minor. Projected revenues decreased by $5,579,576, or 0.6 percent, and expenditures decreased by $1,773,502, or 0.2 percent. Budget revisions are necessary to adjust planned revenues and expenditures based on actual revenues and resource needs.

Actual revenues were slightly more than final budgeted amounts, whereas actual expenditures were $83,664,117, or 8.6 percent, less than anticipated. Since actual expenditures were substantially less than budgetary estimates, the need to draw on existing fund balance was minimized. The actual ending fund balance exceeded the estimated fund balance in the final budget by $80,737,536.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) as of June 30, 2007, totaled $791,671,820. The capital assets include land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; audio visual materials; computer software; and construction in progress. The investment in capital assets (net of accumulated depreciation) increased during the current fiscal year by $41,122,595, or 5.5 percent.



Capital Assets at Year-End
(Net of Accumulated Depreciation)

	2006-07	2005-06	Increase (Decrease)
Land	$ 87,750,980	$ 79,060,687	$ 8,690,293
Land Improvements	2,371,494	2,305,626	65,868
Construction in Progress	44,358,370	37,468,336	6,890,034
Improvements Other Than Buildings	44,797,151	42,600,791	2,196,360
Buildings and Fixed Equipment	542,028,569	530,621,085	11,407,484
Furniture, Fixtures, and Equipment	49,091,450	45,415,199	3,676,251
Motor Vehicles	2,797,692	3,239,131	(441,439)
Audio Visual Materials	16,181	29,970	(13,789)
Computer Software	18,459,933	9,808,400	8,651,533
Total Capital Assets, Net	$ 791,671,820	$ 750,549,225	$ 41,122,595

Major capital asset events during the current fiscal year included new construction, maintenance, remodeling, renovations, and site improvements at several schools and other facilities, with costs totaling $41,883,971. The schools included Alimacani Elementary, Brentwood Elementary, Chaffee Trail Elementary, Chimney Lakes Elementary, First Coast High, Mandarin High, New "AAA" High, New Berlin Elementary, and North Shore Elementary Conversion to K-8, as well as major maintenance projects at numerous schools.

Additional information on the District's capital assets is shown in Note 5 to the financial statements.

Long-Term Debt

The District had total debt outstanding of $178,306,325 at the end of the current fiscal year, of which $26,463,227 represented General Obligation Bonds secured by a pledge of property taxes levied. The remaining debt consisted of State School Bonds and Certificates of Participation, which include Qualified Zone Academy Bonds, as shown below:

Long-Term Debt Outstanding at Year-End

	2007	2006	Increase (Decrease)
General Obligation Bonds	$ 26,463,227	$ 43,631,454	$ (17,168,227)
State School Bonds (1)	29,340,000	31,625,000	(2,285,000)
Certificates of Participation	115,821,098	118,439,467	(2,618,369)
Qualified Zone Academy Bonds	6,682,000	6,682,000	
Total Long-Term Debt	$ 178,306,325	$ 200,377,921	$ (22,071,596)

Note (1): The beginning balance reported for State School Bonds is $1,540,000 less than the amount reported at June 30, 2006, to correctly report outstanding debt resulting from the issuance of State Board of Education Refunding Bonds in prior years.

The District's total debt decreased by 11 percent during the current fiscal year. Changes in long-term debt were comprised of scheduled principal payments and related amortizations.

Additional information on the District's long-term debt is shown in Notes 6 through 9 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The following factors were considered in preparing the District budget for the 2006-07 fiscal year:

- The unemployment rate (seasonally adjusted) for the District (Duval County, Florida) is currently 3.5 percent, a decrease from the rate of 4.2 percent from the prior fiscal year. However, this compares unfavorably to the State's average unemployment rate of 3.3 percent. On the other hand, this rate compares favorably to the national average unemployment rate of 5.4 percent as of June 2007.
- There are approximately 25 companies with headquarters in Jacksonville with greater than 500 employees for a total of 44,921 employees. Additionally, there are 32 various unions in the area with the largest membership in the public sectors, with approximately 13,700 members.
- The Better Jacksonville Plan is a $2.25 billion comprehensive growth management strategy initiative which encompasses public facilities, roads and infrastructure, environmental projects and targeted economic development. Approved by voters in September of 2000, many of the projects covered by the plan have been completed, including the new baseball grounds, certain road and infrastructure projects, the new main library, and other library renovations. Remaining projects include various road construction projects budgeted at $278 million, and the new county courthouse complex budgeted at $263.5 million.
- Florida legislation requiring the reduction of class sizes at all levels over the next several years continues to have a strong impact on the District's budget and its ability to provide elective courses and other services to the schools.
- Inflationary trends in the District compare favorably to national indices.
- The housing market within Duval County, as well as the market throughout the State, has slowed. The housing market index measures the demand for new, single family, homes, and takes into consideration the number of new home starts, as well as sale prices. The growth in the housing market index has slowed considerably during 2006 and 2007 as compared to the previous five year period.
- The Governor of the State of Florida began efforts to reduce property taxes throughout the State. The District relies on property taxes for a significant portion of its revenues. A referendum is scheduled for January 2008 that could impact future property tax assessments.

During the 2006-07 fiscal year, unreserved fund balance in the General Fund decreased from $46,712,145 (after an adjustment of $5,166,736 to reduce beginning fund balance for a correction to the prior period balance) to $41,238,344, or 4.7 percent of total General Fund revenues. The District strives to maintain an unreserved fund balance of 3 to 5 percent of General Fund revenues in an effort to ensure resources are available for unforeseen changes in economic factors.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Duval County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Business Services, Duval County Public Schools, 1701 Prudential Drive, Jacksonville, Florida 32207-8182.

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 5,419,217	$ 713,937
Investments	352,856,555	
Accounts Receivable	2,287,690	1,954
Interest Receivable	579,120	
Deposits Receivable		5,035
Due from Other Agencies	51,681,286	78,747
Due from Excess Insurance Carriers	516,967	
Inventories	4,258,080	
Prepaid Items		3,840
Deferred Charges	960,645	
Restricted Assets:		
Cash	7,986,616	
Investments	42,082,259	
Capital Assets:		
Land	87,750,980	
Land Improvements - Nondepreciable	2,371,494	
Construction in Progress	44,358,370	
Improvements Other Than Buildings, Net	44,797,151	174,451
Buildings and Fixed Equipment, Net	542,028,569	1,541,269
Furniture, Fixtures, and Equipment, Net	49,091,450	372,106
Motor Vehicles, Net	2,797,692	59,295
Property Under Capital Lease, Net		18,786
Audio Visual Materials, Net	16,181	
Computer Software, Net	18,459,933	67,989
TOTAL ASSETS	1,260,300,255	3,037,409
LIABILITIES		
Salaries and Benefits Payable	23,252,902	
Payroll Deductions and Withholdings	2,572,191	3,120
Accounts Payable	40,486,762	114,843
Construction Contracts Payable	6,893,026	
Construction Contracts Payable - Retainage	2,297,994	
Due to Excess Insurance Carriers	5,912	
Accrued Interest Payable	659,958	
Deposits Payable	5,159,609	
Due to Other Agencies	9,131	
Matured Certificates of Participation Payable	2,435,000	
Matured Interest Payable	2,793,730	
Deferred Revenue	3,947,824	
Noncurrent Liabilities:		
Portion Due Within One Year:		
Estimated Insurance Claims Payable	3,313,764	
Notes Payable		45,000
Bonds Payable	20,568,227	
Obligations Under Capital Lease		4,858
Certificates of Participation Payable	2,728,369	
Compensated Absences Payable	7,796,832	
Portion Due After One Year:		
Estimated Insurance Claims Payable	9,056,413	
Bonds Payable	35,235,000	
Obligations Under Capital Lease		14,804
Certificates of Participation Payable	119,774,729	
Compensated Absences Payable	56,850,007	
TOTAL LIABILITITES	345,837,380	182,625
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	614,326,140	2,214,234
Restricted for:		
State Categorical Programs	44,871,928	
Debt Service	61,127,502	
Capital Projects	171,052,515	201,595
Special Revenue	1,785,331	
Employee Benefits	2,049,058	
Unrestricted	19,250,401	438,955
TOTAL NET ASSETS	$ 914,462,875	$ 2,854,784

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

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

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 617,619,961	$ 11,872,657	$	$
Pupil Personnel Services	60,271,038			
Instructional Media Services	17,502,009			
Instruction and Curriculum Development Services	21,544,786			
Instructional Staff Training Services	34,975,813			
Instruction Related Technology	10,409,163			
Board of Education	2,017,645			
General Administration	6,995,107			
School Administration	58,392,208			
Facilities Acquisition and Construction	46,642,063			41,717,344
Fiscal Services	6,014,874			
Food Services	45,293,724	13,827,393	27,236,087	
Central Services	20,986,324			
Pupil Transportation Services	47,271,858		20,761,551	
Operation of Plant	60,709,214			
Maintenance of Plant	32,502,883			
Administrative Technology Services	6,846,454			
Community Services	774,638			
Interest on Long-Term Debt and Fiscal Fees	9,882,476			3,811,383
Total Primary Government	$ 1,106,652,238	$ 25,700,050	$ 47,997,638	$ 45,528,727
Component Units:				
Charter Schools	$ 6,388,522	$	$ 191,745	$ 201,595

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

Total General Revenues

Change in Net Assets

Net Assets - July 1, 2006
Adjustment to Restate Beginning Net Assets

Net Assets - July 1, 2006, Restated

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
Governmental	Units
Activities	
$ (605,747,304)	$
(60,271,038)	
(17,502,009)	
(21,544,786)	
(34,975,813)	
(10,409,163)	
(2,017,645)	
(6,995,107)	
(58,392,208)	
(4,924,719)	
(6,014,874)	
(4,230,244)	
(20,986,324)	
(26,510,307)	
(60,709,214)	
(32,502,883)	
(6,846,454)	
(774,638)	
(6,071,093)	
(987,425,823)	
	(5,995,182)
287,708,806	
17,273,770	
100,934,394	
632,065,979	6,319,785
22,143,346	
18,510,517	758
1,078,636,812	6,320,543
91,210,989	325,361
826,235,027	2,529,423
(2,983,141)	
823,251,886	2,529,423
$ 914,462,875	$ 2,854,784

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

	General Fund	Debt Service - Other Debt Service Fund
ASSETS		
Cash and Cash Equivalents	$ 5,128,681	$
Cash Held with Fiscal Agent	7,175,711	810,905
Investments	120,107,895	46,726,315
Accounts Receivable	870,116	
Interest Receivable	240,991	
Due from Other Funds	264,838	
Due from Other Agencies	10,336,115	
Inventories	3,207,000	
TOTAL ASSETS	$ 147,331,347	$ 47,537,220
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	$ 23,252,902	$
Payroll Deductions and Withholdings	2,572,191	
Accounts Payable	15,430,144	
Construction Contracts Payable		
Construction Contracts Payable - Retainage	33,621	
Deposits Payable	5,159,609	
Due to Other Agencies	9,131	
Due to Other Funds		
Matured Certificates of Participation Payable		2,435,000
Matured Interest Payable		2,793,730
Deferred Revenue	399,120	
Total Liabilities	46,856,718	5,228,730
Fund Balances:		
Reserved for State Categorical Programs	41,797,883	
Reserved for Employee Benefits	2,049,058	
Reserved for Encumbrances	12,182,344	
Reserved for Inventories	3,207,000	
Reserved for Debt Service		42,308,490
Unreserved, Reported in:		
General Fund	41,238,344	
Special Revenue Funds		
Capital Projects Funds		
Total Fund Balances	100,474,629	42,308,490
TOTAL LIABILITIES AND FUND BALANCES	$ 147,331,347	$ 47,537,220

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

EXHIBIT - C

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$ 536	$ 5,129,217
		7,986,616
155,166,554	31,604,852	353,605,616
	1,245,050	2,115,166
323,685		564,676
		264,838
3,638,698	37,083,994	51,058,807
	1,051,080	4,258,080
$ 159,128,937	$ 70,985,512	$ 424,983,016
$	$	$ 23,252,902
		2,572,191
20,960,957	4,038,259	40,429,360
4,304,197	2,588,829	6,893,026
949,392	1,314,981	2,297,994
		5,159,609
		9,131
	92,314	92,314
		2,435,000
		2,793,730
	3,548,704	3,947,824
26,214,546	11,583,087	89,883,081
		41,797,883
		2,049,058
34,355,483	12,514,551	59,052,378
	1,051,080	4,258,080
	19,478,970	61,787,460
		41,238,344
	633,584	633,584
98,558,908	25,724,240	124,283,148
132,914,391	59,402,425	335,099,935
$ 159,128,937	$ 70,985,512	$ 424,983,016

EXHIBIT - D
DUVAL 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		$ 335,099,935
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.		791,671,820
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		960,645
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.		(659,958)
Internal service funds are used by management to charge the costs of its self-insurance and printing department operations to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		30,343,597
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	$ 55,803,227	
Certificates of Participation Payable	122,503,098	
Compensated Absences Payable	64,646,839	(242,953,164)
Total Net Assets - Governmental Activities		$ 914,462,875

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

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EXHIBIT - E
DUVAL 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	Debt Service - Other Debt Service Fund
Revenues		
Intergovernmental:		
Federal Direct	$ 1,384,904	$
Federal Through State	174,240	
State	558,865,862	
Local	317,575,217	1,568,595
Total Revenues	878,000,223	1,568,595
Expenditures		
Current - Education:		
Instruction	549,654,367	
Pupil Personnel Services	40,484,716	
Instructional Media Services	16,414,343	
Instruction and Curriculum Development Services	10,840,900	
Instructional Staff Training Services	22,866,135	
Instruction Related Technology	9,861,119	
Board of Education	1,982,971	
General Administration	4,131,829	
School Administration	55,376,968	
Facilities Acquisition and Construction	1,550,045	
Fiscal Services	5,714,963	
Food Services		
Central Services	19,525,280	
Pupil Transportation Services	43,167,447	
Operation of Plant	59,889,445	
Maintenance of Plant	31,834,568	
Administrative Technology Services	6,570,005	
Community Services	494,972	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	218,683	
Other Capital Outlay	4,843,953	
Debt Service:		
Principal		2,435,000
Interest and Fiscal Charges		5,610,710
Total Expenditures	885,422,709	8,045,710
Excess (Deficiency) of Revenues Over Expenditures	(7,422,486)	(6,477,115)
Other Financing Sources (Uses)		
Transfers In	37,384,431	7,287,911
Insurance Loss Recoveries	9,072	
Transfers Out	(9,791,706)	
Total Other Financing Sources (Uses)	27,601,797	7,287,911
Net Change in Fund Balances	20,179,311	810,796
Fund Balances, July 1, 2006	85,462,054	41,497,694
Adjustment to Restate Beginning Fund Balances	(5,166,736)	
Fund Balances, July 1, 2006, Restated	80,295,318	41,497,694
Fund Balances, June 30, 2007	$ 100,474,629	$ 42,308,490

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

EXHIBIT - E

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$ 5,581,362	$ 6,966,266
	112,316,079	112,490,319
	47,269,897	606,135,759
109,445,131	35,346,282	463,935,225
109,445,131	200,513,620	1,189,527,569
	37,213,905	586,868,272
	16,967,909	57,452,625
	161,185	16,575,528
	9,749,403	20,590,303
	10,478,422	33,344,557
		9,861,119
		1,982,971
	2,668,121	6,799,950
	61,362	55,438,330
38,632,302	6,412,913	46,595,260
		5,714,963
	44,059,671	44,059,671
	328,158	19,853,438
	3,961,809	47,129,256
	156,032	60,045,477
		31,834,568
		6,570,005
	231,506	726,478
45,980,161	23,597,270	69,796,114
	5,679,430	10,523,383
	18,300,000	20,735,000
	4,264,256	9,874,966
84,612,463	184,291,352	1,162,372,234
24,832,668	16,222,268	27,155,335
9,564,150	227,556	54,464,048
		9,072
(39,022,451)	(5,649,891)	(54,464,048)
(29,458,301)	(5,422,335)	9,072
(4,625,633)	10,799,933	27,164,407
137,540,024	47,958,897	312,458,669
	643,595	(4,523,141)
137,540,024	48,602,492	307,935,528
$ 132,914,391	$ 59,402,425	$ 335,099,935

EXHIBIT - F
DUVAL 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	$	27,164,407
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in 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.		36,143,681
Capital assets donated to the District during the current period increase net assets on the government-wide statements, but do not provide current financial resources and are not reported as revenues in the governmental funds.		5,304,280
The loss on disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(325,366)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of long-term debt that was repaid in the current period.		20,735,000
Issuance costs for new debt issues are reported as expenditures in governmental funds, but are deferred and amortized over the life of the debt in the statement of activities. This is the net decrease in deferred charges during the current period.		(137,123)
Governmental funds report the effect of premiums, discounts, and similar items in the year debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities.		1,336,596
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 vacation and sick leave earned in excess of the amount paid in the current period.		(4,532,499)
The net change in the retirement incentive program liability is reported in the government-wide statements, but not in the governmental fund statements.		86,240
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. This is the net decrease in accrued interest during the current period.		409,963
Internal service funds are used by management to charge the cost of certain activities, such as self-insurance and District printing operations, to individual funds. The net revenue of internal service funds is reported with governmental activities.		5,025,810
Change in Net Assets - Governmental Activities	$	91,210,989

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

EXHIBIT - G
DUVAL COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND 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	$ 1,410,000	$ 1,384,904	$ 1,384,904	$
Federal Through State		667,282	174,240	(493,042)
State	581,679,333	558,895,515	558,865,862	(29,653)
Local	300,455,001	317,017,057	317,575,217	558,160
Total Revenues	883,544,334	877,964,758	878,000,223	35,465
Expenditures				
Current - Education:				
Instruction	623,475,252	607,686,316	549,654,367	58,031,949
Pupil Personnel Services	40,784,896	43,736,188	40,484,716	3,251,472
Instructional Media Services	17,240,393	17,542,996	16,414,343	1,128,653
Instruction and Curriculum Development Services	18,902,565	13,803,335	10,840,900	2,962,435
Instructional Staff Training Services	22,024,273	25,315,525	22,866,135	2,449,390
Instruction Related Technology	12,003,797	11,673,722	9,861,119	1,812,603
Board of Education	3,502,966	3,092,115	1,982,971	1,109,144
General Administration	4,965,320	4,972,399	4,131,829	840,570
School Administration	52,159,904	56,729,766	55,376,968	1,352,798
Facilities Acquisition and Construction	2,307,369	2,718,947	1,550,045	1,168,902
Fiscal Services	8,341,704	6,914,703	5,714,963	1,199,740
Central Services	20,387,088	21,847,068	19,525,280	2,321,788
Pupil Transportation Services	47,752,483	45,323,900	43,167,447	2,156,453
Operation of Plant	56,815,042	62,007,909	59,889,445	2,118,464
Maintenance of Plant	31,837,788	32,932,187	31,834,568	1,097,619
Administrative Technology Services	7,984,224	7,114,243	6,570,005	544,238
Community Services	375,264	607,846	494,972	112,874
Fixed Capital Outlay:				
Facilities Acquisition and Construction		218,683	218,683	
Other Capital Outlay		4,843,953	4,843,953	
Debt Service:				
Principal		5,025		5,025
Total Expenditures	970,860,328	969,086,826	885,422,709	83,664,117
Excess (Deficiency) of Revenues Over Expenditures	(87,315,994)	(91,122,068)	(7,422,486)	83,699,582
Other Financing Sources (Uses)				
Transfers In	25,236,906	40,384,432	37,384,431	(3,000,001)
Insurance Loss Recoveries		9,072	9,072	
Transfers Out	(357,340)	(9,804,804)	(9,791,706)	13,098
Total Other Financing Sources (Uses)	24,879,566	30,588,700	27,601,797	(2,986,903)
Net Change in Fund Balances	(62,436,428)	(60,533,368)	20,179,311	80,712,679
Fund Balances, July 1, 2006	85,462,054	85,462,054	85,462,054	
Adjustment to Restate Beginning Fund Balances		(5,191,593)	(5,166,736)	24,857
Fund Balances, July 1, 2006, Restated	85,462,054	80,270,461	80,295,318	24,857
Fund Balances, June 30, 2007	$ 23,025,626	$ 19,737,093	$ 100,474,629	$ 80,737,536

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

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

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	290,000
Investments		41,333,198
Interest Receivable		14,444
Due From Other Agencies		622,479
Due From Excess Insurance Carriers, Net of Allowance for Doubtful Accounts of $440,379		516,967
TOTAL ASSETS		42,777,088
LIABILITIES		
Current Liabilities:		
Accounts Payable		57,402
Due to Other Agencies		5,912
Estimated Insurance Claims Payable		3,313,764
Total Current Liabilities		3,377,078
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		9,056,413
TOTAL LIABILITIES		12,433,491
NET ASSETS		
Unrestricted		30,343,597
TOTAL NET ASSETS	$	30,343,597

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

EXHIBIT - I
DUVAL COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	$ 8,517,197
Charges for Services	1,988,245
Total Operating Revenues	10,505,442
OPERATING EXPENSES	
Salaries and Benefits	400,260
Purchased Services	2,057,767
Materials and Supplies	423,101
Capital Outlay	535
Insurance Claims and Related Costs	4,328,695
Total Operating Expenses	7,210,358
Operating Income	3,295,084
NONOPERATING REVENUES	
Interest Income	1,730,726
Change in Net Assets	5,025,810
Total Net Assets, July 1, 2006	25,317,787
Total Net Assets, June 30, 2007	$ 30,343,597

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

EXHIBIT - J
DUVAL COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds	$ 10,505,442
Cash Received from Other Operating Activities	1,725,898
Cash Payments for Employee Services	(400,260)
Cash Payments to Vendors for Goods and Services	(2,469,805)
Cash Payments for Insurance Claims	(5,686,066)
Net Cash Provided by Operating Activities	3,675,209
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(15,117,246)
Proceeds from Sale of Investments	9,894,516
Interest Income	1,547,521
Net Cash Used by Investing Activities	(3,675,209)
Net Increase (Decrease) in Cash	
Cash, Beginning of Year	290,000
Cash, End of Year	$ 290,000
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$ 3,295,084
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Decrease in Due from Excess Insurance Carrier	763,158
Decrease in Due from Other Agencies	1,482,578
Increase in Accounts Payable	11,598
Decrease in Due to Other Agencies	(519,838)
Decrease in Estimated Insurance Claims Payable	(1,357,371)
Total Adjustments	380,125
Net Cash Provided by Operating Activities	$ 3,675,209
Noncash Investing Activity	
Increase in Fair Value of Investments	$ 201,100

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

EXHIBIT - K
DUVAL COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2007

		Agency Funds
ASSETS		
Cash	$	6,622,545
Investments		676,142
TOTAL ASSETS	$	7,298,687
LIABILITIES		
Due to Other Funds	$	172,524
Internal Accounts Payable		7,126,163
TOTAL LIABILITIES	$	7,298,687

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

EXHIBIT – L
DUVAL 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 Duval County School District is considered part of the Florida system of public education. The governing body of the school district is the Duval County District School Board which is composed of seven elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Duval 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 Duval School Board Leasing Corporation (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 Duval 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 of the District's other component units. These component units consist of the following three charter schools: Florida School for Integrated Academics and Technologies Jacksonville, Inc.; S.O.C.K. Outstanding Students (S.O.S) Academy, Inc.; and Wayman Academy of the Arts, Inc. The charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the *Florida Not For Profit Corporation Act*, and Section 1002.33, Florida Statutes, *Charter Schools*. The charter schools operate under charters approved by their sponsor, the Duval County District School Board. Audits of the charter schools' financial statements for the fiscal year ended June 30, 2007, were conducted by independent certified public accountants and are filed in the District's administrative offices.

The District also considered its Pathways Academy charter school operated by Florida Community College at Jacksonville for inclusion in its reporting entity; however, because Pathways Academy is an operating component of the College and is not a separate legal entity, it does not meet the criteria for inclusion as a District component unit. The charter school's financial statements were audited by an independent certified public accountant and are filed in 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.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expenses are allocated to the various expense functions based on actual and estimated usage of the assets in those functions.

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

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

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.

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.

- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the District's Certificates of Participation and Qualified Zone Academy Bonds.

- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

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

- Internal Service Funds – to account for the District's individual self-insurance programs and its printing department operations.

- 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.

➢ **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 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.

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 Internal Service Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's Internal Service Fund for self-insurance are charges to the District for workers' compensation, general liability, and automobile liability insurance premiums. The principal operating expenses include insurance claims and administrative expenses and fees. The principal operating revenues and expenses of the District's Internal Service Fund for printing department operations are charges to District departments to recover the costs of printing operations on a cost-reimbursement basis. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

➢ **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 as those accounts used as demand deposit accounts.

Investments consist of amounts placed in 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.

Unrestricted investments made locally consist of amounts placed in Obligations of United States Government Agencies and Instrumentalities and are reported at fair value. Restricted investments consist of amounts held by a trustee in Obligations of United States Government Agencies and Instrumentalities and commercial paper and are reported at cost.

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

- **Inventories**

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

- **Restricted Assets**

Certain assets held in escrow or by trustee, in the name of the District, in connection with certificates of participation financing arrangements are classified as restricted assets on the statement of net assets because they are set aside for repayment of maturing and refunding debt as required by applicable debt covenants. Additionally, certain District assets held with a third-party administrator in an Internal Revenue Code Section 125 Flexible Benefits Plan are classified as restricted because, pursuant to Plan provisions, they may only be used in connection with current and future employee benefit programs.

- **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 $750 or more. 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, 1969, were valued at appraised value when historical costs could not be determined.

Costs of construction-related capital assets and improvements are accounted for as construction in progress until accepted as substantially complete by the District. Interest costs incurred during construction of capital assets are not capitalized as part of the cost of construction.

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

Description	Estimated Lives
Improvements Other than Buildings	10 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	7 years
Audio Visual Materials	5 years
Computer Software	5 years

- **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 bonds. 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 discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

- **District Property Taxes**

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

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

The School Board adopted the 2006 tax levy on September 7, 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 Duval 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.
- 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:

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

Investment	Maturities	Fair Value
Unrestricted Investments		
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool	26 Day Average	$ 240,999,456
State Board of Administration Debt Service Accounts	Within six months	846,389
Obligations of United States Government Agencies and Instrumentalities	July 2007 - December 2008	110,905,275
Certificates of Deposits	July 2007 - July 2010	676,142
Other Investments (Donated Common Stock)		105,435
Total Unrestricted Investments		353,532,697
Restricted Investments (1)		
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool	26 Day Average	4,450,966
Obligations of United States Government Agencies and Instrumentalities	July 2007 - June 2009	36,706,568
Commercial Paper - General Electric Capital Corporatio	December 24, 2007	924,725
Total Restricted Investments		42,082,259
Total Investments, Primary Government		$ 395,614,956

Note (1): Restricted investments are held by a trustee for Certificates of Participation, Crossover Refunding Certificates of Participation, and Qualified Zone Academy Bonds. Restricted investments are reported at cost because they are held in a fiduciary capacity to provide a fixed amount at a future date certain rather than primarily to generate income or profit.

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 does not specifically limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates, but generally requires shorter-term investment maturities that are matched with cash flow needs to avoid selling securities prior to maturity.

- The District's unrestricted investments of $110,905,275 in Obligations of United States Government Agencies and Instrumentalities include callable investments of $91,335,675 with embedded options consisting of the option at the discretion of the issuer to call the obligation or pay a stated increase in the interest rate. These securities have various call dates, and mature between July 2007 and December 2008.

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

280.02, Florida Statutes. The District's investment policy limits investments to the Local Government Surplus Funds Trust Fund or similar intergovernmental investment pools, United States Treasury securities, Obligations of United States Government Agencies and Instrumentalities, SEC registered money market funds, commercial paper, and interest-bearing time deposits and bankers' acceptances.

- As of June 30, 2007, the District's investment in the Local Government Surplus Funds Trust Fund Investment Pool is unrated.

- 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.

- Restricted investments of $36,655,015 in Obligations of United States Government Agencies and Instrumentalities are authorized under a forward supply agreement and held by a trustee in an escrow account for the Crossover Refunding Certificates of Participation, Series 2005. The forward supply agreement authorizes the investment of funds in direct, non-callable Obligations of United States Government Agencies and Instrumentalities.

- Restricted investments of $51,553 in Federal National Mortgage Association obligations and $924,725 in General Electric Capital Corporation commercial paper are authorized under forward delivery agreements and held by the trustee for Qualified Zone Academy Bonds. The forward delivery agreements authorize the investment of the available sinking fund amounts in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard and Poor's Ratings Service.

- The District's investments in Obligations of United States Government Agencies and Instrumentalities are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

- The District's investments in Certificates of Deposit are in qualified public depositories.

Custodial Credit Risk

- The District's investment policy requires that all securities purchased and collateral obtained be held by a third-party custodial institution and be properly designated as an asset of the School Board. As of June 30, 2007, all investments are held with an appropriate custodian or trustee or are held in accounts in the name of and belonging to the School Board.

Concentration of Credit Risk

- The District's investment policy provides that the maximum allowable investment in any one United States Government Agency issuer shall be 50 percent of the entire portfolio. At June 30, 2007, the District's unrestricted investments in various individual issuers were as follows:

Investment Issuer	Fair Value	Percent of Total Fair Value
State Board of Administration Accounts	$ 241,845,845	68.4%
Federal Home Loan Bank	83,060,164	23.5%
Federal National Mortgage Association	13,088,011	3.7%
Federal Home Loan Mortgage Association	9,782,100	2.8%
Federal Farm Credit Bank	4,975,000	1.4%
Certificates of Deposit	676,142	0.2%
Other	105,435	0.0%
Total Governmental Funds	$ 353,532,697	100.0%

4. DUE FROM OTHER AGENCIES

The following is a schedule of amounts due from other agencies:

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

Funds/Source	Amount
Major Funds:	
General:	
City of Jacksonville Tax Collector:	
Local Property Taxes	$ 10,274,184
United States Department of Defense:	
Navy JROTC	61,931
Capital Projects - Local Capital Improvement:	
City of Jacksonville Tax Collector:	
Local Property Taxes	3,638,698
Nonmajor Governmental Funds:	
Special Revenue - Food Service:	
City of Jacksonville Childrens' Commission:	
Meal Reimbursements	341,848
Special Revenue - Other:	
United States Department of Education:	
Federal Grant Reimbursements	138,414
Florida Department of Education:	
Federal Grant Reimbursements	1,644,830
Various Agencies:	
Miscellaneous Projects	15,265
Debt Service - District Bonds:	
City of Jacksonville Tax Collector:	
Local Property Taxes	627,886
Capital Projects - Public Education Capital Outlay:	
Florida Department of Education:	
State Public Education Capital Outlay Appropriations	11,820,850
Capital Projects - Other Capital Projects:	
Florida Department of Education:	
Class Size Reduction Construction	22,494,901
Total Governmental Funds	51,058,807
Proprietary Funds:	
Internal Service Funds:	
Special Disability Trust Fund	622,479
Total Governmental Activities	$ 51,681,286

The amounts due from other agencies in the nonmajor governmental funds for State Public Education Capital Outlay Appropriations and Class Size Reduction Construction are for long-term capital projects and may not be entirely collected within one year. The amount due from other agencies in the Internal Service Funds from the Special Disability Trust Fund is paid on a first-in, first-out basis in the order the reimbursement requests were received, based on available funding. Therefore, the entire balance is not expected to be collected within one year.

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	$ 79,060,687	$ 8,690,293	$	$ 87,750,980
Land Improvements - Nondepreciable	2,305,626	65,868		2,371,494
Construction in Progress	37,468,336	41,883,971	34,993,937	44,358,370
Total Capital Assets Not Being Depreciated	118,834,649	50,640,132	34,993,937	134,480,844
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	111,217,674	3,913,260		115,130,934
Buildings and Fixed Equipment	1,096,600,793	31,014,809		1,127,615,602
Furniture, Fixtures, and Equipment	150,021,154	21,447,721	15,675,338	155,793,537
Motor Vehicles	9,800,692	625,307	964,740	9,461,259
Audio Visual Materials	634,407		43,753	590,654
Computer Software	47,379,872	12,976,485	142,635	60,213,722
Total Capital Assets Being Depreciated	1,415,654,592	69,977,582	16,826,466	1,468,805,708
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	68,616,883	1,716,900		70,333,783
Buildings and Fixed Equipment	565,979,708	19,607,325		585,587,033
Furniture, Fixtures, and Equipment	104,605,955	17,454,782	15,358,650	106,702,087
Motor Vehicles	6,561,561	1,060,712	958,706	6,663,567
Audio Visual Materials	604,437	11,549	41,513	574,473
Computer Software	37,571,472	4,324,548	142,231	41,753,789
Total Accumulated Depreciation	783,940,016	44,175,816	16,501,100	811,614,732
Total Capital Assets Being Depreciated, Net	631,714,576	25,801,766	325,366	657,190,976
Governmental Activities Capital Assets, Net	$ 750,549,225	$ 76,441,898	$ 35,319,303	$ 791,671,820

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 29,284,447
Pupil Personnel Services	2,686,048
Instructional Media Services	924,025
Instruction and Curriculum Development Services	926,066
Instructional Staff Training	1,568,460
Instruction Related Technology	544,082
Board of Education	32,805
General Administration	187,851
School Administration	2,771,549
Facilities Acquisition and Construction	46,586
Fiscal Services	278,685
Food Services	1,310,236
Central Services	1,209,585
Pupil Transportation Services	138,900
Operation of Plant	880,245
Maintenance of Plant	1,070,511
Administrative Technology Services	269,223
Community Services	46,512
Total Depreciation Expense - Governmental Activities	$ 44,175,816

6. CERTIFICATES OF PARTICIPATION

Certificates of Participation at June 30, 2007, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
Series 2000	$ 40,210,000	4.75 - 5.75	2020	$ 53,000,000
Series 2005 Refunding	35,355,000	3.00 - 5.00	2020	35,355,000
Series 2005A	37,735,000	2.75 - 5.00	2025	38,290,000
Series 2003-QZAB	5,667,000	(1)	2018	5,667,000
Series 2005-QZAB	1,015,000	(1)	2021	1,015,000
Subtotal	119,982,000			
Unamortized Premium	2,521,098			
Total Certificates of Participation	$ 122,503,098			

Note (1): Interest on this debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holder of the QZABs. The rate of return to the holders was established by the United States Government at the time of the sale.

The District entered into a master financing arrangement on October 1, 2000, characterized as a lease-purchase agreement, with the Duval School Board Leasing Corporation whereby the District secured

financing of various educational facilities and equipment. The financing was accomplished through the issuance of Certificates of Participation by the Corporation to third-party investors, to be repaid from the proceeds of rents paid by the District.

Series 2000 and 2005A Certificates. As a condition of the financing arrangement, the District has given ground leases on District property to the Duval School Board Leasing Corporation, with a rental fee of $10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements to the Trustee for the benefit of the securers of the Certificates for the remaining term of the ground leases.

A summary of the lease terms is as follows:

Certificates	Lease Term
Series 2000	Earlier of date paid in full or June 30, 2035
Series 2005A	Earlier of date paid in full or June 30, 2030

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

Certificates	Description of Properties
Series 2000	Oceanway Elementary (New Elementary School "V")
	Kernan Trail Elementary (New Elementary School "W")
	Don Brewer Elementary (New Elementary School "X")
	Kernan Middle (New Middle School "CC")
	Sandalwood High School - Ten Portable Replacements to Permanent Classrooms
	Alfred I. DuPont Middle School - Addition of New 6th Grade Wing
	Paxon School for Advanced Studies - Additional Science Labs
Series 2005A	Arlington Middle School (Replacement)
	Nutrition Service Center (New Districtwide Facility)

Series 2005 Refunding Certificates (Crossover Refunding). The District entered into a crossover refunding arrangement on January 11, 2005, to advance refund the Certificates of Participation, Series 2000. In a crossover refunding, an escrow account is established with the proceeds of the refunding certificates that does not secure repayment of the refunded certificates until a future designated crossover date. Upon the crossover date of July 1, 2009, the crossover transaction will meet the definition of a defeasance and the

liability for the Refunded Series 2000 Certificates, along with the related escrow account assets, will be removed from the District's government-wide financial statements. As a condition of the financing arrangement, the District will maintain, subsequent to the refunding date of July 1, 2009, the ground lease on District property given at the issuance of the Series 2000 Certificates to the Leasing Corporation, with a rental fee of $10 per year. The final maturity date for the Series 2005 Refunding Certificates is July 1, 2020.

Series 2003- and 2005-QZAB Certificates. The Qualified Zone Academy Bonds (QZAB) were issued under a special program whereby the Certificates will mature in full for the original issue amounts. There is no interest cost for borrowing monies under this program. The financing proceeds were used to acquire technology-related equipment and improvements at various designated schools, which are leased by the District from the Leasing Corporation. The District entered into forward delivery agreements under which mandatory deposits (rent payments) are accumulated. The forward delivery agreements provide a guaranteed investment return whereby the required deposits, along with accrued interest, will be sufficient to redeem the Certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreements are held under trust agreements until the Certificates mature. The QZAB issues are secured by the assets held under the trust agreements in the event of cancelation or default.

The schools designated for technology-related equipment and improvements include:

Certificates	Designated Schools
Series 2003-QZAB	John Love Elementary School
	Highlands Middle School
	Southside Middle School
	J.E.B. Stuart Middle School
	Mandarin Middle School
	Landmark Middle School
Series 2005-QZAB	Cedar Hills Elementary School
	Brookview Elementary School

Minimum Lease Payments. Except for the QZABs, lease payments are payable by the District, semiannually, on July 1 and January 1. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2008	$ 8,023,475	$ 2,545,000	$ 5,478,475
2009	8,022,662	2,660,000	5,362,662
2010	10,851,181	5,610,000	5,241,181
2011	10,853,749	5,830,000	5,023,749
2012	10,854,372	6,070,000	4,784,372
2013-2017	54,280,513	35,155,000	19,125,513
2018-2022	53,354,938	43,697,000	9,657,938
2023-2025	20,280,275	18,415,000	1,865,275
Subtotal	176,521,165	119,982,000	56,539,165
Unamortized Premium	2,521,098	2,521,098	
Total Minimum Lease Payments	$ 179,042,263	$ 122,503,098	$ 56,539,165

Annual requirements to amortize the premium for the Series 2005 Refunding Certificates and Series 2005A Certificates as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	Total
2008	$ 183,369
2009	183,369
2010	183,369
2011	183,369
2012	183,369
2013-2025	1,604,253
Total	$ 2,521,098

7. BONDS PAYABLE

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

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1998A (Partially Refunded)	$ 295,000	4.50	2008
Series 1999A	1,105,000	4.00 - 4.75	2019
Series 2005A, Refunding	25,910,000	5.00	2017
Series 2005B, Refunding	2,030,000	3.50 - 5.00	2018
District General Obligation Bonds, Refunding:			
Series 1992, Remarketed	25,310,000	6.30	2008
Unamortized Premium	1,433,577		
Unamortized Loss	(280,350)		
Total Bonds Payable	$ 55,803,227		

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 General Obligation Bonds**

  General Obligation Bonds, Series 1992, were authorized by the District pursuant to Chapters 1010 and 1011, Florida Statutes, approved at a special election held on May 26, 1987, and secured by a pledge of property taxes levied. These bonds were issued to refund the General Obligation Bonds, Series 1987 and 1988, which were issued to finance capital outlay projects of the District. The Series 1992 Refunding Bonds were purchased and remarketed pursuant to the terms of a Remarketing Agreement dated June 13, 2002. The Bonds were purchased (called) at their early redemption price and remarketed as non-callable bonds on August 1, 2002. Utilizing the spread between the interest rates payable on the Bonds and the market rates, the Bonds were remarketed at a premium sufficient to pay the early redemption fees and the remarketing costs, and to provide an additional gain of $8,108,648 for capital outlay projects within the District. The amortization schedule for the Remarketed Series 1992 Refunding Bonds is unchanged from that of the original Series 1992 Refunding Bonds, and the remarketing premium of $8,601,460 is being amortized over the remaining life of the Bonds.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2008	$ 3,865,569	$ 2,405,000	$1,460,569
2009	3,792,644	2,450,000	1,342,644
2010	3,785,888	2,565,000	1,220,888
2011	3,788,200	2,695,000	1,093,200
2012	3,778,900	2,820,000	958,900
2013-2017	18,582,894	16,040,000	2,542,894
2018-2019	387,725	365,000	22,725
Total State School Bonds	37,981,820	29,340,000	8,641,820
General Obligation Bonds:			
2008	18,068,715	17,010,000	1,058,715
2009	8,561,450	8,300,000	261,450
Subtotal General Obligation Bonds	26,630,165	25,310,000	1,320,165
Unamortized Premium	1,433,577	1,433,577	
Unamortized Loss	(280,350)	(280,350)	
Total General Obligation Bonds	27,783,392	26,463,227	1,320,165
Total	$65,765,212	$55,803,227	$9,961,985

The remaining unamortized premium of $1,433,577 and unamortized loss of $280,350 as of June 30, 2007, for the Remarketed Series 1992 General Obligation Refunding Bonds will be amortized during the 2007-08 fiscal year. The final maturity date for the Remarketed Series 1992 General Obligation Refunding Bonds is August 1, 2008.

8. DEFEASED DEBT

In prior years, the District's State Board of Education, Capital Outlay Bonds, Series 1998A, were refunded and considered defeased in substance by placing a portion of the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the in-substance defeased bonds are not included in the District's statement of net assets. As of June 30, 2007, State Board of Education, Capital Outlay Bonds, Series 1998A, totaling $2,310,000 outstanding are considered defeased in substance.

9. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-06	Additions	Deductions	Balance 6-30-07	Due in One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	$ 13,727,548	$	$ 1,357,371	$ 12,370,177	$ 3,313,764
Bonds Payable (1)	75,256,454	280,350	19,733,577	55,803,227	20,568,227
Certificates of Participation Payable	125,121,467		2,618,369	122,503,098	2,728,369
Retirement Incentive Program Benefits Payable	86,240		86,240		
Compensated Absences Payable	60,114,340	12,630,888	8,098,389	64,646,839	7,796,832
Total Governmental Activities (1)	$274,306,049	$12,911,238	$31,893,946	$255,323,341	$34,407,192

Note (1): The beginning balance reported for Bonds Payable is $1,540,000 less than the amount reported at June 30, 2006, to correctly report outstanding debt resulting from the issuance of State Board of Education Refunding Bonds in prior years. (See Note 11.)

For the governmental activities, retirement incentive program benefits and compensated absences are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with resources of the Proprietary Funds as discussed in Note 17.

10. 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.

Pursuant to provisions of Section 1006.40(6), Florida Statutes, the District is authorized to issue purchase orders for instructional materials in anticipation of the subsequent year's legislative appropriations. Because revenues for these appropriations are not available at fiscal year-end, a reserve for encumbrances is not shown for these outstanding purchase orders. However, purchase orders outstanding in the General Fund for these instructional materials total $8,397,166 at June 30, 2007.

11. ADJUSTMENTS TO BEGINNING NET ASSETS AND FUND BALANCES

The District reduced beginning net assets on the Statement of Activities and beginning fund balances on the Statement of Revenues, Expenditures, and Changes in Fund Balances to correct errors in amounts reported in prior years for payroll deductions and withholdings in the General Fund and amounts related to the issuance of State Board of Education refunding bonds in the Other Governmental Funds. The adjustments to beginning net assets and fund balances are summarized below:

Net Assets / Fund Balances	Government-Wide Statement of Activities	Governmental Funds	
		General Fund	Other Governmental Funds
Beginning Balances, July 1, 2006	$ 826,235,027	$ 85,462,054	$ 47,958,897
Adjustment to Correctly Report Payroll Deductions and Withholdings Payable	(5,166,736)	(5,166,736)	
Adjustment to Correctly Report State Board of Education Bonds Sinking Fund Investments	643,595		643,595
Adjustment to Correctly Report Outstanding State Board of Education Bonds	1,540,000		
Adjustment to Restate Beginning Balances	(2,983,141)	(5,166,736)	643,595
Beginning Balances, July 1, 2006, Restated	$ 823,251,886	$ 80,295,318	$ 48,602,492

12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 264,838	$
Nonmajor Governmental		92,314
Agency		172,524
Total	$ 264,838	$ 264,838

The interfund amounts represent temporary loans from one fund to another and are expected to be repaid within one year.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 37,384,431	$ 9,791,706
Debt Service:		
Other Debt Service	7,287,911	
Capital Projects:		
Local Capital Improvement	9,564,150	39,022,451
Nonmajor Governmental	227,556	5,649,891
Total	$ 54,464,048	$54,464,048

Interfund transfers represent permanent transfers of moneys between funds. The transfers out of the General Fund were primarily to restore moneys to the Capital Projects – Local Capital Improvement Fund for certain unallowed expenditures. The transfers out of the Capital Projects – Local Capital Improvement Fund were to provide for debt service payments in the Debt Service – Other Debt Service Fund and to fund certain expenditures of the District's transportation and maintenance departments in the General Fund. The transfers out of the Nonmajor Governmental Funds were mainly to transfer the unexpended balance of Medicaid administrative claims reimbursements to the General Fund. The remaining transfers between funds were operational in nature.

13. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	$ 406,893,709
Categorical Educational Programs:	
Class Size Reduction	101,560,403
Transportation	20,761,551
Instructional Materials	12,215,845
School Recognition	5,348,285
Excellent Teaching Program	2,442,235
Teacher's Lead Program	2,128,020
Voluntary Pre-K Program	266,697
Class Size Reduction Construction	25,086,138
Gross Receipts Tax (Public Education Capital Outlay)	15,950,720
Discretionary Lottery Funds	5,104,410
Motor Vehicle License Tax (Capital Outlay and Debt Service)	4,464,584
Food Service Supplement	822,779
Charter School Capital Outlay	678,509
Miscellaneous	2,411,874
Total	$ 606,135,759

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

14. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	4.940	$260,253,244.77
Basic Discretionary Local Effort	0.760	40,038,960.73
DEBT SERVICE FUNDS		
Voted Tax:		
Special Tax School District No. 1	0.342	18,017,532.33
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	2.000	105,365,686.14
Total	8.042	$423,675,423.97

15. STATE RETIREMENT PROGRAM

Defined Benefit Plan. In excess of 99 percent of the District's obligations for defined benefit plans relate to the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined 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 the 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 the 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.

One employee participates in the General Employees Pension Plan administered by the City of Jacksonville. The financial impact of participation in this pension plan is not significant as the total amount of required contributions by the District and the employee represents less than 1 percent of all required retirement system contributions. Details of the General Employees Pension Plan are represented in the City of Jacksonville's Annual Financial Report which is filed as a public record with the City of Jacksonville.

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
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. 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 $37,265,518, $41,235,632, and $55,725,582, 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 FRS defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends

in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk 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 2,384 District participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled $6,573,544.

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 the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

16. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Conversion of North Shore Elementary to K-8	$ 28,057,788	$ 8,464,057	$ 19,593,731
New High School "AAA"	8,985,394	1,110,232	7,875,162
Chaffee Trail Elementary School	19,511,965	18,218,182	1,293,783
Total	$ 56,555,147	$ 27,792,471	$ 28,762,676

17. 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, general liability, and automobile liability coverages are being provided on a self-insured basis. The District's liability for workers' compensation is limited from $150,000 to $425,000 per occurrence, depending on the year of occurrence, through January 31, 2003. Additionally, during the period February 1, 1997, through January 31, 2002, the District's liability is limited by aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. For claims occurring on or after February 1, 2003, the District retained the entire liability for workers' compensation claims. The District's liability for tort claims under the general and automobile liability coverages is limited by State statute to $100,000 per claim and $200,000 per incident. The District has contracted with an insurance administrator to administer the self-insurance program, including the processing, investigating, and payment of claims.

The insurance administrator has been approved by the Florida Department of Financial Services, Office of Insurance Regulation.

A liability in the amount of $12,370,177 was actuarially determined to cover estimated incurred, but not reported, insurance 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:

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2005-06	$15,063,500	$4,796,706	$(6,132,658)	$13,727,548
2006-07	13,727,548	4,328,695	(5,686,066)	12,370,177

Liability coverage for property protection, errors and omissions, employee blanket bond, and other coverage deemed necessary by the Board are provided through purchased commercial insurance, with minimum deductibles for each line of coverage.

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance. The health and hospitalization coverage provided by the District contains high employee and dependent deductibles. To satisfy the annual deductible associated with the coverage, the District contributes $500 per eligible employee, and an additional $300 for dependent and family coverage, to an Internal Revenue Code 125 Flexible Benefits Plan (Plan). These and other Plan contributions are subject to a use-it-or-lose-it rule whereby unspent balances remaining in the Plan after the reimbursement eligibility period are forfeited. The District's Plan Document generally requires that the forfeited balances be used to provide increased benefits or compensation to employees in future years. At June 30, 2007, the District held forfeited balances and interest earnings totaling $2,049,058 that are restricted to providing employee benefits in future years.

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

18. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the District's self-insured risk management program (workers' compensation, general liability, and automobile liability) and printing department operations for the 2006-07 fiscal year:

	Self-Insurance Program	District Printing Department	Total
Total Assets	$ 42,582,768	$ 194,320	$ 42,777,088
Liabilities and Net Assets:			
Accounts Payable	$ 56,484	$ 918	$ 57,402
Due to Other Agencies	5,912		5,912
Estimated Insurance Claims Payable	12,370,177		12,370,177
Net Assets:			
Unrestricted Net Assets	30,150,195	193,402	30,343,597
Total Liabilities and Net Assets	$ 42,582,768	$ 194,320	$ 42,777,088
Revenues:			
Premium Revenues	$ 8,517,197	$	$ 8,517,197
Charges for Services		1,988,245	1,988,245
Interest Income	1,730,726		1,730,726
Total Revenues	10,247,923	1,988,245	12,236,168
Total Expenses	(4,951,037)	(2,259,321)	(7,210,358)
Change in Net Assets	$ 5,296,886	$ (271,076)	$ 5,025,810

19. CONTINGENT LIABILITIES

The District is involved in several pending and threatened legal actions. In the opinion of District management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District. For governmental activities, claims and judgments are generally liquidated with resources of the self-insurance Internal Service Fund reported in the Proprietary Funds.

The District receives grants from various Federal agencies. Amounts received or receivable under the grant programs are subject to audit and adjustment by the various Federal grantor and pass-through agencies. The amount, if any, of disallowed claims, including amounts already collected, cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

20. SUBSEQUENT EVENTS

On October 10, 2007, the District issued Tax Anticipation Notes (Notes), Series 2007, in the amount of $22,000,000 with an interest rate of 4 percent. The Series 2007 Notes proceeds will be used to provide interim funds for District operations.

As discussed in Note 3, at June 30, 2007, the District had $245,450,422 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 28 and 29, 2007, the District withdrew all funds invested from the Pool.

On December 13, 2007, the District issued Certificates of Participation, Series 2007, in the amount of $145,575,000 with interest rates ranging from 3.5 to 5 percent. The Series 2007 proceeds will be used for the construction of a new high school, a new kindergarten through eighth grade school, and to complete construction of an existing kindergarten through eighth grade school.

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

AUDITOR GENERAL
STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Duval 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 the aggregate discretely presented component units, as described in our report on the Duval County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1 through 7, 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, of the significant deficiencies described above, we consider Finding Nos. 1 and 2 to be material weaknesses.

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*.

Also, we noted certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** and in 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 18, 2008

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The President of the Senate, the Speaker of the
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Legislative Auditing Committee

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

Compliance

We have audited the 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.

As described in Federal Awards Finding No. 1, in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the District did not comply with requirements regarding Procurement - Contract Monitoring that are applicable to the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to its other major Federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding Nos. 2 through 8. In addition, our auditing procedures disclosed an instance of noncompliance with requirements applicable to a program which was not a major program which is required to be reported in accordance with OMB *Circular A-133* and which is described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding No. 9.

Internal Control Over Compliance

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

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

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

control over compliance described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** as Federal Awards Finding Nos. 1, 2, 4, 7, 8, and 9 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS***, we consider Federal Awards Finding No. 1 to be a material weakness.

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 18, 2008

DUVAL 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)	Amount Provided to to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Donation	10.550 (2)	None	$ 2,161,398	$
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	5,820,396	
National School Lunch Program	10.555	300	17,043,708	
Summer Food Service Program for Children	10.559	323	438,216	
Total Child Nutrition Cluster			23,302,320	
City of Jacksonville:				
Child and Adult Care Food Program	10.558	JCPS192MS	949,590	
Total United States Department of Agriculture			26,413,308	
National Science Foundation:				
Direct:				
Education and Human Resources	47.076	N/A	10,319	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	553,248	
Magnet Schools Assistance Program	84.165	N/A	3,316,715	
Fund for the Improvement of Education	84.215	N/A	1,177,892	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	523,245	
Transition to Teaching	84.350	N/A	405,947	
Total Direct			5,977,047	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	32,877,389	
Special Education - Preschool Grants	84.173	266, 267	1,033,110	
Total Special Education Cluster			33,910,499	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226	32,662,346	
Vocational Education - Basic Grants to States	84.048	151	1,357,060	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	686,012	
Education for Homeless Children and Youth	84.196	127	92,502	
Even Start - State Educational Agencies	84.213	219	491	
Charter Schools	84.282	298	153,750	153,750
Twenty-First Century Community Learning Centers	84.287	244	1,044,000	1,044,000
State Grants for Innovative Programs	84.298	113	242,702	
Education Technology State Grants	84.318	121	273,155	
Comprehensive School Reform Demonstration	84.332	129, 128	369,671	
Reading First State Grants	84.357	211	1,481,107	
Voluntary Public School Choice	84.361	299	197,884	
English Language Acquisition Grants	84.365	102	760,294	
Improving Teacher Quality State Grants	84.367	224, 225	7,554,738	
Hurricane Education Recovery	84.938	104	294,809	
Florida Community College of Jacksonville:				
Tech-Prep Education	84.243	07B015	42,187	
Total Indirect			81,123,207	1,197,750
Total United States Department of Education			87,100,254	1,197,750
United States Department of Health and Human Services:				
Indirect:				
Florida Department of Education:				
Refugee and Entrant Assistance - Discretionary Grants	93.576 (3)	137	254,236	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	5,633	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	117,813	
Army Junior Reserve Officers Training Corps	None	N/A	205,641	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	39,284	
Navy Junior Reserve Officers Corps	None	N/A	236,516	
Total United States Department of Defense			599,254	
Total Expenditures of Federal Awards			$ 114,383,004	$ 1,197,750

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 used during the 2006-07 fiscal year. Commodities are valued at fair value as determined at the time of donation.
(3) Refugee and Entrant Assistance - Discretionary Grants. Represents expenditures from grant number 90ZE009101.

DUVAL 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 Duval 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, some of which were also considered material weaknesses.
- No noncompliance was reported which is material to the financial statements.
- Significant deficiencies in the internal control over major Federal programs were reported, one of which was considered to be a material weakness.
- A qualified opinion was issued on the Child Nutrition Cluster. An unqualified opinion was issued on major program compliance for the District's other major Federal program.
- 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 Magnet Schools Assistance Program (CFDA No. 84.165).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was $3,000,000.
- The low risk entity threshold was applied.

DUVAL 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 Agriculture
Pass-Through Entity: Florida Department of Education
Program: 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)]
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: Not Applicable

Procurement – Contract Monitoring. District procedures were not adequate for monitoring reimbursements made to a food service management company, and other terms and conditions of the food service management agreement. The Board entered into a maximum allowable cost agreement with a food service management company (FSMC) effective July 1, 2005, to provide complete management and operation of the District's food service program. The agreement was effective for one year, with up to four additional one-year renewals. The agreement also provided, in part, for certain reimbursable expenses to be invoiced monthly by the FSMC, within 30 days of month-end, including purchased foods and beverages, salaries and benefits, purchased services, maintenance and repairs, and other costs; a per meal maximum allowable cost; a per meal management fee; a projected surplus in the fiscal year food service budget; and a reimbursement guarantee from the FSMC if the actual surplus was less than the projected surplus. Additionally, the contract provided that any reimbursements, bill backs, rebates, discounts, or allowances received in connection with food purchases made by the FSMC accrue to the benefit of the District, and the FSMC is required to adhere to all District purchasing policies and procedures in the procurement of material related to the agreement.

The FSMC provided personnel and contracted with various vendors in managing and operating the District's food service program. The renewal agreement for the 2006-07 fiscal year was based on serving 17,055,020 meals and meal equivalents, and provided for a per meal maximum allowable cost to the District of $2.36; a per meal management fee of $0.0562; a projected surplus in the fiscal year food service budget of $445,423; and a reimbursement guarantee from the FSMC of up to $700,000 if the actual surplus was less than the projected surplus.

Our review of the District's administration of the FSMC agreement disclosed the District did not require that the FSMC provide documentation of the reimbursable costs incurred in operating the food service program. Instead, the FSMC based its monthly billings on the number of meals and meal equivalents served multiplied by the per meal maximum allowable cost and per meal management fee. For the 2006-07 fiscal year, the District initially

reported a deficit in the Food Service Fund operating statement of $2,580,549. The deficit was incurred with the majority of costs based on the per meal maximum allowable cost and the per meal management fee. No invoices or other detailed documentation were provided to evidence whether the FSMC's actual reimbursable costs exceeded the per meal maximum allowable cost and management fee. For the purpose of determining the FSMC's compliance with meeting the projected surplus requirement at fiscal year-end, the FSMC provided certain adjustments to the revenues and expenditures reported in the District's records, based on its interpretation of various contract terms and provisions. The adjustments were accepted by District personnel resulting in the FSMC's compliance with the surplus requirement, although no information pertaining to the actual labor, food, and other costs of operating the program were provided.

In these circumstances, the District had not obtained any actual cost information for the operation of the food service program, had not obtained sufficient documentation to adequately monitor and verify compliance with relevant contract provisions, such as those cited above, and was limited in its ability to evaluate the reasonableness of the adjustments provided by the FSMC to justify meeting the required projected surplus in the food service budget.

Recommendation: The District should enhance its procedures to ensure that reimbursements to the FSMC are allowable expenditures of the food service program, properly supported by detailed invoices, and net of rebates and allowances. The District should also develop procedures for periodically monitoring and verifying actual food service operating costs for use in evaluating and negotiating the per meal maximum allowable cost.

District Contact Person: John Radcliffe, Director, Tech & Logistic Services

Federal Awards Finding No. 2:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $1,942,125

Program Income – Exclusive Beverage Contract. Contrary to Federal regulations, the District did not allocate any program income from its exclusive beverage contract to the nonprofit school food service (food service program) account. The Board approved a five-year renewal of an exclusive beverage contract effective September 1, 2005, to provide beverage products to the District's schools and its food service program. Additionally, the Board's agreement with its food service management company (FSMC) generally requires that the FSMC not offer any products marketed in direct competition with the District's exclusive beverage contractor. In these circumstances, with certain limited exceptions, the FSMC is required to procure beverage products used in the school food service program from the District's exclusive beverage contractor. The exclusive beverage contract provides for cash and noncash incentives, totaling $1,942,125 per year, to District schools and the food service program.

In correspondence dated March 13, 2007, the United States Department of Agriculture, Food and Nutrition Service, provided that if the food service program is included in a properly procured long-term beverage contract that includes incentives, the incentives which represent program income must be allocated properly to the food service program, and that the full value of all incentives (cash and noncash) would be used to determine the amount of program income resulting from the contract. Additionally, the portion of the full value of these incentives allocable to the school food service program would be deposited into the food service account. Failure to provide the food service program with its allocated share of cash or noncash incentives (athletic equipment, classroom improvements, score boards, etc.) would circumvent the proper allocation of program income to the food service program and would be a violation of Title 7, Section 3016.25, Code of Federal Regulations. Absent a proper allocation of cash and noncash incentives, the $1,942,125 deposited outside the food service program account represents program questioned costs. A similar finding was included in a Coordinated Review Effort conducted by personnel of the Florida Department of Education in February 2007.

Recommendation: The District should document to the grantor (Florida Department of Education) that program income attributable to the $1,942,125 exclusive beverage contract was properly allocated to the food service program. The District should also enhance its procedures to ensure that future income from the exclusive beverage contract is properly allocated and deposited to the food service program.

District Contact Person: John Radcliffe, Director, Tech & Logistic Services

Federal Awards Finding No. 3:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Competitive Food Sales. The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items. Title 7, Section 210.11, Code of Federal Regulations, requires that state agencies and school food authorities establish such rules or regulations as are necessary to control the sale of foods in competition with meals served under the National School Lunch Program. State Board of Education Rule 6A-7.0411, Florida Administrative Code, provides that competitive food and beverage items may be sold in secondary schools, with the approval of the school board, one hour following the close of the last lunch period. Also, carbonated beverages may be sold, under certain conditions in secondary schools such as when 100 percent fruit juice is available for sale, but cannot be sold where breakfast or lunch is being served or eaten.

The District reviews its compliance with the competitive food and beverage sale requirements at each school while conducting the respective school's annual internal funds audit. To review the effectiveness of the District's procedure, we selected three high schools and one middle school that the District noted as not in compliance

with the competitive food sale requirements during the 2005-06 fiscal year. Our review disclosed that the middle school was in compliance with the requirements; however, for the three high schools, we noted the following:

- At two high schools, beverage vending machines were operating in certain locations without 100 percent fruit juice available for sale where the carbonated beverages were sold.
- At one high school, beverage vending machines were dispensing carbonated beverages during meal times in the same location where lunch was being eaten or served. Upon inquiry, we were advised that control over approximately 35 beverage vending machines located in secondary school cafeterias was transferred from the District's school food service program to its exclusive beverage contractor and that certain machines were subsequently stocked with carbonated beverages by the contractor. We were also advised that, in the future, only noncarbonated beverages will be available in machines located where lunch was being eaten or served.
- At one high school, snack foods and candy were being sold as a fundraising activity in competition with the school lunch program during the scheduled lunch period. These sales were observed on two different days.

Recommendation: The District should take appropriate actions to ensure compliance with the Federal regulations and State rules relating to the sale of food and beverages in competition with the National School Lunch Program.

District Contact Person: John Radcliffe, Director, Tech & Logistic Services

Federal Awards Finding No. 4:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: 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)]
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $320,466

Cash Management – Food Service Program. Contrary to Federal regulation, the District's food service program subsidized the cost of certain nonprogram activities. Title 7, Section 210.14, Code of Federal Regulations, provides that revenues received by the food service program are to be used only for the operation or improvement of the program. Title 7, Section 210.2, Code of Federal Regulations, provides that food service operations should principally benefit schoolchildren, and all the revenue from which should be used solely for the operation or improvement of such food services. The District is permitted to engage in other (nonprogram) activities that are outside of the scope of the program, such as school banquets, ceremonies, and meetings, and sales to school non-student visitors; however, the Regulations require the District to ensure none of the resources of its food service program subsidize the cost of such activities. The costs of these activities are not allowable Child Nutrition Program charges to the food service program account and, therefore, must be fully funded by the revenues received from such activities or from sources outside the account.

We noted that the District's adult meal sales and District administrative dining facilities were not fully funded by the revenues received from the respective activities or from sources outside the food service program account as discussed below:

- The District's adult meal sales were priced $0.50 per meal below the minimum price necessary to recover the cost. United States Department of Agriculture, Food and Nutrition Services Instruction 782-5 provides that meals served to school staff and other adults must be priced so that the adult payment is sufficient to cover the overall cost of the meals, including the value of donated commodities. A Coordinated Review Effort conducted by personnel of the Florida Department of Education in February 2007 included a finding that the District was subsidizing adult breakfasts and adult lunches by at least $0.50 per meal. The District reported sales of 278,805 adult breakfasts and 158,126 adult lunches during the 2006-07 fiscal year, or a total of 436,931 adult meals. At $0.50 per meal, adult meal sales were subsidized by the school food service account by $218,466.
- In addition to operating the food service program, the District's contracted food service management company also operated cafeterias in the District's administrative facility and teacher training center, and provided catering services to schools and to other groups that use the regional training center facility (Schultz Center) leased from the District. Detailed expense and profit and loss information was not available for the cafeteria operated in the District's administrative facility although, based on documentation provided by the food service management company, the administrative facility cafeteria operations were estimated to have incurred an operating loss of approximately $102,000 for the 2006-07 fiscal year. In these circumstances, the $102,000 operating loss for the administrative facility cafeteria operations was subsidized by the food service program account.

The amounts subsidized by the food service program account for adult meal sales and the District's administrative dining facilities, totaling $320,466, represent questioned costs.

Recommendation: The District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $320,466, or these moneys should be restored to the Child Nutrition Cluster programs. The District should also establish procedures to ensure that costs of activities conducted outside the food service program account are fully funded by the revenues received from such activities or from sources outside the program account.

District Contact Person: John Radcliffe, Director, Tech & Logistic Services

Federal Awards Finding No. 5:
Federal Agency: United States Department of Agriculture; United States Department of Education
Pass-Through Entity: Florida Department of Education (for Child Nutrition Cluster)
Award Numbers: U165A040028-05 and U165A040028-06 (for Magnet Schools Assistance Program)
Program: 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)]; Magnet Schools Assistance Program (CFDA No. 84.165)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Allowable Costs/Cost Principles – Contract Provisions. Improvements were needed in District procedures to provide for required provisions in contracts funded with Federal moneys. Title 34, Section 80.36(i), Code of Federal Regulations (for United States Department of Education grants), and Title 7, Section 3016.36(i), Code of Federal Regulations (for United States Department of Agriculture grants), require that District contracts involving Federal funds contain certain provisions. These provisions include requiring access to records of the contractor that are directly pertinent to the contract, and retention of all required records for three years after the grantee or subgrantee makes the final payment and all other pending matters are closed.

For the 2006-07 fiscal year, our review of contract agreements and related procurement documentation disclosed that the agreements did not contain these provisions for purchases, totaling $495,489, from six vendors for the Magnet Schools Assistance Program and for purchases, totaling $1,722,402, from a vendor for the Child Nutrition Cluster Program. Failure to include the required contract provisions could limit the District's actions if disputes arose with the contractor, and could result in disallowance of grant expenditures by the grantor.

Recommendation: The District should ensure that all future contracts involving Federal funds contain the required provisions.

District Contact Person: John Radcliffe, Director, Tech & Logistic Services
Sally Hague, Director, School Choice

Federal Awards Finding No. 6:
Federal Agency: United States Department of Agriculture; United States Department of Education
Pass-Through Entity: Florida Department of Education (for Child Nutrition Cluster)
Award Numbers: U165A040028-05 and U165A040028-06 (for Magnet Schools Assistance Program)
Program: 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)]; Magnet Schools Assistance (CFDA No. 84.165)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Debarment and Suspension. District records did not always evidence compliance with Federal suspension and debarment requirements. United States Office of Management and Budget *Circular A-133* provides that vendors receiving individual awards of Federal money for $25,000 or more must certify that the organization and its principals are not suspended or debarred from receiving Federal funds. The circular also provides that non-Federal entities may, but are not required to, verify a vendor's suspension and debarment status by checking the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* issued by the General Services Administration (GSA). Our review disclosed that District records did not evidence compliance with the suspension and debarment requirement for purchase order contracts totaling $631,550 to eight vendors from Magnet Schools Assistance funds for educational materials and professional services and $1,722,402 to one vendor for food service supplies and equipment from Child Nutrition Cluster funds.

We verified that the vendors included in our tests were not included on the GSA's *Excluded Parties List System*. However, our audit tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should establish procedures to verify that applicable vendors are not suspended or debarred or otherwise excluded from receiving Federal funds prior to contracting with the vendors.

District Contact Person: Terrence Wright, Director, Purchasing Services

Federal Awards Finding No. 7:
Federal Agency: United States Department of Education
Award Numbers: U165A040028-05 and U165A040028-06
Program: Magnet Schools Assistance Program (CFDA No. 84.165)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $366,984

Matching, Level of Effort, and Earmarking – Planning Costs. The District reported expenditures for planning activities in its Magnet Schools Assistance Program for the second and third award years that exceeded the program requirements by $366,984. Title 34, Section 280.41, Code of Federal Regulations, provides that a local education agency that receives assistance under the Magnet Schools Assistance Program may not expend for planning activities more than 50 percent of the funds received in the first fiscal year of the grant, and may not expend more than 15 percent of the funds received in the second or the third fiscal year. Based on correspondence provided by personnel of the United States Department of Education, curriculum development is considered to be a planning activity. The Florida Department of Education's publication, *Financial and Program Cost Accounting and Reporting for Florida Schools*, describes expenditure Function 6300, Instruction and Curriculum Development, as those activities designed to aid teachers in developing the curriculum, preparing and utilizing special curriculum materials, and understanding and appreciating the various techniques which stimulate and motivate pupils.

As shown in the tabulation below, our comparison of Function 6300 expenditures charged to the second and third award years for the Magnet Schools Assistance Program, to the amounts awarded for the second and third years, respectively, disclosed that the District exceeded the 15 percent allowable amount, as follows:

Award Year	Grant Period		Award Amount	Maximum Planning Expenditures (15 percent)	Actual Expenditures Through 8/31/2007	Percent Spent on Planning	Questioned Costs Through 8/31/2007
	From	To					
2	9/1/2005	8/31/2006	$ 3,206,303	$ 480,945	$ 813,075	25.4%	$ (332,130)
3	9/1/2006	8/31/2007	2,981,794	447,269	482,123	16.2%	(34,854)
Total							$ (366,984)

In these circumstances, the expenditures in excess of the 15 percent allowable amount totaling $332,130 and $34,854, respectively, for the grant periods September 1, 2005, through August 31, 2006, and September 1, 2006, through August 31, 2007, represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should monitor its costs for planning activities in its Magnet Schools Assistance Program and ensure that such costs do not exceed 15 percent of the amount received, as required. In addition, the District should document to the grantor the allowability of the $366,984 in questioned costs or those moneys should be restored to the program.

District Contact Person: Sally Hague, Director, School Choice

Federal Awards Finding No. 8:
Federal Agency: United States Department of Education
Award Numbers: U165A040028-05 and U165A040028-06
Program: Magnet Schools Assistance Program (CFDA No. 84.165)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Allowable Costs/Cost Principles – Documentation of Time and Effort. Enhancements were needed in District procedures for documenting salaries and benefits charged to the Magnet Schools Assistance Program. The United States Office of Management and Budget *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of the certification.

During the 2006-07 fiscal year, the District paid salaries and benefits totaling $1,262,763 to employees from its Magnet Schools Assistance program. Our test of ten employees disclosed that required certifications or periodic personnel activity reports were not prepared for four employees paid partially from the program, and six employees paid 100 percent from the program. Salary and benefit charges totaled $566,244 for the ten employees. When personnel activity reports or other evidence to delineate the job responsibilities and work activities are not properly maintained, there is an increased risk that salary costs could be inappropriately charged to a Federal program.

Although the required certifications or periodic personnel activity reports were not prepared and maintained by the District, we were able to satisfy ourselves by reviewing other records, such as staff assignments, that the effort by the employees was consistent with the costs charged to the program.

Recommendation: The District should enhance procedures to provide for the required semiannual certifications for employees who work solely on a single Federal program, and periodic personnel activity reports for employees who work on multiple activities or cost objectives.

District Contact Person: Sally Hague, Director, School Choice

Federal Awards Finding No. 9:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $483,408

Activities Allowed or Unallowed. The District's contracted payments to the Schultz Center for Teaching and Leadership from the Improving Teacher Quality State Grants program included costs that do not appear necessary and reasonable for the program, resulting in payment amounts exceeding the Center's costs by $483,408 for the 2006-07 fiscal year. The United States Office of Management and Budget *Circular A-87* provides in part that, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be authorized or not prohibited under State or local laws or regulations, and be adequately documented. United States Office of Management and Budget's *Circular A-133*, Section___.210(c), provides characteristics indicative of payments for goods and services received by a vendor, which includes consideration of whether the vendor provides the goods and services within normal business operations; provides similar goods and services to many different purchasers; operates in a competitive environment; provides goods or services that are ancillary to the operation of the Federal program; and is not subject to compliance requirements of the Federal program.

Because of the close financial relationship between the District and the Schultz Center for Teaching and Leadership (Center) as described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding No. 11, it is not evident that the District's contracted payments to the Center of $3,796,767 for the 300,000 hours of training represent an arms length purchase of goods and services from a vendor. The District's operating agreement with the Center required that the District pay the Center $3,796,767 for the 300,000 hours of training, all of which was paid from the Improving Teacher Quality State Grants program in three scheduled payments and amounts, with one-half paid by August 1, 2006, one-quarter by October 15, 2006, and one-quarter by January 15, 2007. The Center provided the required training hours specified in the agreement; however, the cash payments to the Center exceeded the Center's cost of providing all training-related goods and services, and the Center's management and general expenses, by $483,408 for the 2006-07 fiscal year. Also, much of the training was developed and provided by District personnel as an in-kind service to the Center, some of whom were also paid from program funds.

The Center receives limited revenue from customers other than the District, and does not operate in a competitive environment characteristic of a vendor. In these circumstances, the portion of the expenditures exceeding the costs for professional development and training services do not appear necessary and reasonable for proper and efficient performance and administration of the program. As such, expenditures totaling $483,408 paid to the Center during the 2006-07 fiscal year represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $483,408, or these moneys should be restored to the Improving Teacher Quality State Grants program. The District should also review the arrangement with the Center to ensure the necessity and reasonableness of the costs incurred.

District Contact Person: Pat Willis, Cabinet Chief, Deputy Superintendent

DUVAL 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 Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Ernst & Young, LLP		No prior Federal audit findings.		

MANAGEMENT RESPONSE SECTION

1701 Prudential Drive
Jacksonville, FL 32207
www.dreamsbeginhere.org
904 390 2115

January 18, 2008

David W. Martin, CPA
Auditor General
3974 Woodcock Drive, Suite 101A
Jacksonville, FL 32207

Dear Mr. Martin:

Attached is Duval County Public Schools' response to the preliminary and tentative audit findings for the fiscal year ended June 30, 2007.

Please note that corrective measures have been taken to incorporate processes that will prevent a repeat of these audit findings. I would like to express our appreciation for the manner in which the audit was conducted. Your staff conducted themselves in a professional manner throughout the audit and has been helpful in identifying and discussing the areas addressed in the audit.

Very truly yours,

Ed Pratt-Dannals
Superintendent of Schools

WEP:kp
Attachments

C: John P. Duffy
Thresa Giles
Stephen Bright

Ed Pratt-Dannals, Superintendent of Schools
Duval County Public Schools is committed to providing all Duval County students with a high-quality, rigorous education that will inspire them to dream and reach their goals.

Finding No. 1: Ad Valorem Taxation

The District incurred costs of $24,134,525 from its capital outlay millage levy funds that were not, of record, allowable under the provisions of Section 1011.71(2), Florida Statutes.

> **District Response:** We concur with the recommendation based on the AG's interpretation of the State statute. The District has made the necessary journal entries to reclassify the expenditures. The District will lobby to change the language in the code to specifically state that instructional software is an allowable expense from capital outlay millage in the future.

Finding No. 2: Purchasing Practices – Computer Software

District records did not evidence the reasonableness of the direct negotiation process for purchases of instructional software costing $21,134,525 or that the receipt of training and consulting services was properly monitored.

> **District Response:** We concur with the recommendation that we need to improve our documentation related to direct purchases to ensure that all aspects of the procurement process were followed and that all cost saving options were carefully considered.
>
> After the matter was brought to our attention, the District established a more comprehensive process of monitoring of training and consulting services.
>
> The District will continue to carefully monitor and ensure adequate professional development throughout the term of the current contract. We receive quarterly reports which indicate the number of "billable" consulting days used to date and the plan for use of these days over the period of the contract.
>
> The District's Acquisition Council will continue to review and implement contracting best practices.

Finding No. 3: Competitive Selection of Professional Services

The District did not utilize the public announcement and formal competitive selection and negotiation process specified in Section 287.055, Florida Statutes, when acquiring construction-related services for numerous maintenance and construction projects.

> **District Response:** We concur with the overall recommendation. We do not concur with specific findings as it pertains to Architect/Engineer and Construction Management continuing contracts.
>
> The District advertised, negotiated and awarded Architect/Engineer (A/E) and Construction Management (CM) contracts in accordance with §1013.45(1)(c) Florida Statutes and §287.055 Florida Statutes.
>
> Under the definitions and process outlined in §1013.45(1)(c) Florida Statutes and §287.055 Florida Statutes , the District understands that a project includes minor construction, rehabilitation or renovation activities, not just new facilities and major additions to existing facilities. In addition, the District advertised and awarded contracts for professional services for both A/E and CM contracts in accordance with §287.055 Florida Statutes with the understanding the $250,000 construction costs was the required minimum for formal procurement, and the $1 million maximum limit was for individual projects, not a cumulative total for each CM contract. The District similarly understands the Florida Statutes for the Design continuing contracts in which design fees were expected to exceed $25,000. The District complied with the Florida Statutes and did not issue any individual project activations that exceeded the maximum threshold as outlined in §287.055 Florida Statutes. This understanding is also

widely held throughout the State, whereas University of Florida, Miami-Dade County School District, Florida State University, and Florida Department of Management Services, among others, operate in a similar manner.

The District agrees with the finding that the electrical contractor did self-perform work without providing substantiating evidence of competition or benefit to the District. The District will strengthen its contracting procedures to ensure construction contracts are competitively awarded when required by law.

The District's Acquisition Council will continue to review and implement contracting best practices.

Finding No. 4: Related Party Transactions

Contrary to the provisions of Sections 112.313(7) and 1001.42(10)(i), Florida Statutes, the District entered into a banking services agreement with a bank that employs a District School Board member.

District Response: We concur with the recommendation. Procedures and training will be reviewed to enhance compliance with the referenced Statutes and the District's Conflict of Interest Policy. The District's Acquisition Council will continue to review and implement contracting best practices.

Finding No. 5: Third Party Administrator – Employee Benefits Cafeteria Plan

The District could improve its monitoring and accountability procedures for moneys held by a third-party administrator for the District's employee benefits cafeteria plan.

District Response: We concur with the recommendation. The District included these funds held by a third-party in the financial statements and will continue to do so in the future. The District will periodically monitor the reasonableness of commissions received by the third-party vendor relative to the cost of the services and insurance products provided.

Finding No. 6: Allocation of Interest Earnings

The District did not properly allocate interest earnings on pooled investments to the respective funds owning the investments.

District Response: We concur with the recommendation. The example cited was due to an underlying deficiency in the report used to allocate investment balances by fund, and a misconception regarding the inclusion of certain debt related balances in the allocation process.

The District is taking immediate steps to rectify the fund allocation report issue, and has already modified the process to exclude certain non-relevant debt activity from the interest allocation calculation.

Finding No. 7: Information Technology – Access Authorization Controls

The District's access controls within its enterprise resource planning environment and the supporting network environment needed improvement.

District Response: We concur with the recommendation. Steps have been initiated that will comply with SAP best practices and meet the segregations of duties recommendation of the audit.

The District created a dedicated SAP Security position effective December 14, 2007, and that individual is scheduled to complete SAP training Spring 2008. The current SAP Security Analyst will be responsible for auditing the system but will no longer have modify or update rights in the system.

Additionally, the District has purchased an SAP integrated segregation of duties compliance management and reporting solution (i.e. Security Weaver) which will be fully implemented by March 2008, including compliance reports being sent monthly to the CBO and CTO. Role changes and authorizations are tested with Security Weaver before being placed into production systems to add additional oversight during the QA testing process.

To limit the availability of SAP HR data, the District will implement Structural Authorizations in calendar year 2008. Structural Authorizations will enforce confidentiality and limit HR Master Data availability by restricting data access based on the organizational structure.

Finding No. 8: Internal Audit Function

Although the Board had adopted a policy and designated the Board as an audit committee, the Board had not met as an audit committee and had not planned, initiated, or reviewed any internal audit activities.

District Response: We concur with the recommendation. The Board has established an audit committee. The committee has scheduled their first meeting for January 22, 2008, and will continue to meet on a regular basis. The Board is in the process of hiring an Internal Auditor that would report directly to the Board Chairman.

It should be noted that Board Members acting in their official capacity as the School Board fulfilled their fiscal oversight responsibilities by monitoring, reviewing and approving Budgets, Monthly Financial Reports, Annual Financial Reports, various District Audits and other financial matters as necessary. The school board also participated in a Management Overview of Finance and supported Project Invest, an innovated public/private partnership forum to identify efficient and effective practices for Payroll, Accounts Payable and Cash Management.

Finding No. 9: Decentralized Collection Procedures

Improvements were needed in the District's collection procedures at decentralized locations.

District Response: We concur with the recommendation. The District will establish a procedure that decentralized locations within the District maintain a log that will document the date checks are received, and the date checks are transferred to the cashier in the Cash Management Department. The procedure will require that all checks be restrictively endorsed for "Deposit Only" in addition to forwarding checks to the district cashier within two business days.

Finding No. 10: Food Service – Cash Collections

The District's food service cash collections were not always timely deposited.

District Response: We concur with the recommendation. The District will strengthen procedures to ensure schools deposit food service collections in a timely manner.

Finding No. 11: Schultz Center Regional Professional Development Academy

The Schultz Center for Teaching and Leadership could not demonstrate the ability to be self-supporting through fees for services, grants, or private contributions as statutorily intended.

> **District Response:** We do not concur with the finding that without the District's support, the Center is not self-supporting. The Center has been in operation for seven years through the solicitation and receipt of fees for services, grants and private contributions as intended statutorily concerning self-supporting. The District will continue to evaluate the Center's ability to operate on a self-supporting basis as statutorily intended.
>
> We do not concur with the recommendation to modify the lease agreement with the Center for future facility operational, maintenance and repair costs. Although not explicitly expressed in documents the intent of the initial arrangement with the center was that the center would pay for extensive renovations (approximately $8 million) to the building which was to be used as consideration for future facility operational, maintenance and repair costs for the life of the arrangement.

Finding No. 12: Monitoring of Charter Schools

District charter school monitoring procedures did not include verifying that insurance coverage required by the charter school agreements was maintained.

> **District Response:** We concur with the recommendation. The District will strengthen its monitoring procedures of Charter School insurance coverage for compliance.

Finding No. 13: Cell Phones

District procedures were not adequate to ensure that cell phone use was in accordance with Board Policy. Additionally, a cell phone provider incorrectly charged the District a monthly wireless E911 fee.

> **District Response:** We concur with the recommendations. The existing District contract with the cell phone provider was terminated effective December 31, 2007. Selected employees have been authorized stipends and are contracting for personal cell phone accounts with a vendor of their choice. Those stipends will be reported as income for the affected employees in accordance with IRS regulations. Additionally, past and present billing statements are being reviewed to identify any/all E911 fees incorrectly charged by one of the two District cell phone providers. The provider will then be contacted regarding reimbursement.

Finding No. 14: Construction Administration - Board Policies

Instances were noted in which change orders exceeded the Board policy dollar threshold without Board approval, and a Board policy had not been established to prequalify contractors.

> **District Response:** We concur with the recommendation. The District will amend the Board policy regarding change orders for consistency and will complete the public hearing for adopting policies and procedures for prequalify contractors.

Finding No. 15: Land Acquisitions and Appraisals

The Board was not, of record, provided with copies of the appraisals for a land purchase and was not advised, of record, that the recommended purchase price exceeded the average of the two appraisals received by the District.

> District Response: We concur with the recommendation. Appraisal information will be provided to the Board for their consideration prior to approving future land purchases.

Finding No. 16: Construction Administration

The District's administration of construction management and design-build projects could be enhanced by requiring that copies of subcontractor bid tabulations and subcontracts be provided and maintained, that documentation of self-performed work benefits the District, that District records evidence verification of appropriate licensure of project subcontractors, and that final payments are not made prior to the Board's final acceptance of the project.

> District Response: We concur with the recommendation. The District will strengthen its existing monitoring procedures for its construction projects.

Finding No. 17: Design-Build Contract

Contrary to the requirements of Section 287.055(9), Florida Statutes, District records did not evidence that a licensed design professional prepared a design criteria package and was designated to serve as the District's representative for the New High School "AAA" design-build project.

> District Response: We concur with the recommendation. For future design-build projects, the District will insure design professional oversight and assign responsibility when contracting with a design-build firm.

Finding No. 18: Inspections of Relocatable Facilities

The District's annual relocatable inspection report summaries indicated that a substantial percentage of the District's relocatable classrooms did not meet the standards to be rated satisfactory.

> District Response: We concur with the recommendation. The District will strengthen its relocatable program to ensure compliance with State requirements.

Finding No. 19: Information Technology – District Security Program

The District's entity wide security program needed improvement.

> District Response: We concur with the recommendations. The District is in the process of contracting for a detailed risk assessment to be conducted spring 2008 by Idea Integration, Inc., using certified security personnel. Results of the assessment will be incorporated into the IT Security Doctrine which will be formalized and prescribed SOPs will be drafted and approved. A Security Awareness training plan will be addressed in the Security Doctrine.

Finding No. 20: Information Technology – Disaster Recovery Plan

The District's disaster recovery plan had not been officially adopted and lacked certain key provisions.

> **District Response:** We concur with the recommendations. The District's Business Resumption Plan has now been formally approved by the CTO. Semi-annual reviews and training exercises are now scheduled. The District is planning to include an alternate processing site and recovery procedures in the event of a disaster affecting the entire local area as part of the next SAP technical upgrade.

Federal Awards Finding No. 1: Procurement – Contract Monitoring

District procedures were not adequate for monitoring the contract payments made to the food service management company, and other terms and conditions of the food service management agreement.

> **District Response:** We concur with the recommendation. The District will implement corrective procedures to ensure compliance.

Federal Awards Finding No. 2: Program Income – Exclusive Beverage Contract

The District did not properly allocate a portion of the program income from its exclusive beverage contract to the food service program.

> **District Response:** We concur with the recommendation. The District will strengthen documentation procedures to ensure correct allocation and deposit.

Federal Awards Finding No. 3: Special Tests and Provisions – Competitive Food Sales

The District did not comply with applicable Federal Regulations and State rules relating to the sale of competitive food and beverage items.

> **District Response:** We concur with the recommendation. The District will implement corrective actions plans to ensure schools compliance on the sale of food and beverages in the National School Lunch Program.

Federal Awards Finding No. 4: Cash Management – Food Service Program

Contrary to Federal regulation, the District's food service program subsidized the cost of certain non-program food service activities.

> **District Response:** We concur with the recommendation. Procedures will be implemented to avoid any recurrence of food service subsidizing non program related expenses.

Federal Awards Finding No. 5: Allowable Costs/Cost Principles – Contract Provisions

Improvements were needed in District procedures to provide for required provisions in contracts funded with Federal moneys.

> **District Response:** We concur with the recommendation. The District will strengthen procedures to ensure contract compliance.

Federal Awards Finding No. 6: Debarment and Suspension

District records did not always evidence compliance with Federal suspension and debarment requirements.

> **District Response:** We concur with the recommendation. The District will implement corrective actions plans to ensure proper documents are always maintained for compliance with Federal suspension and debarment requirements.

Federal Awards Finding No. 7: Matching, Level of Effort, and Earmarking – Planning Costs

The District reported expenditures for planning activities in its Magnet Schools Assistance Program for the second and third award years that exceeded the program requirements by $366,984.

> **District Response:** We concur with the recommendation. The District will strengthen documentation procedures to ensure grant expenditures are recorded correctly. The District will consult with USDOE as to the allowability of these expenditures.

Federal Awards Finding No. 8: Allowable Costs/Cost Principles – Documentation of Employee Time and Effort

Enhancements were needed in District procedures for documenting salaries and benefits charged to the Magnet Schools Assistance Program.

> **District Response:** - We concur with the recommendation. The District has implemented corrective procedures to ensure compliance.

Federal Awards Finding No. 9: Activities Allowed or Unallowed

The District's contracted payments to the Schultz Center for Teaching and Leadership from the Improving Teacher Quality State Grants program included costs that do not appear necessary and reasonable for the program, resulting in payment amounts exceeding the Center's costs by $483,408 for the 2006-07 fiscal year.

> **District Response:** The District does not concur with the recommendation to restore moneys to the grant and will seek guidance from the Florida Department of Education (FDOE) as to the allowability of the costs ($483,408) in question. The District will also review the arrangement with the Schultz Center to ensure the necessity and reasonableness of the costs incurred.