REPORT NO. 2011-165
MARCH 2011

ORANGE COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Joie W. Cadle, Chair	1
Daryl Flynn, Vice Chair from 11-17-09	2
Judge "Rick" Roach, Vice Chair to 11-16-09	3
Vicky Bell	4
Kathleen "Kat" Gordon	5
Nancy Robbinson	6
Christine Moore	7

Ronald Blocker, Superintendent

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

The audit team leader was Jeffrey L. Cardinali, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Kathy B. Sellers, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: District records did not evidence appropriate monitoring of roofing project activities, resulting in $299,995 of questioned costs.

Finding No. 2: Controls over guaranteed maximum price contracts could be enhanced.

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

Finding No. 4: The salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 5: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 6: The District could enhance the monitoring of charter schools.

Finding No. 7: Control deficiencies over purchasing card transactions were noted, resulting in questioned charges.

Finding No. 8: Some aspects of the District's information technology security management needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Federal Pell Grant Program; Educational Technology State Grants Cluster; and State Fiscal Stabilization Fund Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Controls for the Federal Pell Program were not adequate to ensure proper post-withdrawal disbursements, resulting in $17,205 of questioned costs.

Audit Objectives and Scope

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

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**

- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and**
- **Taken corrective actions for findings included in previous 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, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
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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 Orange County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 5 percent of the assets and 18 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Orange County District School Board as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 60 through 63) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,

David W. Martin, CPA
March 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the District School Board of Orange County (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $2,567,370,663 (*net assets*). Of this amount, $132,231,911 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by $205,216,255. This increase is primarily attributable to the ongoing investment of the District in new schools and the renovation of existing schools supported by sales tax proceeds and other capital outlay revenues.
- Total revenues of $1,826,602,286 were comprised of general revenues in the amount of $1,720,406,476, or 94 percent of total revenues, and program specific revenues from charges for services, grants and contributions in the amount of $106,195,810, or 6 percent of total revenues.
- For the year ended June 30, 2010, the District had $1,621,386,031 in expenses related to governmental activities; $106,195,810 of which were offset by program specific charges or services, grants and other sources. General revenues (primarily taxes and State funding programs) of $1,720,406,476 were sufficient to provide for the District's programs.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,378,050,857, an increase of $30,642,460 in comparison with the prior fiscal year. Approximately 73 percent of this total amount, $1,003,945,651, is available for spending at the District's discretion for the purposes defined for each governmental fund (*unreserved fund balance*). Of this available amount, $779,172,251 has been allocated for specific projects and activities by the School Board.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $224,773,400, or 20 percent of total general fund expenditures.
- The District's total long-term debt for bonds, certificates of participation (COPs), and capital leases decreased by $31,530,736, or 2 percent, during the current fiscal year.
- For the year ended June 30, 2010, the District reported a long-term liability of $36,830,714, in the government-wide statement of net assets for certain postemployment healthcare benefits.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements (or district-wide financial statements) are designed to provide a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

All of the District's activities and services are reported in the government-wide financial statements, including instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes, State assistance, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here. 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 cost through user fees and charges.

The government-wide financial statements include not only the District itself (known as the primary government), but also the combined activities of the Foundation for Orange County Public Schools, Inc., and the 14 legally separate charter schools for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. The School Board of Orange County Employee Benefits Trust (Trust) and the Orange County School Board Leasing Corporation (Corporation), although also legally separate, were formed to administer the District's group health and life insurance program and facilitate financing for the acquisition of facilities and equipment, respectively. Due to the substantive economic relationships between the District and the Trust and Corporation, their financial activities have 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into 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 on 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 narrower 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 activies 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Special Revenue – ARRA Economic Stimulus Fund, the Debt Service – Other Debt Service Fund, the Debt Service – ARRA Economic Stimulus Fund, the Capital Projects - Other Capital Projects Fund, and the Capital Projects – ARRA Economic Stimulus Fund, which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and major Special Revenue Funds to demonstrate compliance with this budget.

Proprietary Funds: The District maintains one type of proprietary fund – internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its self-insurance programs, employee benefits trust and printing services. Because these services benefit the District's governmental functions, they have been included within governmental activities in the government-wide financial statements.

The three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in condensed form in Note 20 to the financial statements.

Fiduciary Funds: Fiduciary funds, which for the District consist solely of agency funds, are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds, except that agency funds do not report changes in fiduciary net assets, as agency fund assets should equal liabilities.

Notes to Financial Statements

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

Other Information

Other required supplementary information is presented immediately following the notes to financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $2,567,370,663 at the close of the most recent fiscal year.

The following is a summary of the District's net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

Net Assets, End of Year

	Governmental Activities		Percentage
	6-30-10	6-30-09	Change
Current and Other Assets	$ 1,671,996,193	$ 1,630,934,775	2.5%
Capital Assets	2,869,603,601	2,700,212,177	6.3%
Total Assets	4,541,599,794	4,331,146,952	4.9%
Long-Term Liabilities	1,738,094,126	1,721,372,366	1.0%
Other Liabilities	236,135,005	247,620,178	-4.6%
Total Liabilities	1,974,229,131	1,968,992,544	0.3%
Net Assets:			
Invested in Capital Assets - Net of Related Debt	1,581,226,963	1,480,390,688	6.8%
Restricted	853,911,789	753,707,946	13.3%
Unrestricted	132,231,911	128,055,774	3.3%
Total Net Assets	$ 2,567,370,663	$ 2,362,154,408	8.7%

The largest portion of the District's net assets (62 percent) reflects its investment in existing capital assets (e.g., land; buildings and fixed equipment), net of accumulated depreciation and less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide educational and related services to its students; 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. A portion of the District's net assets (33 percent) reflects its restricted net assets for capital projects. The District will use these resources in a continuing effort to build and refurbish sufficient classroom space for the growing student population in Orange County, Florida.

An additional portion of the District's net assets (5 percent) represents resources that are not subject to external restrictions on how they may be used. The balance of unrestricted net assets $132,231,911 may be used to meet the District's ongoing obligations to citizens and creditors.

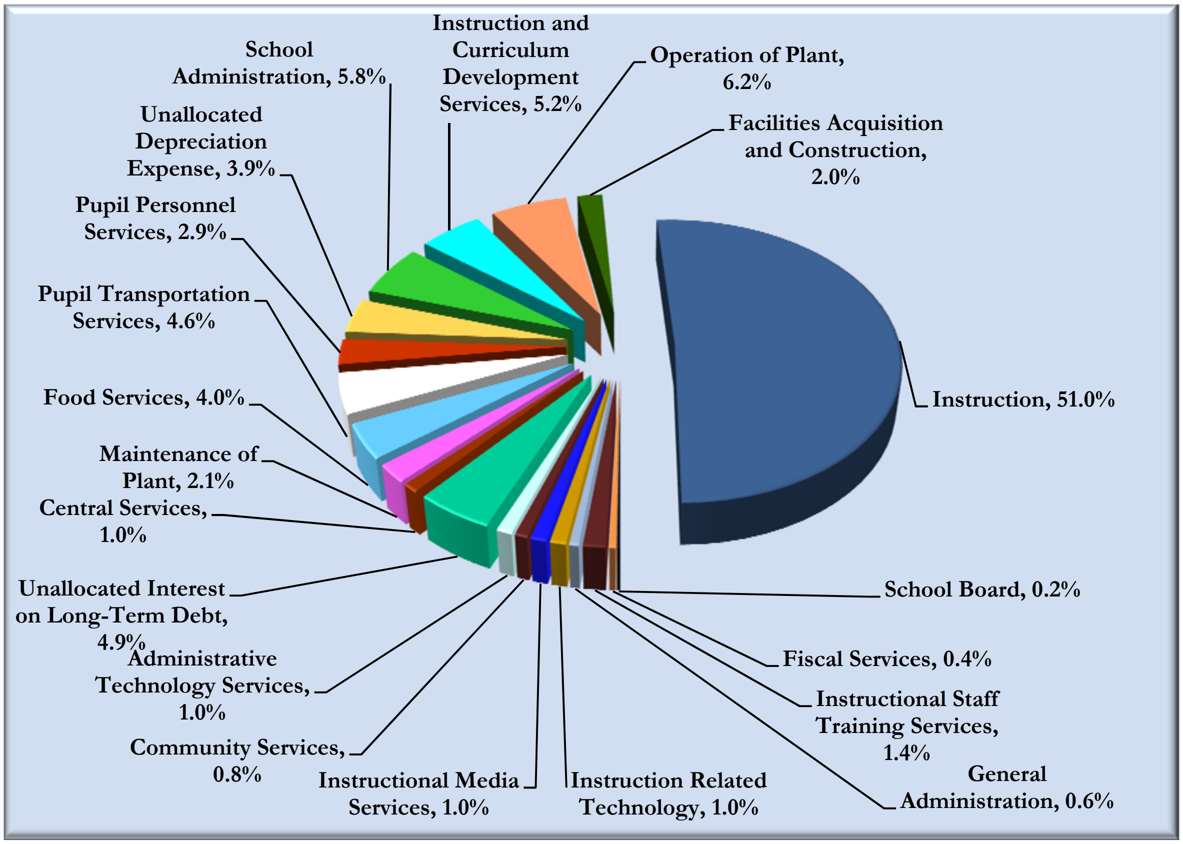
At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The District's net assets increased in total by $205,216,255 during the current fiscal year primarily as a result of a referendum providing an additional revenue source for construction and renovation of school buildings. Also contributing to the increase was other capital revenues invested in school buildings.

Operating Results for the Year

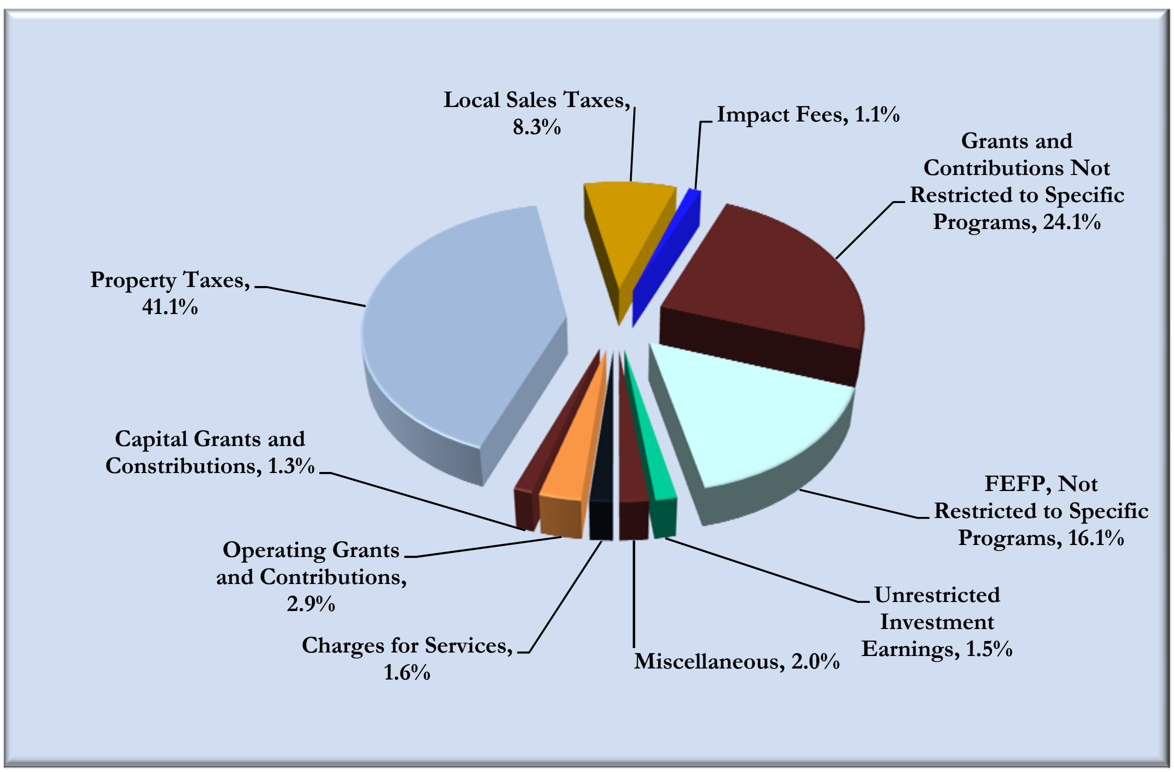
	Governmental Activities 6-30-10	Governmental Activities 6-30-09	Percentage Change
Program Revenues:			
Charges for Services	$ 29,774,055	$ 31,732,658	-6.2%
Operating Grants and Contributions	52,527,046	75,534,142	-30.5%
Capital Grants and Contributions	23,894,709	21,489,767	11.2%
General Revenues:			
Property Taxes	750,980,938	778,186,662	-3.5%
Local Sales Taxes	150,843,957	154,176,277	-2.2%
Impact Fees	21,482,085	19,066,858	12.7%
FEFP, Not Restricted to Specific Programs	293,610,582	305,076,349	-3.8%
Grants and Contributions Not Restricted to Specific Programs	439,570,874	376,310,318	16.8%
Unrestricted Investment Earnings	27,090,702	26,164,503	3.5%
Miscellaneous	36,827,338	39,166,090	-6.0%
Total Revenues	1,826,602,286	1,826,903,624	0.0%
Functions/Program Expenses:			
Instruction	827,416,660	809,437,824	2.2%
Pupil Personnel Services	47,437,365	47,709,555	-0.6%
Instructional Media Services	15,834,869	16,736,740	-5.4%
Instruction and Curriculum Development Services	84,138,792	83,817,286	0.4%
Instructional Staff Training Services	23,476,126	29,521,016	-20.5%
Instruction Related Technology	15,624,329	13,201,691	18.4%
School Board	2,981,986	2,983,735	-0.1%
General Administration	10,516,383	7,722,926	36.2%
School Administration	94,117,648	93,105,835	1.1%
Facilities Acquisition and Construction	33,151,620	36,657,327	-9.6%
Fiscal Services	5,834,291	5,876,622	-0.7%
Food Services	64,675,888	61,952,673	4.4%
Central Services	16,905,810	15,707,564	7.6%
Pupil Transportation Services	74,029,456	72,073,003	2.7%
Operation of Plant	100,646,104	96,514,889	4.3%
Maintenance of Plant	33,270,874	33,990,165	-2.1%
Administrative Technology Services	16,157,009	16,378,960	-1.4%
Community Services	12,933,688	12,002,682	7.8%
Unallocated Interest on Long-Term Debt	79,256,332	74,473,375	6.4%
Unallocated Depreciation Expense	62,980,801	59,121,100	6.5%
Total Functions/Program Expenses	1,621,386,031	1,588,984,968	2.0%
Increase in Net Assets	205,216,255	237,918,656	-13.7%
Net Assets - Beginning	2,362,154,408	2,124,235,752	11.2%
Net Assets - Ending	$ 2,567,370,663	$ 2,362,154,408	8.7%

The District's net assets increased by $205,216,255 during the current fiscal year as a result of sales tax referendum and other capital revenues received for the construction and renovation of schools. There were no significant changes to revenues or expenses since the prior fiscal year.

Expenses – Statement of Activities:



Revenues by Source – Statement of Activities:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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 the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,378,050,857, an increase of $30,642,460 in comparison with the prior fiscal year. Approximately 73 percent of this total amount ($1,003,945,651) constitutes unreserved fund balances, which are available for spending at the government's discretion within the purpose of each fund. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders outstanding at year-end ($237,088,236); 2) to fund specific state educational programs ($8,121,378); and 3) to retire long-term debt ($128,895,592).

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 $224,773,400, while total fund balance was $249,055,023. 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 20 percent of total General Fund expenditures, while total fund balance represents 22 percent of that same amount.

The fund balance of the District's General Fund increased by $27,055,742 during the current fiscal year. Key factors in this increase are as follows:

- Some teaching positions were vacant throughout the year due to the lack of availability of qualified applicants.
- Enhanced fiscal management of resources, including re-appropriation of unreserved fund balance, application of indirect costs generated from American Recovery and Reinvestment Act (ARRA) grants, and cost cutting measures.

The Special Revenue – ARRA Economic Stimulus Fund is a new fund in the 2009-10 fiscal year. This fund had $105,045,598 in both revenues and expenditures. Because grant revenues are not recognized until expenditures are incurred, no fund balance is accumulated.

The Debt Service – Other Debt Service Fund, which is used to account for debt service activity for Certificates of Participation and capital leases, has a total fund balance of $91,874,468, which is reserved for the payment of debt. The net decrease in fund balance during the current year in the other debt service fund was $21,871,737, primarily resulting from COP Series 1999A crossover debt of $23,460,000 being paid by COP Series 2005B.

The Debt Service – ARRA Economic Stimulus Fund, which is used to account for debt service activity of the 2009 QSCB Certificates of Participation, has a total fund balance of $36,125,088, which is reserved for payment of this debt. Since this debt was issued during the current fiscal year, the increase in fund balance equals the ending fund balance.

The Capital Projects – Other Capital Projects Fund, which is used to account for capital project activity funded sources such as Certificates of Participation, sales tax, and impact fees, has a total fund balance of $808,775,096, which is reserved for capital projects, some of which are listed in the Capital Assets and Long-term Debt sections.

The net decrease in fund balance during the current year in this fund was $70,227,809 and resulted primarily from major construction costs occurring in the current fiscal year. It should also be noted that $196,262,746 of the total fund balance has been encumbered under specific engineering and construction contracts for projects in progress at year-end.

The Capital Projects – ARRA Economic Stimulus Fund, which is used to account for capital project activity funded from the 2009 QSCB Certificates of Participation, has a total fund balance of $23,343,658, which is reserved for capital projects. Since this debt was issued during the current fiscal year, the net increase in fund balance equals ending fund balance. It should be noted that $17,179,820 of fund balance has been encumbered under specific engineering and construction contracts for projects in progress at fiscal year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant differences between the original budget and the total final amended General Fund budget.

The General Fund actual revenues exceeded the budgeted revenues by $41,822,109. Local revenue exceeded the budget by $32,800,410. The State revenue was higher by $4,880,279. The General Fund actual expenditures were less than the budgeted appropriations by $134,743,558. This was due to teaching positions remaining unfilled during the year as well as enhanced fiscal management of resources.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets as of June 30, 2010, amounts to $2,869,603,601 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; audio visual materials; and computer software. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was $169,391,424 (6 percent).

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

- Construction of Apopka Middle School
- Construction of Chickasaw Elementary School
- Construction of East River High School
- Construction of Edgewater High School
- Construction of Gotha Middle School
- Construction of Hunters Creek Elementary School
- Construction of Lake Sybelia Elementary School
- Construction of Metrowest Elementary School
- Construction of Old Cheney/North Forsyth
- Construction of Orange Center Elementary School
- Construction of Rosemont Elementary School
- Construction of University High School
- Construction of Walker Middle School
- Construction of Waterbridge Elementary School
- Construction of Westridge Middle School

- Construction of Winter Park High School 9th Grade
- Rebuilding of Apopka High School
- Rebuilding of Azalea Park Elementary School
- Rebuilding of Conway Middle School
- Rebuilding of Dommerich Elementary School
- Rebuilding of Evans High School
- Rebuilding of Maitland Middle School
- Rebuilding of Oakridge High School
- Rebuilding of Palm Lake Elementary School

Summary of Capital Assets
(net of depreciation)

	Governmental Activities	
	June 30, 2010	June 30, 2009
Land	$ 247,890,281	$ 228,304,285
Improvements Other Than Buildings	10,110,085	10,620,601
Buildings and Fixed Equipment	2,188,587,870	2,054,740,684
Furniture, Fixtures, and Equipment	60,768,391	58,889,210
Motor Vehicles	46,443,606	56,156,795
Construction in Progress	309,619,303	291,278,695
Audio Visual Materials	2,162	3,811
Computer Software	6,181,903	218,096
Total Capital Assets	$ 2,869,603,601	$ 2,700,212,177

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the District has total long-term debt outstanding of $1,541,617,146, none of which is considered to be general "bonded debt" (i.e., backed by the full faith and credit of the District). The District's debt consisted of certificates of participation payable, state school bonds payable, and obligations under capital leases, which are secured by specific revenue sources or the underlying assets.

Summary of Outstanding Debt

	Governmental Activities	
	June 30, 2010	June 30, 2009
Certificates of Participation Payable	$ 1,464,782,155	$ 1,481,725,523
State School Bonds Payable	31,500,000	35,000,000
Obligations Under Capital Lease	45,334,991	56,422,359
Total Debt	$ 1,541,617,146	$ 1,573,147,882

During the current fiscal year, the District's total long-term debt decreased by $31,530,736 (2 percent).

The District's Fitch and Moody's ratings increased for its certificates of participation. Fitch increased to an "AA-" rating from the prior year's rating of "A+". Moody's rating increased from an "A1" rating to an "Aa3" rating. The S&P rating remained the same at "AA-" for its certificates of participation.

Additional information on the District's long-term debt can be found in the notes to financial statements.

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

The unemployment rate in July 2010 for the District (Orange County, Florida) was 11.8 percent, which is an increase of 0.9 percent from a year ago. The State's average unemployment rate was 11.5 percent. Florida's unemployment rate has risen 0.7 percent since last year while the nation's rose 0.1 percent during the same time period. The high unemployment rate affects property and sales tax collections.

Residential growth has continued to slow over the past year, with fewer housing developments being approved, which will affect future impact fee collections. The District's student population, the primary factor used in State funding, is expected to slightly increase over the next few years.

All of these factors were considered in preparing the District's budget for the 2010-11 fiscal year.

During the current fiscal year, unreserved fund balance in the General Fund increased to $224,773,400. The District has appropriated $70,177,141 of this amount for spending in the 2010-11 fiscal year budget. It is intended that this use of available fund balance will be replenished through vacant positions and unspent appropriations.

Although current estimates indicate that no mid-year reductions will be required, the historical experience, in which adjustments were made in each of the past two years causes concern regarding the consistency of State funding for the current fiscal year. The District has, therefore, been proactive and set aside adequate reserves to deal with such a contingency should it materialize. In addition, a Board initiated voter referendum passed in November will provide an additional 1 mil of local property tax for four years in support of preserving current school programs beginning in the 2011-12 fiscal year. This new revenue source will help fill the anticipated loss in operational funding provided through the ARRA funds that will generally be ending in the 2010-11 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Orange County Public Schools, 445 W. Amelia Street, Orlando, FL 32801.

BASIC FINANCIAL STATEMENTS

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government	Component Units
	Governmental Activities	Charter Schools/Foundation
ASSETS		
Cash	$ 36,256,731	$ 6,094,778
Investments	1,432,773,133	279,794
Accounts Receivable	385,915	689,450
Interest Receivable	2,168,046	
Due from Other Agencies	76,053,328	
Deposits Receivable	55,000	1,248,558
Prepaid Expenses		216,833
Inventories	5,290,429	
Deferred Issuance Costs	15,050,463	
Restricted Investments	67,941,884	
Deferred Outflow of Resources	36,021,264	
Other Assets		41,941
Capital Assets:		
Non-Depreciable	557,509,584	2,673,951
Depreciable, Net	2,312,094,017	6,871,380
TOTAL ASSETS	$ 4,541,599,794	$ 18,116,685
LIABILITIES		
Accounts Payable	$ 37,845,328	$ 1,859,326
Salaries and Benefits Payable	16,181,924	
Payroll Deductions and Withholdings Payable	5,924	
Construction Contracts Payable	5,695,874	
Construction Contracts Payable - Retainage	11,932,190	
Due to Other Agencies	10,600,475	
Estimated Unpaid Claims	9,300,000	
Matured Debt Payable	1,481,233	
Matured Interest Payable	1,017,160	
Deferred Revenue	29,182,928	69,200
Notes Payable	80,000,000	
Accrued Interest Payable	32,891,969	
Long-Term Liabilities:		
Portion Due Within One Year:		
Notes Payable		1,790,707
Bonds Payable	3,470,000	
Obligations Under Capital Leases	10,154,475	
Certificates of Participation Payable	33,031,368	
Compensated Absences Payable	10,860,076	
Estimated Insurance Claims Payable	5,613,767	
Portion Due After One Year:		
Notes Payable		5,422,407
Bonds Payable	28,030,000	
Obligations Under Capital Leases	35,180,516	
Certificates of Participation Payable	1,431,750,787	
Hedging Derivative Instruments	36,021,264	
Compensated Absences Payable	97,787,432	
Estimated Insurance Claims Payable	9,363,727	
Other Postemployment Benefits Payable	36,830,714	
Total Liabilities	1,974,229,131	9,141,640
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,581,226,963	2,323,141
Restricted for:		
State Required Carryover Programs	10,138,890	
Capital Projects	813,224,054	439,578
Debt Service	20,284,844	210,501
Other Purposes	10,264,001	47,984
Scholarships, Endowments, and Other Programs - Expendable		1,671,814
Scholarships, Endowments, and Other Programs - Non-expendable		54,469
Unrestricted	132,231,911	4,227,558
Total Net Assets	2,567,370,663	8,975,045
TOTAL LIABILITIES AND NET ASSETS	$ 4,541,599,794	$ 18,116,685

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 827,416,660	$ 4,738,587	$	$
Pupil Personnel Services	47,437,365			
Instructional Media Services	15,834,869			
Instruction and Curriculum Development Services	84,138,792			
Instructional Staff Training Services	23,476,126			
Instruction Related Technology	15,624,329			
School Board	2,981,986			
General Administration	10,516,383			
School Administration	94,117,648			
Facilities Acquisition and Construction	33,151,620			16,444,577
Fiscal Services	5,834,291			
Food Services	64,675,888	17,031,489	52,527,046	
Central Services	16,905,810			
Pupil Transportation Services	74,029,456	484,202		
Operation of Plant	100,646,104			
Maintenance of Plant	33,270,874	266,989		2,492,234
Administrative Technology Services	16,157,009			
Community Services	12,933,688	7,252,788		
Unallocated Interest on Long-Term Debt	79,256,332			4,957,898
Unallocated Depreciation Expense*	62,980,801			
Total Primary Government	$ 1,621,386,031	$ 29,774,055	$ 52,527,046	$ 23,894,709
Component Units				
Charter Schools/Foundation	$ 27,594,123	$ 129,986	$ 575,605	$ 75,760

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

Total General Revenues

Change in Net Assets

Net Assets - July 1, 2009

Net Assets - June 30, 2010

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Units
Governmental Activities	Charter Schools/Foundation
$ (822,678,073)	$
(47,437,365)	
(15,834,869)	
(84,138,792)	
(23,476,126)	
(15,624,329)	
(2,981,986)	
(10,516,383)	
(94,117,648)	
(16,707,043)	
(5,834,291)	
4,882,647	
(16,905,810)	
(73,545,254)	
(100,646,104)	
(30,511,651)	
(16,157,009)	
(5,680,900)	
(74,298,434)	
(62,980,801)	
(1,515,190,221)	
	(26,812,772)
604,099,356	
146,881,582	
150,843,957	
21,482,085	
293,610,582	
439,570,874	27,146,471
36,827,338	886,447
27,090,702	5,614
1,720,406,476	28,038,532
205,216,255	1,225,760
2,362,154,408	7,749,285
$ 2,567,370,663	$ 8,975,045

ORANGE COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Debt Service Fund
ASSETS			
Cash	$ 21,886,456	$	$
Investments	315,248,763	218,762	24,321,799
Accounts Receivable	348,253		
Interest Receivable			1,196,640
Due from Other Funds			
Due from Other Agencies	36,133,118	985,856	
Inventories	2,881,281		
Restricted Investments			67,941,884
TOTAL ASSETS	$ 376,497,871	$ 1,204,618	$ 93,460,323
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 14,459,901	$ 287,426	$
Payroll Deductions and Withholdings	5,924		
Accounts Payable	21,587,861	917,192	104,622
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Agencies	10,372,002		
Matured Debt Payable			1,481,233
Matured Interest Payable	1,017,160		
Due to Other Funds			
Deferred Revenue			
Notes Payable	80,000,000		
Total Liabilities	127,442,848	1,204,618	1,585,855
Fund Balances:			
Reserved for Encumbrances	16,160,245		
Reserved for State Required Carryover Programs	8,121,378		
Reserved for Debt Service			91,874,468
Unreserved:			
Designated, Reported in:			
Special Revenue Funds			
Capital Projects Funds			
Undesignated, Reported in:			
General Fund	224,773,400		
Total Fund Balances	249,055,023		91,874,468
TOTAL LIABILITIES AND FUND BALANCES	$ 376,497,871	$ 1,204,618	$ 93,460,323

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Other Capital Projects Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$ 264,837	$ 22,151,293
36,125,088	803,148,423	35,505,527	153,374,050	1,367,942,412
			35,625	383,878
	829,921	833		2,027,394
	10,994,460			10,994,460
	18,998,722		19,935,632	76,053,328
			2,396,763	5,278,044
				67,941,884
$ 36,125,088	$ 833,971,526	$ 35,506,360	$ 176,006,907	$ 1,552,772,693
$	$	$	$ 1,425,385	$ 16,172,712
				5,924
	8,039,552	894,794	4,824,493	36,368,514
	5,535,773		160,101	5,695,874
	11,616,615	273,448	42,127	11,932,190
			228,473	10,600,475
				1,481,233
				1,017,160
		10,994,460		10,994,460
	4,490		448,804	453,294
				80,000,000
	25,196,430	12,162,702	7,129,383	174,721,836
	196,262,746	17,179,820	7,485,425	237,088,236
				8,121,378
36,125,088			896,036	128,895,592
			19,127,746	19,127,746
	612,512,350	6,163,838	141,368,317	760,044,505
				224,773,400
36,125,088	808,775,096	23,343,658	168,877,524	1,378,050,857
$ 36,125,088	$ 833,971,526	$ 35,506,360	$ 176,006,907	$ 1,552,772,693

ORANGE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds		$ 1,378,050,857
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.		
Non-Depreciable Assets	$ 557,509,584	
Depreciable Assets, Net	2,312,094,017	
Total		2,869,603,601
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, except for accrued interest received as part of a debt issue.		
Accrued Interest Payable - Statement of Net Assets		(32,891,969)
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.		15,050,463
Deferred outflow of resources are reported as a result of changes in fair value of hedging derivative instruments in the statement of net assets.		36,021,264
Internal service funds are used by management to charge the costs of its self-insurance programs and print shop. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, less furniture and equipment, net of accumulated depreciation.		
Total Assets - Internal Service Funds	$ 79,203,778	
Less, Total Liabilities - Internal Service Funds	(54,493,154)	
Less, Depreciable Assets, Net	(57,545)	
Total		24,653,079
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	$ (31,500,000)	
Obligations Under Capital Lease	(45,334,991)	
Certificates of Participation	(1,464,782,155)	
Deferred Inflow of Resources - Hedging Derivative Instruments	(36,021,264)	
Compensated Absences Payable	(108,647,508)	
Other Postemployment Benefits Payable	(36,830,714)	
Total		(1,723,116,632)
Total Net Assets - Governmental Activities		$ 2,567,370,663

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

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ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Debt Service Fund
Revenues			
Federal Direct Sources:			
Reserve Officer Training Corps (ROTC)	$ 1,130,023	$	$
Other Federal Direct Sources			
Total Federal Direct Sources	1,130,023		
Federal Through State Sources:			
Food Service			
Other Federal Through State Sources	3,951,397	105,045,598	
Total Federal Through State Sources	3,951,397	105,045,598	
State Sources:			
Florida Education Finance Program	293,610,582		
Workforce Development	30,899,520		
Categorical Program - Class Size Reduction	191,648,547		
District Discretionary Lottery Funds	501,156		
Food Service			
CO&DS Withheld for SBE/COBI Bond	98,305		
CO&DS Distribution			
Public Education Capital Outlay			
Class Size Reduction - Capital Outlay			
Other State Sources	14,291,363		
Total State Sources	531,049,473		
Local Sources:			
Ad Valorem Taxes	604,099,356		
Local Sales Taxes			
Impact Fees			
Charges for Services - Food Service			
Interest Income	8,812,698		
Postsecondary Vocational Course Fees	4,738,587		
Other Local Revenue	19,329,059		
Total Local Sources	636,979,700		
Total Revenues	1,173,110,593	105,045,598	
Expenditures			
Current - Education:			
Instruction	752,716,671	22,081,445	
Pupil Personnel Services	12,017,537	22,286,835	
Instructional Media Services	5,034,444	9,155,805	
Instruction and Curriculum Development Services	24,930,398	34,055,479	
Instructional Staff Training Services	2,581,812	3,157,750	
Instruction Related Technology	6,542,761	7,903,250	
School Board	2,947,410		
General Administration	4,275,902	3,253,049	
School Administration	91,343,788	1,081	
Facilities Acquisition and Construction	8,756,643	62,067	
Fiscal Services	5,466,324		
Food Services	27,889	10,821	
Central Services	15,950,039		
Pupil Transportation Services	54,676,391		
Operation of Plant	98,984,820		
Maintenance of Plant	32,014,057		
Administrative Technology Services	16,036,455		
Community Services	677,356	253,864	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	77,017		
Other Capital Outlay	6,864,029	2,824,152	
Debt Service:			
Principal			38,798,973
Interest and Fiscal Charges	1,882,652		74,475,005
Total Expenditures	1,143,804,395	105,045,598	113,273,978
Excess (Deficiency) of Revenues Over Expenditures	29,306,198		(113,273,978)
Other Financing Sources (Uses)			
Transfers In	3,930,913		115,092,241
Refunding Bonds Issued			
Payments to Refunded Bond Escrow Agent			
Payments to Refunded Certificates of Participation Escrow Agent			(23,460,000)
Certificates of Participation Issued			
Proceeds from Sale of Capital Assets	212,999		
Insurance Loss Recoveries	275,632		
Transfers Out	(6,670,000)		(230,000)
Total Other Financing Sources (Uses)	(2,250,456)		91,402,241
Net Change in Fund Balances	27,055,742		(21,871,737)
Fund Balances, Beginning	221,999,281		113,746,205
Fund Balances, Ending	$ 249,055,023	$	$ 91,874,468

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Other Capital Projects Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$	$ 1,130,023
			13,426,174	13,426,174
			13,426,174	14,556,197
			51,345,890	51,345,890
			91,529,780	200,526,775
			142,875,670	251,872,665
				293,610,582
				30,899,520
				191,648,547
				501,156
			1,181,156	1,181,156
			4,957,898	5,056,203
			1,576,417	1,576,417
			5,866,555	5,866,555
	12,834,213			12,834,213
				14,291,363
	12,834,213		13,582,026	557,465,712
			146,881,582	750,980,938
	150,843,957			150,843,957
	21,482,085			21,482,085
			17,031,489	17,031,489
306,279	15,206,723	3,632	1,498,971	25,828,303
				4,738,587
			7,288,590	26,617,649
306,279	187,532,765	3,632	172,700,632	997,523,008
306,279	200,366,978	3,632	342,584,502	1,821,417,582
			33,734,414	808,532,530
			11,920,465	46,224,837
			1,236,725	15,426,974
			23,145,851	82,131,728
			17,444,550	23,184,112
			846,109	15,292,120
				2,947,410
			2,912,907	10,441,858
			295,340	91,640,209
	17,720,266		6,711,536	33,250,512
			225,490	5,691,814
			63,391,768	63,430,478
			597,094	16,547,133
			5,228,635	59,905,026
			299,785	99,284,605
			3,368	32,017,425
				16,036,455
			11,892,706	12,823,926
	203,434,835	12,162,702	13,094,157	228,768,711
			2,947,113	12,635,294
			3,330,000	42,128,973
548,463			1,492,944	78,399,064
548,463	221,155,101	12,162,702	200,750,957	1,796,741,194
(242,184)	(20,788,123)	(12,159,070)	141,833,545	24,676,388
36,050,000				155,073,154
			2,485,000	2,485,000
			(2,697,559)	(2,697,559)
				(23,460,000)
317,272		35,502,728		35,820,000
				212,999
				275,632
	(49,439,686)		(105,403,468)	(161,743,154)
36,367,272	(49,439,686)	35,502,728	(105,616,027)	5,966,072
36,125,088	(70,227,809)	23,343,658	36,217,518	30,642,460
	879,002,905		132,660,006	1,347,408,397
$ 36,125,088	$ 808,775,096	$ 23,343,658	$ 168,877,524	$ 1,378,050,857

ORANGE 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, 2010

Net Change in Fund Balances - Governmental Funds			$	30,642,460
Amounts reported for governmental activities in the statement of activities are different because:				
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays and donantions, in excess of depreciation expense and loss on sale of capital assets in the current period.				
Capital Outlay - Facilities and Construction - Governmental Funds	$	228,768,711		
Capital Outlay - Other Capital Outlay - Governmental Funds		12,635,294		
Donated Property		5,677,617		
Loss on Sale of Capital Assets		(1,968,394)		
Less, Depreciation Expense		(75,721,804)		
Total				169,391,424
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.				
Certificates of Participation	$	(35,820,000)		
Deferred Charges for Certificates of Participation		274,713		
Refunding Bonds		(2,485,000)		
Payments to Certificates of Participation Escrow Agent		23,460,000		
Payments to Bond Escrow Agent		2,697,559		
Total				(11,872,728)
Amortized expenses for prior year deferred charges and premiums on debt issues not reported in the governmental funds.				
Deferred Charges on Certificates of Participation	$	(1,494,035)		
Premium on Certificates of Participation Issued		(371,970)		
Amortization of Premium on Certificates of Participation		1,963,733		
Total				97,728
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				
Bonds Payable	$	3,330,000		
Obligations Under Capital Leases		11,087,368		
Certificates of Participation		27,711,605		
Total				42,128,973
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.				
Current Year Accrual	$	(32,891,969)		
Less, Prior Year Accrual		31,449,799		
Total				(1,442,170)
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 leave used. This is the net amount of vacation and sick leave used in excess of the amount earned in the current period.				1,808,522
Other Post-Employment Benefits (OPEB) costs are recorded in the governmental funds under the pay-as-you-go method, but under the full accrual method in the Government-Wide statements beginning in fiscal year 2008.				
Current Year Accrual	$	(36,830,714)		
Less, Prior Year Accrual		20,509,726		
Total				(16,320,988)
Internal service funds are used by management to charge the cost of certain activities, such as insurance to individual funds. The net revenue of internal service funds is reported with governmental activities plus the depreciation and capital asset disposals reported above.				(9,216,966)
Change in Net Assets - Governmental Activities			$	205,216,255

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2010

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	14,105,438
Investments		64,830,721
Accounts Receivable		2,037
Interest Receivable		140,652
Deposits Receivable		55,000
Inventories		12,385
Total Current Assets		79,146,233
Noncurrent Assets:		
Furniture and Equipment		206,149
Less, Accumulated Depreciation		(148,604)
Computer Software		1,100
Less, Accumulated Depreciation		(1,100)
Total Noncurrent Assets		57,545
TOTAL ASSETS	$	79,203,778
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	$	9,212
Accounts Payable		1,476,814
Deferred Revenue		28,729,634
Estimated Insurance Claims Payable		14,913,767
Total Current Liabilities		45,129,427
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		9,363,727
Total Liabilities		54,493,154
NET ASSETS		
Invested in Capital Assets		57,545
Unrestricted		24,653,079
Total Net Assets		24,710,624
TOTAL LIABILITIES AND NET ASSETS	$	79,203,778

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

		Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Charges for Services	$	4,241,431
Premium Revenues		131,846,095
Other Operating Revenues		944,225
Total Operating Revenues		137,031,751
OPERATING EXPENSES		
Salaries		629,413
Employee Benefits		210,752
Purchased Services		11,356,138
Energy Services		80,964
Materials and Supplies		252,588
Claims Expenses		141,864,922
Depreciation		15,109
Total Operating Expenses		154,409,886
Operating Loss		(17,378,135)
NONOPERATING REVENUES		
Interest		1,474,860
Gain on Disposition of Assets		2,917
Total Nonoperating Revenues		1,477,777
Loss Before Transfers		(15,900,358)
Transfers In		6,670,000
Change in Net Assets		(9,230,358)
Total Net Assets - Beginning		33,940,982
Total Net Assets - Ending	$	24,710,624

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Interfund Services Provided	$ 136,419,057
Payments to Suppliers of Goods or Services	(11,360,081)
Payments to Employees	(856,397)
Payments for Premiums	(143,646,156)
Other Operating Cash Receipts	944,225
Net Cash Used by Operating Activities	(18,499,352)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments from Other Funds	6,670,000
Net Cash Provided by Noncapital Financing Activities	6,670,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of Capital Assets	3,000
Acquisition of Capital Assets	(1,800)
Net Cash Provided by Capital and Related Financing Activities	1,200
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	1,368,580
Proceeds from Sale of Investments	21,428,107
Net Cash Provided by Investing Activities	22,796,687
Net Increase in Cash	10,968,535
Cash and Cash Equivalents, Beginning of Year	3,136,903
Cash and Cash Equivalents, End of Year	$ 14,105,438
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	$ (17,378,135)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	15,109
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	381,531
Increase in Deposits Receivable	(50,000)
Decrease in Inventory	7,240
Increase in Accounts Payable	100,906
Decrease in Salaries and Wages Payable	(16,232)
Increase in Deferred Revenue	235,879
Decrease in Estimated Unpaid Claims	(1,781,234)
Decrease in Due to Other Funds	(14,416)
Total Adjustments	(1,121,217)
Net Cash Used in Operating Activities	$ (18,499,352)
Noncash Investing, Capital, and Financing Activities	
Net Decrease in Fair Value of Investments	$ (11,098)

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2010

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	8,671,951
Investments		4,289,650
Accounts Receivable		364,376
Inventories		466,465
TOTAL ASSETS	$	13,792,442
LIABILITIES		
Accounts Payable	$	931,195
Internal Accounts Payable		12,861,247
Total Liabilities	$	13,792,442

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

Orange County Public Schools (the District) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education.

The governing body of the District is the Orange County District School Board (the Board), which is composed of seven elected members. The appointed Superintendent of Schools (Superintendent) is the executive officer of the Board. Geographic boundaries of the District correspond with those of Orange County, Florida.

Pursuant to Section 1001.51(11)(f), Florida Statutes, the Superintendent is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the Florida State Board of Education.

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

As required by accounting principles generally accepted in the United States (GAAP), these basic financial statements present the District (the primary government) and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

- Blended Component Units. The District's employee group health and life insurance program, described in a subsequent note, is administered through the School Board of Orange County Employee Benefits Trust (Trust). Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust Agreement, the School Board retains control of the assets. Due to the substantive economic relationship between the District and the Trust, the financial activities of the Trust are reported in the accompanying basic financial statements as an internal service fund.

  The Orange County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in a subsequent note. The Board of Directors of the Leasing Corporation are members of the Board who elect to serve as ex-officio Directors. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements as part of the debt service and capital project funds. Separate financial statements for the Leasing Corporation are not published.

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- Discretely Presented Component Units. The component unit column in the government-wide financial statements includes the financial data of the District's component units that are required to be presented separately. These component units consist of the following charter schools: Discovery Educational Services, Inc. (d/b/a Orlando Science Middle/High Charter Schools), Hope Charter School, Inc., Lake Eola Charter School, Inc., Legacy High School, Inc., Life Skills Center Orange County, Inc., Nap Ford Community School, Inc., Passport High School, Inc., The Passport School, Inc., Princeton House Charter School, Inc., Rio Grande Foundation of Excellence, Inc. (d/b/a Rio Grande Charter School of Excellence), Sunshine High School – Orange County Campus, Inc. (d/b/a Sheeler High School), Sunshine High School – Orlando Campus, Inc. (d/b/a Chancery High School), Sunshine High School – Central Orange County Campus, Inc. (d/b/a Aloma High School), and Workforce Advantage Academy, Inc. (collectively referred to as the Charter Schools) and the Foundation for Orange County Public Schools, Inc. (the Foundation). The charter schools and the Foundation are reported aggregately in the basic financial statements to emphasize that they are legally separate from the District. The financial information for Summit Charter School, Inc. was not reported to the District in time for inclusion in this report.

  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. The Charter Schools operate under charters approved by their sponsor, the Board, and are fiscally dependent on the District. The financial data that will be reported on the accompanying basic financial statements are derived from the financial statements of the charter schools for the fiscal year ended June 30, 2010, which are audited by independent certified public accountants and will be on file at the District's administrative office.

  The following five charter schools are not included in the District's basic financial statements in accordance with GAAP. West Orange County Charter School (d/b/a Oakland Charter School) and United Cerebral Palsy Charter Schools (four Charter Schools) are organized under existing not-for-profit corporations, and each is considered to be a component unit of their respective not-for-profit corporation.

  The Foundation is a separate nongovernmental not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, and as such the Foundation is approved by the Board. The Foundation was formed to provide charitable and educational aid to the District and to receive, hold, invest, and administer property and to make expenditures for the benefit of the District, and it would be misleading to exclude from the District's financial statements due to the nature and significance of the relationship. An audit of the Foundation's financial statements, for the fiscal year ended June 30, 2010, was conducted by an independent certified public accountant and is on file at the District's administrative office.

➢ **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Government-wide Financial Statements - Government-wide financial statements are prepared under the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

The Statement of Net Assets includes all assets and liabilities of the District. The Statement of Activities presents a comparison between the direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program of function and, therefore, are clearly identifiable to a particular function. Depreciation expenses associated with the District's pupil transportation services and maintenance departments are allocated to the transportation and maintenance of plant functions, while remaining depreciation expenses are not readily associated with a particular function and are reported as unallocated.

Amounts reported as program revenues include 1) charges for services provided to students for tuition, fees, rental, materials, supplies, or other services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The 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 District eliminates from the Statement of Net Assets and the Statement of Activities most interfund receivables and payables and transfers between funds as well as the transactions associated with its Internal Service Funds.

Fund Financial Statements - The Governmental Fund Financial Statements are prepared utilizing the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues "susceptible to accrual" include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers revenues from ad valorem taxes as available if they are collected within sixty (60) days after year-end. Expenditures are recorded when the fund liability is incurred. However, exceptions include unmatured principal and interest on general long-term debt and accumulated sick and vacation pay, which are recorded when payment is due.

In applying the "susceptible to accrual" concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one type, moneys must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of the expenditure. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the "susceptible to accrual" criteria are met. In all cases, moneys received before the revenue recognition criteria have been met, are reported as deferred revenue.

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

The Agency (Fiduciary) funds are purely custodial in nature (assets equal liabilities) and as such do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are for self-insurance (property, casualty, liability, and workers' compensation), employee benefits (health and prescription), and printing provided to other funds. Operating expenses for the internal service funds include salaries, employee benefits, purchased services, energy services, materials and supplies, claims expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The District reports the following major 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. The General Fund is the District's primary operating fund.
- Special Revenue – ARRA Economic Stimulus Fund – to account for the financial resources of the American Recovery and Reinvestment Act (ARRA) grant program resources.
- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs for capital leases and certificates of participation.
- Debt Service – ARRA Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs for the Qualified School Construction Bonds (QSCBs).
- Capital Projects – Other Capital Projects Fund – to account for the financial resources generated by certificates of participation, impact fees, lottery, sales tax and other local sources to be used for educational capital outlay needs, including new construction, renovation and remodeling projects and debt service payments.
- Capital Projects – ARRA Economic Stimulus Funds – to account for the financial resources generated by the QSCBs to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.

Additionally, the District reports the following nonmajor fund types:

- Special Revenue Funds – to account for the financial resources of the school food service program, certain grant program resources, the extended day childcare program, and other such restricted resources.

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- Debt Service Funds – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs.
- Capital Projects Funds – to account for financial resources generated from local property taxes and allocated from State revenues that are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects and debt service payments.
- Internal Service Funds – to account for the District's limited self-insurance programs and printing service operations.
- Agency Funds – to account for resources of the school internal funds that are used to administer moneys collected at all schools in connection with school, student athletic, class, and club activities.

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

➢ **Budgetary Information**

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

- Annually, budgets are prepared, public hearings are held, and original budgets are adopted for all governmental fund types in accordance with procedures and time intervals prescribed by State Statutes and State Board of Education rules.
- Appropriations are controlled at the function level (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- 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.
- The reported budgetary data consists of the original budget as well as the final appropriated budget after amendments approved by the Board.

➢ **Cash and Cash Equivalents**

Cash deposits are held in banks that qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes. For the Internal Service Funds, the statement of cash flows considers cash as those accounts used as demand deposit accounts.

Cash balances from all funds are combined and invested to the extent available. Earnings are allocated monthly to each fund based on average daily balances of cash and investments.

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- **Investments**

Investments consist of amounts placed with various money market mutual funds that hold a majority of United States government securities, municipal securities, and repurchase agreements. All money market mutual funds are AAA rated by the various rating agencies and each fund is registered as a 2a-7 fund with the Securities and Exchange Commission (SEC). Rule 2a-7 of the Investment Company Act of 1940, comprises the rules governing money market funds. The investment earnings from the money market mutual funds are allocated to each fund based on end of month investment balances in that fund. Investments also consist of the State of Florida's Special Purpose Investment Account (SPIA) authorized in Section 17.61(1), Florida Statutes, and United States government securities. All investments are reported at fair value based on quoted market prices. The District's investment in SPIA is part of an investment pool managed by the Florida Department of Treasury, where the District owns a share of the pool, not the underlying shares. The District relies on policies developed by the State Treasury for managing interest and credit risk for this external investment pool. 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. Transportation, custodial, and school supply inventories are stated at cost on a weighted average basis. Food service inventories are stated at cost on the last invoice basis, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

- **Capital Assets and Depreciation**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $1,000 for furniture, fixtures, and equipment; motor vehicles; audio visual materials and computer software; improvements other than buildings; buildings and fixed equipment; and construction in progress and which have an estimated life of two or more years. All land purchases are capital assets regardless of cost. 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.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets lives are not capitalized and are expensed as incurred. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Capital assets of the primary government, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

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

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

- **Long-Term Liabilities**

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and deferred amounts on refunding, during the current period. The face amount of debt issued is reported as another financing source while discounts on debt issuances and deferred amounts on refunding 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 portion due and payable at year-end.

Other Postemployment Benefits (OPEB) are reported in the government-wide financial statements. The District subsidizes the premium rates paid by the retirees by allowing them to participate in the health plan at the blended group premium rates for both active and retired employees. The OPEB liability is recorded by the District for the implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the District than those of active employees. The District funds OPEB on a pay-as-you-go basis. Additional information on OPEB is described in a subsequent note.

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

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

The State provides financial assistance to administer certain 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 educational programs. The Department generally requires that these 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 and earmarked educational program resources.

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

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

- **District Property Taxes**

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Orange County Property Appraiser determines the real and personal property values within the District. The Orange County Tax Collector then collects the taxes and remits them to the District.

The Board adopted the 2009 tax levy on September 8, 2009. Taxes become an enforceable lien on property as of January 1. 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 Orange County Tax Collector at fiscal year-end but not yet remitted to the District. Because

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

- **School Capital Outlay Surtax**

The citizens of Orange County, in 2002, with an effective date of January 1, 2003, approved a half-penny sales tax authorized under Section 212.055 (6), Florida Statutes, for a period of 13 years.

- **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. INVESTMENTS

As of June 30, 2010, the District had the following investments and maturities:

		Investment Maturities				
		Less Than				
Investment	Fair Value	6 Months	1 Year	2 Years	3 Years	5 Years
Florida Special Purpose Investment Account	$ 790,912,609	$ 790,912,609	$	$	$	$
Money Market Mutual Funds	386,270,015	386,270,015				
Certificates of Deposit	100,000,000	100,000,000				
Obligations of United States Government Sponsored Agencies/ Federal Instrumentalities	223,532,393	69,514,718			23,586,035	130,431,640
Total Investments, Primary Government	1,500,715,017	1,346,697,342			23,586,035	130,431,640
Fiduciary Funds:						
Money Market Mutual Funds	2,685,719	2,685,719				
Certificates of Deposit	1,603,931	1,603,931				
Total Investments, Fiduciary Funds	4,289,650	4,289,650				
Total Investments, Reporting Entity	$ 1,505,004,667	$ 1,350,986,992	$	$	$ 23,586,035	$ 130,431,640

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. District policies limit the maturity of investments to six years or less as a means of limiting its exposure to fair value losses arising from rising interest rates. Also, at least three months of average disbursements should be invested in highly liquid funds with a maturity range of 0-90 days.
- The money market mutual funds are a 2a-7 fund and has a portfolio weighted average maturity not to exceed 90 days. On June 30, 2010, the money market mutual funds portfolio's weighted average days to maturity was 42 days.
- The State Treasury Special Purpose Investment Account (SPIA) investment pool had an effective duration of 1.81 years at June 30, 2010. The District relies on polices developed by the State Treasury for managing interest rate risk and credit risk for this investment pool. Disclosures for the

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State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

- The District has $223,532,393 in obligations of the United States Government Sponsored Agencies/Federal Instrumentalities. These securities included embedded options to call the entire security or a portion thereof, at the option of the issuer; or, depending on market conditions, the issuer may decide to leave the security intact, at stated interest rate, until final maturity. These securities have various call dates with final maturity dates being July 2015.

Credit Risk

- Investments authorized by District policy are:
  - Direct Obligations of United States Treasury;
  - United States Government Sponsored Agencies or Federal Instrumentalities;
  - State Board of Administration (SBA) Florida PRIME or other similar common trust fund for which such state, or a constitutional or statutory officer or agency thereof, shall be the custodian;
  - Certificates of Deposit and Savings Accounts;
  - Repurchase Agreements fully collateralized at 102 percent of market value, by United States Treasuries, United States Government Agencies, United States Government Sponsored Agencies/Federal Instrumentalities;
  - State and/or Local Government Taxable or Tax-Exempt Debt;
  - Corporate Notes with a minimum AA rating by Standard and Poor's;
  - Commercial Paper rated P1 by Moody's or A1 by Standard and Poor's;
  - Money Market Mutual Funds rated AAA;
  - Bankers Acceptances rated P1 by Moody's or A1 by Standard and Poor's;
  - Florida Education Investment Trust Fund; and
  - Money Market Deposit Account.
- The District's investments in certificates of deposit are in qualified public depositories.
- As of June 30, 2010, the District's investments in the money market mutual funds were rated AAAm by Standard & Poor's.
- The SPIA carried a credit rating of Af by Standard and Poor's at June 30, 2010.
- The District's investments in Federal government sponsored agencies and instrumentalities include securities from Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Home Loan Bank (FHLB), all of which are rated Aaa by Moody's Investors Service.

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Custodial Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's $223,532,393 investments in obligations of United States Government Sponsored Agencies/Federal Instrumentalities are held by the safekeeping agent in the name of the District.

Concentration of Credit Risk

- Composition of investment portfolio is limited by district policy as follows:
    - Direct Obligations of the United States Treasury to 100 percent;
    - United States Government Sponsored Agencies (Federal Instrumentalities) to 80 percent;
    - Florida Local Government Investment Pool or other similar common trust to 100 percent;
    - Florida Education Investment Trust Fund to 100 percent;
    - Certificates of Deposit and Savings Accounts to 100 percent;
    - Repurchase Agreements, fully collateralized by Direct Obligations of United States Government Securities to 30 percent;
    - State and/or Local Government Taxable or Tax-Exempt Debt to 20 percent;
    - Corporate Notes to 10 percent;
    - Commercial Paper to 10 percent;
    - Money Market Mutual Funds to 100 percent;
    - Bankers Acceptances to 35 percent; and
    - Money Market Deposit Account to 80 percent.
- As of June 30, 2010, the District's investments in the money market mutual funds and SPIA were $1,177,182,624 in fair value. As a part of the money market totals, the District has $218,406,101 held in the money market mutual funds under a trust indenture in connection with the Certificates of Participation, Series 1999, 2002A, 2002B, 2002 QZABS, 2006A, 2007A, 2009A and 2009B QSCB for unspent construction proceeds. On June 30, 2010, the aggregate security distribution was as follows: Federal Agency Notes – 9.1 percent, Federal Agency Floaters – 25.1 percent, Federal Agency Repurchase Agreements – 32.5 percent, Federal Agency Discount Notes – 29.7 percent, United States Treasuries – 0.7 percent, and FDIC Guaranteed Notes – 2.9 percent.
- More than 5 percent of the District's investments are in the Federal Home Loan Bank (FHLB) and the Federal Home Loan Mortgage Corporation (FHLMC). These investments are 5.8 percent and 5.3 percent, respectively, of the District's total investments. FHLB investments represent 52.8

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percent of the investment balance in the Debt Service – Other Debt Service funds. Additionally, FHLMC investments represent 9 percent of the investment balance in the Capital Projects – Other Capital Projects Fund.

- All District investments are in compliance with District policy in relation to interest rate risk, credit risk, and concentration of credit risk.

3. RECEIVABLES

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

4. CHANGES IN CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 228,304,285	$ 19,585,996	$	$ 247,890,281
Construction in Progress	291,278,695	201,722,953	183,382,345	309,619,303
Total Capital Assets Not Being Depreciated	519,582,980	221,308,949	183,382,345	557,509,584
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	18,046,695	414,560		18,461,255
Buildings and Fixed Equipment	2,538,980,216	183,382,345		2,722,362,561
Furniture, Fixtures, and Equipment	158,654,005	18,586,698	14,664,504	162,576,199
Motor Vehicles	127,345,694	643,228	1,295,385	126,693,537
Audio Visual Materials	8,245			8,245
Computer Software	4,096,098	6,128,187	2,867,429	7,356,856
Total Capital Assets Being Depreciated	2,847,130,953	209,155,018	18,827,318	3,037,458,653
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	7,426,095	925,075		8,351,170
Buildings and Fixed Equipment	484,239,532	49,535,159		533,774,691
Furniture, Fixtures, and Equipment	99,764,794	14,847,775	12,804,761	101,807,808
Motor Vehicles	71,188,899	10,262,402	1,201,370	80,249,931
Audio Visual Materials	4,434	1,649		6,083
Computer Software	3,878,002	149,744	2,852,793	1,174,953
Total Accumulated Depreciation	666,501,756	75,721,804	16,858,924	725,364,636
Total Capital Assets Being Depreciated, Net	2,180,629,197	133,433,214	1,968,394	2,312,094,017
Governmental Activities Capital Assets, Net	$ 2,700,212,177	$ 354,742,163	$ 185,350,739	$ 2,869,603,601

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All depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Pupil Transporation Services	$ 12,123,154
Maintenance of Plant	617,849
Unallocated	62,980,801
Total Depreciation Expense	$ 75,721,804

5. NOTES PAYABLE

The following is a description of the District's note payable:

Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
$ 85,000,000	$ 80,000,000	$ 85,000,000	$ 80,000,000

The District borrowed $80,000,000 on November 10, 2009, under Provisions of Section 1011.13(1), Florida Statutes, at an interest rate of 2.0 percent. Proceeds were used to provide interim funds for payment of operating expenses of the District for the fiscal year ended June 30, 2010, in anticipation of the receipt of ad valorem taxes levied and collected for such fiscal year. The tax anticipation note matured on October 1, 2010.

6. CAPITAL LEASES

The classes and amounts of property being acquired by the District under capital leases are as follows.

Asset Description	Asset Balance
Buses	$ 80,589,409

Amortization of assets recorded under capital leases are included with depreciation expense in the accompanying financial statements.

Following are the future minimum lease payments and the present value of the minimum lease payments as of June 10, 2010:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	$ 12,020,475	$ 10,154,475	$ 1,866,000
2012	12,020,476	10,560,057	1,460,419
2013	9,269,056	8,230,633	1,038,423
2014	7,682,946	6,986,450	696,496
2015	6,105,577	5,681,236	424,341
2016-2017	3,957,689	3,722,140	235,549
Total Minimum Lease Payments	$ 51,056,219	$ 45,334,991	$ 5,721,228

The stated and imputed interest rates range from 3.32 percent to 4.57 percent.

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7. CERTIFICATES OF PARTICIPATION

The District entered into a master financing arrangement on May 1, 1997, which was characterized as a lease-purchase agreement, with the Orange County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, vehicles, and equipment. The financing was accomplished through the issuance of Certificates of Participation (COPs):

Series	Amount Issued	Amount Outstanding	Remaining Interest Rates (Percent) (10)	Facility Lease Term Maturity (11)
1997A	$ 351,057,075	$ 33,852,075	5.75 - 6.00	2013
2000A	114,495,000	70,365,000	4.9 - 5.5	2025
2001A - Refunding (1)	78,230,000	75,900,000	4.00 - 5.25	2019
2002A	129,585,000	92,595,000	4.0 - 5.0	2027
2002 - QZAB (2)	3,900,000	1,481,232	None	2016
2003	11,720,000	5,555,000	3.10 - 3.75	2013
2004	91,300,000	91,300,000	3.375 - 5.000	2029
2005A (3)	125,460,000	125,460,000	3.125 - 5.000	2022
2005B (4)	66,585,000	66,585,000	3.25 - 5.00	2025
2006A (5)	145,215,000	145,215,000	4.6 - 5.0	2031
2006B (6)	111,165,000	111,165,000	4.0 - 5.0	2024
2007A (7)	165,425,000	159,900,000	4.0 - 5.0	2032
2008B (8)	105,000,000	105,000,000	Synthetic 4.412	2032
2008C (9)	47,845,000	45,360,000	Synthetic 4.615	2025
2008D (12)	49,255,000	48,610,000	3.00 - 5.00	2027
2008E (13)	51,020,000	51,020,000	Synthetic 5.114	2022
2009A (14)	185,000,000	185,000,000	4.00 - 5.50	2034
2009B-QSCB (15)	35,820,000	35,820,000	1.15	2024
Total		$ 1,450,183,307		

(1) On February 15, 2002, the Leasing Corporation issued COPs Series 2001A to advance refund a portion of the COPs Series 1997A and Series 2000A.

(2) On December 11, 2002, the master financing agreement was amended and the Leasing Corporation issued COPs Series 2002 – Qualified Zone Academy Bonds (QZAB). Under the terms of this lease agreement, the District is required to make 13 annual payments of $211,605, which are deposited with a Trustee and are to be invested with a qualified financial institution until maturity date and, when combined with interest earnings and net appreciation in market value, will be sufficient to pay off the principal balance, in full, at maturity on December 11, 2016.

(3) On March 14, 2005, the Leasing Corporation issued COPs Series 2005A to advance refund with crossover debt a portion of COPs Series 1997A and Series 1999A.

(4) On March 14, 2005, the Leasing Corporation issued COPs Series 2005B to advance refund with crossover debt a portion of COPs Series 2000A.

(5) On March 9, 2006, the Leasing Corporation issued COPs Series 2006A to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2006A COPs.

(6) On March 9, 2006, the Leasing Corporation issued COPs Series 2006B to advance refund a portion of COPs Series 1999A and Series 2002A.

(7) On June 29, 2007, the Leasing Corporation issued COPs Series 2007A to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2007A COPs.

(8) On April 11, 2008, the Leasing Corporation issued COPs Series 2008B to advance refund COPs Series 2007B.

(9) On June 30, 2008, the Leasing Corporation issued COPs Series 2008C to advance refund COPs Series 2000B.

(10) The lease payments are payable by the District, semiannually, on July 25 and January 25, except for the Series 2002 QZAB which is paid annually on December 10, and interest is paid by the Federal government in the form of annual tax credits to the bank or other eligible financial institution that holds the Certificates.

(11) As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of $1 per year. The properties covered by the ground lease are, together with the improvement constructed thereon (facilities) and the vehicles and equipment purchased from the financing proceeds, leased back to the District. The lease agreements are automatically renewable through varying dates unless early terminated following the occurrence of an event of default or a nonappropriation of funds to make lease payments, all as described and defined in the leases. If the District fails to renew the lease and to provide for rent payments through to term, it may be required to surrender all facilities, vehicles, and equipment included under terms of the lease agreements for the benefit of the securers of the COPs.

(12) On September 8, 2008, the Leasing Corporation issued COPs Series 2008D to advance refund COPs Series 2002B.

(13) On September 8, 2008, the Leasing Corporation issued COPs Series 2008E to advance refund COPs Series 2007C.

(14) On March 11, 2009, the Leasing Corporation issued COPs Series 2009A to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2009A COPs.

(15) On November 24, 2009, the Leasing Corporation issued COPs Series 2009B-Qualified School Construction Bond (QSCB). The proceeds from the issue will be used primarily for comprehensive updates for one middle school.

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The District properties funded by the above-financing arrangement include the following:

Certificates	Description of Property
Series 1997A	Renovation and remodeling at eighteen elementary schools, four middle schools, two high schools, and two 9th grade centers.
Series 2000A	Three elementary schools.
Series 2001A	Refunding of COPs, Series 1997A and 2000A.
Series 2002A	Two alternative education schools; the replacement of one elementary, one middle, and one high school; an addition at one middle school; and concrete modular buildings at various sites.
Series 2002-QZAB	Comprehensive needs and renovation at one elementary school.
Series 2003	Financing and refinancing 295 premanufactured concrete modular structures.
Series 2004	Two middle schools, two elementary schools, portable classrooms to meet immediate needs and portable replacements.
Series 2005A	Refunding of COPs, Series 1997A and 1999A.
Series 2005B	Refunding of COPs, Series 2000A.
Series 2006A	One replacement high school and four elementary schools.
Series 2006B	Refunding of COPs, Series 1999A and 2002A.
Series 2007A	One replacement high school, one replacement middle school, one technical center, one high school, and two elementary schools.
Series 2008B	Refunding of COPs, Series 2007B.
Series 2008C	Refunding of COPs, Series 2000B.
Series 2008D	Refunding of COPs, Series 2002B.
Series 2008E	Refunding of COPs, Series 2007C.
Series 2009A	Two replacement high schools.
Series 2009B-QSCB	Comprehensive needs and renovation at one middle school.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2011	$ 100,665,012	$ 31,439,605	$ 69,225,407
2012	103,967,218	36,274,604	67,692,614
2013	103,966,490	37,919,605	66,046,885
2014	101,929,532	26,806,680	75,122,852
2015	101,573,106	37,894,605	63,678,501
2016-2020	504,401,948	213,688,208	290,713,740
2021-2025	526,030,171	294,775,000	231,255,171
2026-2030	503,743,569	356,950,000	146,793,569
2031-2035	470,765,223	414,435,000	56,330,223
Total Minimum Lease Payments	2,517,042,269	1,450,183,307	1,066,858,962
Add: Unamortized Premium	14,598,848	14,598,848	
Total Certificates of Participation	$ 2,531,641,117	$ 1,464,782,155	$ 1,066,858,962

Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2010, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 8 for information on derivative instruments.

Series 2008B COPs Swap Agreement - Swap Payments and Associated Debt. Assuming interest rates remain the same as June 30, 2010, annual debt service requirements on the Series 2008B COPs and the interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$	$ 304,500	$ 4,370,100	$ 4,674,600
2012		304,500	4,370,100	4,674,600
2013		304,500	4,370,100	4,674,600
2014		304,500	4,370,100	4,674,600
2015		304,500	4,370,100	4,674,600
2016-2020		1,522,500	21,850,500	23,373,000
2021-2025		1,522,500	21,850,500	23,373,000
2026-2030	17,670,000	1,497,459	21,491,111	40,658,570
2031-2033	87,330,000	676,236	9,705,160	97,711,396
Total	$ 105,000,000	$ 6,741,195	$ 96,747,771	$ 208,488,966

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Series 2008C COPs Swap Agreement - Swap Payments and Associated Debt. Assuming interest rates remain the same as June 30, 2010, annual debt service requirements on the Series 2008C COPs and the interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ 1,355,000	$ 122,472	$ 1,979,964	$ 3,457,436
2012	1,440,000	118,814	1,920,818	3,479,632
2013	1,520,000	114,926	1,857,962	3,492,888
2014	1,615,000	110,822	1,791,614	3,517,436
2015	1,710,000	106,461	1,721,120	3,537,581
2016-2020	10,215,000	457,326	7,393,437	18,065,763
2021-2025	13,655,000	301,806	4,879,197	18,836,003
2026	13,850,000	37,395	604,553	14,491,948
Total	$ 45,360,000	$ 1,370,022	$ 22,148,665	$ 68,878,687

Series 2008E COPs Swap Agreement - Swap Payments and Associated Debt. Assuming interest rates remain the same as June 30, 2010, annual debt service requirements on the Series 2008E COPs and the interest rate swap would be as follows:

Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$	$ 76,530	$ 2,480,592	$ 2,557,122
2012		76,530	2,480,592	2,557,122
2013		76,530	2,480,592	2,557,122
2014		76,530	2,480,592	2,557,122
2015		76,530	2,480,592	2,557,122
2016-2020	38,930,000	237,428	7,695,817	46,863,245
2021-2023	12,090,000	54,405	1,763,447	13,907,852
Total	$ 51,020,000	$ 674,483	$ 21,862,224	$ 73,556,707

Crossover Refunding

On March 14, 2005, the District issued COPs, Series 2005A and 2005B, to advance refund certain COPs. The COPs Series 2005A of $125,460,000 (par value) with interest rates ranging from 3.125 percent to 5 percent was issued to advance refund portions of COPs, Series 1997A and 1999A, with interest rates of 5.375 percent and ranging from 4.3 percent to 4.8 percent with par values totaling $105,095,000 and $23,460,000, respectively. The COPs final maturity is on August 1, 2022. The COPs were issued at a net premium of $8,448,657 and, after paying issuance costs of $1,242,968, the net proceeds were $132,665,689.

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The net proceeds from the issuance of the COPs are being used to provide funds for the purpose of funding an escrow deposit, the proceeds of which will be applied to (i) fully prepay on the first crossover date of August 1, 2007, all of the Series 1997A COPs maturing on or after August 1, 2018; (ii) pay interest through August 1, 2007, on that portion of the Series 2005A COPs, the proceeds of which will be applied to prepay the Refunded Series 1997A COPs; (iii) fully prepay on the second crossover date of August 1, 2009, all of the Series 1999A COPs maturing on or after August 1, 2010; and (iv) pay interest through August 1, 2009, on that portion of the Series 2005A COPs, the proceeds of which will be applied to prepay the Refunded Series 1999A COPs. On August 1, 2007, and August 1, 2009, the advance refunding prepaid the liability for the Refunded Series 1997A in the amount of $105,095,000, and Refunded Series 1999A in the amount of $23,460,000, and these amounts were removed from the District's financial statements.

The COPs Series 2005B of $66,585,000 (par value) with interest rates ranging from 3.25 percent to 5 percent was issued to advance refund COPs payments for portions of COPs Series 2000A, with interest rates ranging from 5 percent to 5.5 percent and par values totaling $67,540,000. The COPs final maturity is on August 1, 2025. The COPs were issued at a net premium of $3,545,846 and, after paying issuance costs of $689,495, the net proceeds were $69,441,351. The net proceeds from the issuance of the COPs are being used to provide funds for the purpose of funding an escrow deposit, the proceeds of which will be applied to (i) fully prepay on the crossover date of August 1, 2010, all of the Series 2000A COPs maturing on or after August 1, 2011, except for those maturing in 2018 and 2019; and (ii) pay interest through August 1, 2010, on the Series 2005B COPs. On August 1, 2010, the advance refunding will meet the requirements of an in-substance debt defeasance and the liability for the Refunded Series 2000A COPs will be removed from the District's financial statements.

8. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 financial statements are as follows:

Governmental Activities	Change in Fair Value		Fair Value at June 30, 2010		
Hedging Derivatives:	Classification	Amount	Classification	Amount	Notional
2008B Pay-fixed Interest Rate Swap	Deferred Ouflow of Resources	$ 20,607,082	Liability	$ (20,607,082)	$105,000,000
2008C Pay-fixed Interest Rate Swap	Deferred Ouflow of Resources	8,319,775	Liability	(8,319,775)	53,740,000
2008E Pay-fixed Interest Rate Swap	Deferred Ouflow of Resources	7,094,407	Liability	(7,094,407)	51,020,000
Total Hedging Derivative Instruments				$ (36,021,264)	

The hedging derivatives were considered effective from their inception, and therefore, the total amount of their fair value was considered the change in the value the first year of implementation of GASB 53. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This

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method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Objective and Terms of Derivative Instruments

The following table displays the objective and terms of the District's derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty:

Governmental Activities Hedging Derivatives:	Objective	Notional	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Ratings
2008 B Interest Rate Swap	Hedge changes in cash flows on the 2008B Certificates	$105,000,000	6/29/2007	8/1/2032	N/A	Pay 4.412% receive SIFMA Swap Index	Citibank, NA New York	A1, A+, A+
2008C Interest Rate Swap	Hedge changes in cash flows on the 2008C Certificates	53,740,000	6/16/2002	8/1/2025	N/A	Pay 4.615% receive SIFMA Swap Index	UBS AG Stamford Branch	Aa3, A+, A+
2008E Interest Rate Swap	Hedge changes in cash flows on the 2008E Certificates	51,020,000	8/1/2007	8/1/2022	N/A	Pay 5.114% receive SIFMA Swap Index	UBS AG	Aa3, A+, A+

Credit Risk. The District is exposed to credit risk on hedging derivative instruments. The swap's fair value represented the District's credit exposure to the counterparty. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the District is left with variable rate bonds. As of June 30, 2010, the swap counterparties' credit ratings are noted in the above table.

It is the District's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with the counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

The District has no hedging derivative instruments in asset positions at June 30, 2010.

Interest Rate Risk. The District is exposed to interest rate risk on its interest rate swaps. As the SIFMA swap index decreases, the District's net payment on the swap increases, which is offset by the variable rate paid on the hedged debt.

Basis Risk. The District is exposed to basis risk should the variable rate it receives under the agreement be different than the rate it pays on its COPs. Under the requirements of the swap, the District receives a variable payment based on the SIFMA index from the counterparty. The District's above noted COPs are currently priced in a daily mode, and the SIFMA index reflects weekly interest rates.

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JUNE 30, 2010

Termination Risk. The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract including if either parties credit rating falls below designated levels.

9. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2001A	$ 945,000	4.9 - 5.0	2021
Series 2002A	2,230,000	4.0 - 5.0	2022
Series 2005A	9,070,000	5.0	2016
Series 2005B	17,055,000	5.0	2020
Series 2009A	2,200,000	2.0 - 5.0	2019
Total Bonds Payable	$ 31,500,000		

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**

  The State Board of Education on behalf of the District issues these bonds. 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. The State Board of Education and the State Board of Administration are responsible for administering principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	$ 5,027,503	$ 3,470,000	$ 1,557,503
2012	5,050,578	3,660,000	1,390,578
2013	5,031,468	3,820,000	1,211,468
2014	5,044,281	4,020,000	1,024,281
2015	5,034,506	4,210,000	824,506
2016-2020	13,069,913	11,665,000	1,404,913
2021-2025	701,500	655,000	46,500
Total	$ 38,959,749	$ 31,500,000	$ 7,459,749

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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10. DEFEASED DEBT

In prior years, the Board defeased in substance certain outstanding certificates of participation (COPs) by placing the proceeds of new COPs in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the in-substance defeased COPs are not included in the District's financial statements. On June 30, 2010, debt considered defeased in substance is as follows:

Debt Issues	Amount Outstanding
Certificates of Participation, Series 2000A	$ 24,015,000
Certificates of Participation, Series 2002A	24,720,000
Total Defeased Debt	$ 48,735,000

11. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-09	Additions	Deductions	Balance 6-30-10	Due in One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	$ 1,465,534,912	$ 35,820,000	$ 51,171,605	$ 1,450,183,307	$ 31,439,605
Less: Net Unamortized COP Discounts and (Premium)	(16,190,611)	(371,970)	(1,963,733)	(14,598,848)	(1,591,763)
Total Certificates of Participation Payable	1,481,725,523	36,191,970	53,135,338	1,464,782,155	33,031,368
Bonds Payable	35,000,000	2,485,000	5,985,000	31,500,000	3,470,000
Obligations Under Capital Lease	56,422,359		11,087,368	45,334,991	10,154,475
Hedging Derivative Instruments		36,021,264		36,021,264	
Estimated Insurance Claims Payable	17,258,728	3,516,177	5,797,411	14,977,494	5,613,767
Compensated Absences Payable	110,456,030	8,301,937	10,110,459	108,647,508	10,860,076
Other Postemployment Benefits Payable	20,509,726	22,422,002	6,101,014	36,830,714	
Total Governmental Activities	$ 1,721,372,366	$ 108,938,350	$ 92,216,590	$ 1,738,094,126	$ 63,129,686

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds as described in Note 19.

12. RESERVE FOR ENCUMBRANCES

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

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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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue - ARRA Economic Stimulus Fund totaled $1,955,185 at June 30, 2010.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements at June 30, 2010:

Funds	Interfund	
	Receivables	Payables
Major:		
Capital Projects:		
Other Capital Projects	$ 10,994,460	$
ARRA Economic Stimulus		10,994,460
Total	$ 10,994,460	$ 10,994,460

The interfund receivables and payables represent the payments of expenditures by one fund for another fund and will be repaid within 12 months.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 3,930,913	$ 6,670,000
Debt Service:		
Other Debt Service	115,092,241	230,000
ARRA Economic Stimulus	36,050,000	
Capital Projects:		
Other Capital Projects		49,439,686
Nonmajor Governmental:		
Capital Projects:		
PECO		2,492,234
Local Capital Improvement		102,911,234
Internal Service:		
Employee Benefits	6,670,000	
Total	$ 161,743,154	$ 161,743,154

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

The interfund transfers represent the payments of expenditures by one fund for another fund. The transfers in for the General Fund are from the capital projects funds. The transfers were for $2.5 million for PECO maintenance and $1.4 million for PECO charter school capital outlay. The transfers in for the Debt Service – Other Debt Service Fund and the Debt Service – ARRA Economic Stimulus Fund are all from capital projects funds for the debt service payments for capital leases and COPs payments recorded in the debt service funds. The transfer in for the Internal Service - Employee Benefits Fund was due to an unexpected increase in claims.

One of the individual transfers was from the Capital Projects – Other Capital Projects Fund to the Debt Service – ARRA Economic Stimulus Fund in the amount of $35,820,000. The American Recovery and Reinvestment Act of 2009 was enacted to provide a stimulus to the economy including provisions for alternative forms of financing public school facilities. The Act authorizes the issuance of QSCBs for the construction, rehabilitation or repair of a public school facility or for the acquisition of land of which such a facility is to be constructed. Pursuant to the Act, the District was allocated the authority to issue up to $35,824,000 aggregate principal amount of QSCBs during calendar year 2009. Holders of QSCBs are entitled to a tax credit in an amount determined by the Secretary of the Treasury on each business day. The QSCBs were issued under the Master Lease Program in the form of Certificates of Participation. The proceeds of the COPs were designated to be used to finance the project specified as (i) Walker Middle School remodeling and renovation project and (ii) correction of outstanding deficiencies at various schools throughout the District. The construction project was originally planned to be constructed using Sales Tax revenues.

The costs of the actual construction of the project are charged in the Capital Projects Fund – Other Capital Projects to a specific fund for the COPs proceeds. The Trustee, who actually holds the proceeds, reimburses the District for these expenditures. The transfer of funds from Capital Projects – Other Capital Projects - Sales Tax to Debt Service – 2009B QSCB Fund will be retained in the fund to be used for repayment of the specified outstanding COPs, including an average supplemental interest coupon of 1.15 percent. Any proceeds remaining in the fund at the end of the repayment schedule will be returned to the Capital Projects – Other Capital Projects - Sales Tax Fund to be used for other eligible projects.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

14. SCHEDULE OF STATE REVENUE SOURCES

The District's principle source of revenues is the State, which provided approximately 31 percent of total revenues in the 2009-10 fiscal year. The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Florida Education Finance Program	$293,610,582
Categorical Educational Program: Class Size Reduction	191,648,547
Workforce Development Program	30,899,520
Class Size Reduction Construction	12,834,213
School Recognition	7,973,045
Gross Receipts Tax (Public Education Capital Outlay)	5,866,555
CO&DS Withheld for SBE/COBI Bonds	5,056,203
CO&DS Distributed to District	1,576,417
Food Service Supplement	1,181,156
Discretionary Lottery Funds	501,156
Other State Sources	6,318,318
Total	$557,465,712

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

15. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.425	$552,784,997
Basic Discretionary Local Effort	0.748	76,218,097
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	152,843,778
Total	7.673	$781,846,872

16. STATE RETIREMENT PROGRAMS

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS.

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FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service.

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FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions (including employee contributions) for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $76,476,044, $70,156,042, and $69,898,040, respectively, which were equal to the required contributions for each fiscal year. Required employer contributions made to the defined contribution program on behalf of the 5,832 PEORP participants for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010 totaled $11,707,858, $11,572,016, and $11,497,219, respectively, which were equal to the required contributions for each fiscal year.

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

17. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to Section 112.0801, Florida Statutes, former employees who retire from the District and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical and prescription coverages. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at the blended group premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the District on average than those of

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates by retirees eligible for Medicare are reduced by the Medicare premium. The Plan does not issue a stand-alone report, and is not included in the report of a public employee pension system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through action from the Board. The District funds the postemployment benefit on a pay-as-you-go basis. For the 2009-10 fiscal year, 2,821 retirees received healthcare benefits. It is estimated that the District provided required contributions of $6,101,014 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees net of retiree contributions totaling $8,930,376, or 1.25 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	$ 7,718,893
Amortization of Unfunded Actuarial Accrued Liability	13,425,492
Interest on Normal Cost and Amortization	888,296
Annual Required Contribution	22,032,681
Interest on Net OPEB Obligation	1,037,229
Adjustment to Annual Required Contribution	(647,908)
Annual OPEB Cost (Expense)	22,422,002
Contribution Toward the OPEB Cost	(6,101,014)
Increase in Net OPEB Obligation	16,320,988
Net OPEB Obligation, Beginning of Year	20,509,726
Net OPEB Obligation, End of Year	$ 36,830,714

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	$ 0	0.0%	$ 0
2007-08	14,081,071	34.6%	9,207,896
2008-09	17,592,981	37.7%	20,509,726
2009-10	22,422,002	27.2%	36,830,714

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2009, the most recent valuation date, was as follows:

Actuarial Accrued Liability (a)	$ 325,689,414
Actuarial Value of Plan Assets (b)	
Unfunded Actuarial Accrued Liability (c)=(a-b)	$ 325,689,414
Funded Ratio (b/a)	0.00%
Covered Payroll (Active Plan Members) (d)	$ 668,087,073
UAAL as a Percentage of Covered Payroll (c/d)	48.7%

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

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

The entry age normal cost actuarial method was used to determine OPEB actuarial valuation. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.75 percent discount rate. The actuarial assumptions also included an annual healthcare cost trend of 7.7 percent for the 2010-11 fiscal year, then dropping to an ultimate rate of 5 percent in the 2019-20 fiscal year. The actuarial assumptions also included an inflation rate of 3 percent and 0 percent for salary increases for fiscal year 2009-10 and 3 percent

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for subsequent years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2010 is 27 years.

18. 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
Apopka Middle School Comprehensive	$ 9,782,060	$ 3,794,896	$ 5,987,164
Chickasaw Elementary School Comprehensive	8,784,603	2,482,002	6,302,601
Edgewater High School	37,846,873	25,897,374	11,949,499
Hunter's Creek Elementary School Comprehensive	9,240,342	6,603,079	2,637,263
Lake Sybelia Elementary School Comprehensive	5,701,020	2,701,582	2,999,438
Lake Nona Middle School	14,467,152	370,456	14,096,696
Metrowest Elementary School Comprehensive	11,938,044	10,015,823	1,922,221
Oak Ridge High School Replacement	3,106,474	548,775	2,557,699
Orange Center Elementary School Comprehensive	5,288,696	2,289,874	2,998,822
University High School Comprehensive	19,656,996	4,024,237	15,632,759
Walker Middle School Comprehensive	16,775,675	2,871,171	13,904,504
Waterbridge Elementary School Comprehensive	9,296,114	4,646,808	4,649,306
Winter Park 9th Grade Center Comprehensive	17,093,885	12,121,362	4,972,523
Total	$ 168,977,934	$ 78,367,439	$ 90,610,495

19. 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, property, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

A liability was actuarially determined to cover estimated incurred but not reported insurance claims payable at June 30, 2010. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using an investment yield rate of 2 percent as determined by a review of the District's interest rates received from money market mutual funds and government securities. These liabilities are $14,977,494 at June 30, 2010.

The District provides employee group health and life insurance through a health maintenance organization (HMO) and a preferred provider option (PPO). Under these plans, the Board contributes employee premiums as fringe benefits to employees. Premiums for coverages provided for employee dependents and retirees and their dependents are paid in advance by the employee or retiree. These plans provide for maximum premiums based on the number of participants and individual or family coverages. The HMO plan is administered by an insurance company who is reimbursed by the District from a detail record of

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

services provided. The PPO plan provides for an aggregate stop loss protection after the District has paid out 120 percent of an annual estimated claims paid amount. The plan is administered by a third-party administrator who pays the health insurance claims from the health care provide. The District reimburses the claims revolving fund from a detailed record of claims paid. The District reported an estimated unpaid claims liability of $9,300,000 in the Internal Service Funds for the group health insurance program at June 30, 2010.

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

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

	Fiscal-Year Liability	Claims and Changes in Estimates	Payments	Fiscal Year-End
2008-09	$ 25,244,417	$ 138,305,038	$ (137,490,727)	$ 26,058,728
2009-10	26,058,728	141,864,922	(143,646,156)	24,277,494

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

20. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2009-10 fiscal year:

	Total	Employee Benefits Insurance	Self-Insurance Loss	District Print Center
Total Assets	$ 79,203,778	$ 49,153,768	$ 29,934,324	$ 115,686
Liabilities and Net Assets:				
Salaries and Wages Payable	$ 9,212	$	$	$ 9,212
Accounts Payable	1,476,814	1,386,580	47,995	42,239
Estimated Insurance Claims Payable	24,277,494	9,300,000	14,977,494	
Deferred Revenues	28,729,634	28,729,634		
Net Assets:				
Invested in Capital Assets	57,545			57,545
Unrestricted Net Assets	24,653,079	9,737,554	14,908,835	6,690
Total Liabilities and Net Assets	$ 79,203,778	$ 49,153,768	$ 29,934,324	$ 115,686
Revenues:				
Premium Contributions	$ 131,846,095	$ 125,896,485	$ 5,949,610	$
Charges for Services	4,241,431			4,241,431
Interest Income	1,474,860	943,234	531,626	
Other	947,142	869,798	74,427	2,917
Total Revenues	138,509,528	127,709,517	6,555,663	4,244,348
Total Expenses	(154,409,886)	(145,599,417)	(4,598,991)	(4,211,478)
Gain (Loss) Before Transfers	(15,900,358)	(17,889,900)	1,956,672	32,870
Transfer In	6,670,000	6,670,000		
Change in Net Assets	$ (9,230,358)	$ (11,219,900)	$ 1,956,672	$ 32,870

21. LITIGATION

The District is a defendant in numerous lawsuits as of June 30, 2010. It is the opinion of management, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations on governmental liabilities on uninsured risks, that the amount of loss resulting from litigation that exceeds the above-mentioned limits would not be material to the financial position of the District.

Amounts received or receivable from grantors are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by grantors cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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22. SUBSEQUENT EVENTS

On November 16, 2010, the Board issued $36,229,000 in Qualified School Construction Bonds as directly allocated to the District in the American Recovery and Reinvestment Act. These bonds mature in 2029.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Federal Direct Sources:				
Reserve Officer Training Corps (ROTC)	$ 940,000	$ 940,000	$ 1,130,023	$ 190,023
Total Federal Direct Sources	940,000	940,000	1,130,023	190,023
Federal Through State Sources:				
Medicaid			3,945,477	3,945,477
Miscellaneous			5,920	5,920
Total Federal Through State Sources			3,951,397	3,951,397
State Sources:				
Florida Education Finance Program	302,133,724	302,133,724	293,610,582	(8,523,142)
Workforce Development	30,899,520	30,899,520	30,899,520	
Categorical Program - Class Size Reduction	192,675,090	192,675,090	191,648,547	(1,026,543)
District Discretionary Lottery Funds			501,156	501,156
CO&DS Withheld for SBE/COBI Bonds	100,860	100,860	98,305	(2,555)
Other State Sources	360,000	360,000	14,291,363	13,931,363
Total State Sources	526,169,194	526,169,194	531,049,473	4,880,279
Local Sources:				
Ad Valorem Taxes	597,552,940	597,552,940	604,099,356	6,546,416
Interest Income	230,000	230,000	8,812,698	8,582,698
Postsecondary Vocational Course Fees	2,200,000	2,200,000	4,738,587	2,538,587
Other Local Sources	4,196,350	4,196,350	19,329,059	15,132,709
Total Local Sources	604,179,290	604,179,290	636,979,700	32,800,410
Total Revenues	1,131,288,484	1,131,288,484	1,173,110,593	41,822,109
Expenditures				
Current - Education:				
Instruction	905,690,582	860,990,581	752,716,671	108,273,910
Pupil Personnel Services	7,493,282	12,489,891	12,017,537	472,354
Instructional Media Services	3,684,211	5,050,765	5,034,444	16,321
Instruction and Curriculum Development Services	22,453,501	25,022,222	24,930,398	91,824
Instructional Staff Training Services	1,914,970	2,605,299	2,581,812	23,487
Instruction Related Technology	5,911,279	6,595,580	6,542,761	52,819
School Board	2,966,759	2,966,759	2,947,410	19,349
General Administration	2,088,834	4,285,578	4,275,902	9,676
School Administration	83,012,625	91,357,940	91,343,788	14,152
Facilities Acquisition and Construction	7,605,494	8,828,477	8,756,643	71,834
Fiscal Services	5,389,414	5,482,148	5,466,324	15,824
Food Services		30,000	27,889	2,111
Central Services	16,513,174	16,476,010	15,950,039	525,971
Pupil Transportation Services	66,778,890	66,758,900	54,676,391	12,082,509
Operation of Plant	112,031,504	111,877,096	98,984,820	12,892,276
Maintenance of Plant	27,583,310	32,060,470	32,014,057	46,413
Administrative Technology Services	12,294,531	16,123,598	16,036,455	87,143
Community Services		700,000	677,356	22,644
Fixed Capital Outlay:				
Facilities Acquisition and Construction		77,017	77,017	
Other Capital Outlay		6,864,029	6,864,029	
Debt Service:				
Interest and Fiscal Charges	1,805,593	1,905,593	1,882,652	22,941
Total Expenditures	1,285,217,953	1,278,547,953	1,143,804,395	134,743,558
Excess (Deficiency) of Revenues Over Expenditures	(153,929,469)	(147,259,469)	29,306,198	176,565,667
Other Financing Sources (Uses)				
Transfers In	24,225,003	24,225,003	3,930,913	(20,294,090)
Proceeds from Sale of Capital Assets			212,999	212,999
Insurance Loss Recoveries			275,632	275,632
Transfers Out		(6,670,000)	(6,670,000)	
Total Other Financing Sources (Uses)	24,225,003	17,555,003	(2,250,456)	(19,805,459)
Net Change in Fund Balances	(129,704,466)	(129,704,466)	27,055,742	156,760,208
Fund Balances, Beginning	165,523,498	165,523,498	221,999,281	56,475,783
Fund Balances, Ending	$ 35,819,032	$ 35,819,032	$ 249,055,023	$ 213,235,991

ORANGE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
SPECIAL REVENUE - ARRA ECONOMIC STIMULUS FUND
For the Fiscal Year Ended June 30, 2010

	Special Revenue - ARRA Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Federal Through State Sources:				
State Fiscal Stabilization Funds	$ 62,679,261	$ 66,285,146	$ 66,283,178	$ (1,968)
Individuals with Disabilities Education Act	42,812,922	42,812,922	20,717,677	(22,095,245)
Elementary and Secondary Education Act, Title I	29,262,480	29,879,628	17,612,277	(12,267,351)
Other Federal Through State Sources		1,211,733	432,466	(779,267)
Total Federal Through State	134,754,663	140,189,429	105,045,598	(35,143,831)
Total Revenues	134,754,663	140,189,429	105,045,598	(35,143,831)
Expenditures				
Current:				
Instruction	41,113,881	38,153,291	22,081,445	16,071,846
Pupil Personnel Services	19,961,941	26,283,607	22,286,835	3,996,772
Instructional Media Services	9,789,557	9,181,399	9,155,805	25,594
Instruction and Curriculum Development Services	46,595,101	46,300,444	34,055,479	12,244,965
Instructional Staff Training Services	498,513	4,368,499	3,157,750	1,210,749
Instruction Related Technology	9,860,076	8,331,602	7,903,250	428,352
General Administration	4,831,094	4,190,513	3,253,049	937,464
School Administration		27,156	1,081	26,075
Facilities Acquisition and Construction		212,067	62,067	150,000
Food Services		50,919	10,821	40,098
Administrative Technology Services	2,104,500			
Community Services		265,780	253,864	11,916
Fixed Capital Outlay:				
Other Capital Outlay		2,824,152	2,824,152	
Total Expenditures	134,754,663	140,189,429	105,045,598	35,143,831
Excess (Deficiency) of Revenues Over Expenditures				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	$ 0	$ 0	$ 0	$ 0

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	$ 0	$ 161,575,140	$ 161,575,140	0.0%	$ 784,063,713	20.6%
July 1, 2008	0	248,582,500	248,582,500	0.0%	772,406,071	32.2%
July 1, 2009	0	325,689,414	325,689,414	0.0%	668,087,073	48.7%

ORANGE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial accrued liability of $325,689,414 was significantly higher than the July 1, 2008, liability of $248,582,500 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of enrolled Under 65 Retirees and Spouses, who are more expensive than the Medicare Eligible Retirees and Spouses, was expected to increase by approximately half a percent from 923 in October 2008 to 928 in October 2009. However, the enrollment for Under 65 Retirees and Spouses actually increased to 1,057 in October 2009, or an increase of 14.5 percent (or about 14.0 percent greater than expected).
- The cost of coverage for the Under 65 Retirees and Spouses was expected to increase from $859.36 per month (2008-09) to $881.27 per month (2009-2010), or an increase of 2.55 percent (based on an 8.0 percent trend and a 5.45 percent benefit reduction). However, the cost for this block actually increased to $962.19 per month for the 2009-10 fiscal year, or an increase of 12.0 percent (or 9.45 percent greater than expected).
- The retiree contribution rates did not change going from the 2008-09 plan year to the 2009-10 plan year. Because of the leveraging effect to the District's net cost (net cost equals medical costs less retiree contributions) the net composite cost increase was greater than just the sum of these two components (gross medical cost increase plus increase in number of retirees).

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 8,257,659	$
National School Lunch Program	10.555	300	38,168,720	
Summer Food Service Program for Children	10.559	None	1,217,099	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	3,573,183	
Total Child Nutrition Cluster			51,216,661	
Florida Department of Education:				
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226	None	6,228	
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	163,267	
Fresh Fruit and Vegetable Program	10.582	None	129,229	
Total United States Department of Agriculture			51,515,385	
United States Department of Labor:				
Direct:				
WIA Pilots, Demonstrations, and Research Projects	17.261	N/A	1,755,672	868,560
Indirect:				
WIA Cluster:				
Central Florida Workforce Development Board:				
WIA Adult Program	17.258	None	16,705	
WIA Youth Activities	17.259	None	6,600	
University of Central Florida:				
WIA Adult Program	17.258	None	11,500	
Total WIA Cluster			34,805	
Central Florida Workforce Development Board:				
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207	None	59,631	
Unemployment Insurance	17.225	None	1,655	
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	267,147	
Total Indirect			363,238	
Total United States Department of Labor			2,118,910	868,560
United States Department of Transportation:				
Direct:				
Highway Research and Development Program	20.200	N/A	76,444	
United States Department of Education:				
Direct:				
Civil Rights Training and Advisory Services	84.004	N/A	97,815	
Federal Pell Grant Program	84.063	N/A	3,776,730	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	2,100,836	
Fund for the Improvement of Education	84.215	N/A	1,399,076	
Transition to Teaching	84.350	N/A	262,197	
Arts in Education	84.351	N/A	158,761	
School Leadership	84.363	N/A	371,896	
Teacher Incentive Fund	84.374	N/A	3,160,971	
Total Direct			11,328,282	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	35,547,121	418,917
Special Education - Preschool Grants	84.173	266, 267	977,028	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	20,156,479	280,810
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	561,198	
University of South Florida:				
Special Education - Grants to States	84.027	None	7,702	
Total Special Education Cluster			57,249,528	699,727
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	387,881	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	194,948	
Total Educational State Grants Cluster			582,829	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	30,961,302	479,997
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 222, 223, 226	17,612,277	8,000
Total Title I, Part A Cluster			48,573,579	487,997
Education of Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	120,004	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	74,251	
Total Education of Homeless Children and Youth Cluster			194,255	

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	60,688,835	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	5,594,344	234,737
Total State Stabilization Fund Cluster			66,283,179	234,737
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	1,087,384	
Migrant Education - State Grant Program	84.011	217	526,260	
Career and Technical Education - Basic Grants to States	84.048	151, 161	2,457,887	159,015
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	625,586	
Charter Schools	84.282	298	340,858	340,858
Twenty-First Century Community Learning Centers	84.287	244	2,206,436	
Reading First State Grants	84.357	211	1,173,703	
English Language Acquisition Grants	84.365	102	4,574,488	
Improving Teacher Quality State Grants	84.367	224	7,748,596	18,187
School Improvement Grants	84.377	126	308,879	
Center for Civic Education:				
Civic Education - We the People and the Cooperative Education Exchange Program	84.304	None	42,034	
Valencia Community College:				
Career and Technical Education - Basic Grants to States	84.048	161	40,356	
Washington County District School Board:				
Reading First State Grants	84.357	None	40,475	
Total Indirect			194,056,312	1,940,521
Total United States Department of Education			205,384,594	1,940,521
United States Department of Health and Human Services:				
Direct:				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	265,467	
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	LK651, LK751	1,406,733	
Florida Department of Health:				
Temporary Assistance for Needy Families	93.558	None	44,586	
Child Care and Development Block Grant	93.575	R02, SR377	264,344	
Florida Department of Education:				
Refugee and Entrant Assistance - Discretionary Grants	93.576	137	202,580	100,000
Total United States Department of Health and Human Services			2,183,710	100,000
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	232, 234	67,813	
Florida State University:				
Learn and Serve America - School and Community Based Programs	94.004	None	5,996	
Total Corporation for National and Community Service			73,809	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Law Enforcement:				
Homeland Security Grant Program	97.067	532	509	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	511,436	
Army Junior Reserve Officers Training Corps	None	N/A	60,176	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	232,660	
Navy Junior Reserve Officers Training Corps	None	N/A	325,751	
Total United States Department of Defense			1,130,023	
Total Expenditures of Federal Awards			$ 262,483,384	$ 2,909,081

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2009-10 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food received during the 2009-10 fiscal year. Commodities are valued at fair value as determined at the time of donation.

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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 Orange County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Orange County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 21, 2011

AUDITOR GENERAL
STATE OF FLORIDA

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

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

Compliance

We have audited the Orange County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Respectfully submitted,

David W. Martin, CPA
March 21, 2011

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391- ARRA, and 84.392-ARRA); Federal Pell Grant Program (CFDA No. 84.063); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	Yes

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

ADDITIONAL MATTERS

Finding No. 1: Roofing Projects

The District obtained bids for roofing services, such as removing and replacing shingle systems, or providing and installing waterproofing coating, and in May 2009, the District selected a contractor. The District entered into a written agreement with the contractor, which provided that the contractor would provide roofing services for various roofing projects. For each project, the type of service was to be paid at an agreed upon rate and based on the appropriate measure (square footage, linear footage, board footage, etc.). In addition to specifically-identified roofing services, the agreement specified that the contractor would be paid at $35 per hour for non-specified tasks. During the 2009-10 fiscal year, the District paid the contractor a total of approximately $1,063,000 for work performed on 18 roofing projects. We reviewed District records for 7 of these roofing projects, for which the contractor was paid a total of $634,335, to determine the propriety of payments to the contractor. The results of our review, including $299,995 of questioned costs as shown in the following tabulation, are discussed below.

Summary of Roofing Projects Reviewed

Project	Amount Paid	Contract Costs	Questioned Costs
Lockhart Elementary Building 700	$ 189,500	$ 73,191	$ 116,309
Tampa Avenue Center Building 400	164,900	85,875	79,025
Evans 9th Grade Center Media Center	74,070	59,400	14,670
Meadow Woods Elementary Canopy	72,434	72,434	0
Killarney Elementary Media Center	53,600	15,224	38,376
Spring Lake Elementary Media Center	48,294	19,816	28,478
Jackson Middle Gymnasium	31,537	8,400	23,137
Total	$ 634,335	$ 334,340	$ 299,995

Lockhart Elementary Building 700. In June 2009, the District issued a purchase order for $189,500 based on the contractor's proposal to replace a 28,000 square feet shingle roof system, and a 7,200 square feet flat-roof section over rooms 136 through 140, for Lockhart Elementary Building 700; however, in July 2009, a building permit was issued to replace only the shingle roof system. In September 2009, the contractor invoiced the District $189,500 for the Building 700 project, including $121,900 to replace the 28,000 square foot shingle roof system, $31,200 to replace the 7,200 square foot flat-roof section, $34,405 for 983 hours of labor for non-specified services, and $1,995 of miscellaneous costs.

The District contracts with an owner authorized construction representative (OACR) to assist with monitoring construction activities, such as roofing services. The District's Senior Facilities Manager and the OACR signed the invoice to authorize the $189,500 payment; however, the building permit request, contract completion form, and certificate of construction completion form indicated that the contractor replaced only the shingle roof system. District records did not evidence completion of the flat-roof section and did not evidence performance of the 983 hours of labor for non-specified services included on the invoice, and labor charges were already included in the contract's itemized roofing service rates. Also, the Senior Facilities Manager indicated that the shingle roof system measured 15,324 square feet instead of the 28,000 square feet shown on the proposal and invoice. As such, District records did not evidence the basis upon which District personnel approved the invoice for payment. Lacking documentation evidencing completion of the flat-roof section or support for the 983 additional hours of non-specific roofing services, and using 15,324 square feet for the shingle roof system, the total cost of the project would have been $73,191. Thus, payments totaling $116,309 represent questioned costs, resulting in part because the District had not verified the correct square footage of the shingle roof system as shown on the proposal and invoice, the validity of non-specified service charges, and that all work billed had been completed, prior to payment of the invoice.

Tampa Avenue Center Building 400. In June 2009, the District issued a purchase order for $164,900 based on the contractor's March 2009 proposal for removal and replacement of the Tampa Avenue Center Building 400 roof. In December 2009, the contractor invoiced the District that amount; however, our review disclosed the following apparent overcharges by the contractor:

- The invoice indicated that the roof measured 19,100 square feet and included a charge of $76,400 to remove and replace the existing built up system; however, according to a building map and floor plan provided by District personnel, the project area was only 10,875 square feet. Based on square footage of 10,875, the charge would have been $43,500, resulting in $32,900 of questioned costs.
- The invoice included a charge of $15,000 to install a moisture guard on 15,000 square feet of roof; however, since the maximum square footage based on the building map and floor plan was 10,875 square feet, the maximum payment for the moisture guard would have been $10,875, resulting in $4,125 of questioned costs.
- The invoice included a charge for $42,000 ($35 per hour for 1,200 labor hours); however, labor charges were already included in the contract's itemized roofing service rates.

Consequently, our review disclosed total questioned costs of $79,025 for this roofing project, resulting mainly because the District had not verified the correct square footage of the roof as shown on the proposal and invoice, nor the validity of non-specified service charges, prior to payment of the invoice.

Evans 9th Grade Center. In April 2009, the District issued a purchase order for $74,070 based on the roofing contractor's March 2009 proposal to pressure wash, repair leaks, and install a waterproofing coating over the roofs of Evans 9th Grade Center Buildings 100, 300, and 500. In May 2009, the contractor invoiced the District that amount, and the Senior Facilities Manager and the OACR signed the invoice authorizing payment; however, no District records, such as a certification of completion from the District's Building Code Compliance Office (BCCO), evidenced completion of this work for these three buildings. Further inquiry and review of District records indicated that this payment may have related to roofing services provided on the Evans 9th Grade Center Media Center (Building 400) project discussed below.

In April 2009, the contractor submitted a building permit application to recoat the top of Building 400, and the BCCO subsequently issued a building permit for this project. However, District records did not evidence the Facilities Department authorization, such as a proposal or purchase order, for the contractor to perform the roofing services on Building 400. Additionally, in April 2009, the contractor submitted a completion request form to the BCCO for the Building 400 project; however, no inspections were performed prior to the application of the roof coating to ensure leak repairs were in compliance with the Florida Building Code. In lieu of the inspections, the contractor certified the installation of five roof patches and a roof coating system according to applicable building codes, including roof preparation requirements, and guaranteed correction of any deficiency not covered by the manufacturer's warranty. Although the contractor certified compliance with the building code and guaranteed correction of repair defects, without timely inspections before completion of roofing projects, the District may incur additional costs if the contractor did not repair the roof properly.

On May 14, 2009, the BCCO issued a certificate of completion for the roofing repairs to Building 400. The roof for Building 400 measured 14,850 square feet according to the manufacturer's warranty, and based on the $4 per square foot for waterproof coating, as listed in the District's roofing contract, the project cost would have totaled $59,400. As discussed above, although District records did not sufficiently evidence the basis for the $74,070 payment to the roofing contractor, if the payment was supposed to be for roofing services performed on the Building 400 project, then the District incurred questioned costs totaling $14,670, based on the District's roofing contract.

Meadow Woods Elementary Canopy. In July 2009, the District issued a purchase order for $72,424 based on the contractor's March 2009 proposal for the removal of 140 walkway roof panels from Waterbridge Elementary and re-installment of the panels at Meadow Woods Elementary. In January 2010, the contractor invoiced the District that amount for 1,533 labor hours for this project. Although the BCCO issued a certificate of completion for this project, and the Senior Facilities Manager and the OACR approved the payment, the cost represents an average of approximately 11 hours of contract labor to remove and re-install each panel. Further, District records did not evidence any efforts by District personnel to monitor the reasonableness of the hours charged for the project. Such efforts could include documented periodic reviews of the services provided or project cost sheets to support the days and hours that the contractor worked. Without such, there is an increased risk of overpayment for these services.

Killarney Elementary Media Center. In April 2009, the District issued a purchase order for $53,600 based on the contractor's March 2009 proposal to replace the Killarney Elementary Media Center built up system roof. The District substantially modified the scope of the project in September 2009, prior to issuance of the building permit, and in October 2009, the contractor invoiced the District $53,600 for this project. Both the contractor's proposal and subsequent invoice indicated that the roof area was 10,000 square feet; however, District personnel indicated that the School's Media Center roof area was 3,626 square feet. In addition, the contractor based the invoice on May 2005 contract rates, instead of the contractor's May 2009 contract rates. Although the Senior Facilities Manager and the OACR approved the payment, District records did not evidence the basis for using the May 2005 contract rates, instead of the more recent May 2009 contract rates. Had the District applied rates from the May 2009 contract to this project, the District's costs would have totaled $15,224. As a result, the District incurred $38,376 of questioned costs, resulting mainly because the District did not verify the correct square footage of the roof shown on the proposal and invoice, nor that the proper contract rates were applied, prior to payment of the invoice.

Spring Lake Elementary Media Center. In April 2009, the District issued a purchase order for $48,300 based on the contractor's March 2009 proposal to remove and replace the Spring Lake Elementary School Media Center roof. The proposal indicated that the primary work was to remove and replace a 10,700 square foot roof at $4 per square foot.

In August 2009, the District revised the scope of the work to installing a hydro-stop waterproof coating system, and issued a building permit for the revised scope in October 2009. In November 2009, the contractor submitted invoices totaling $48,294, including retainage, for this project. However, while the contractor's proposal indicated the roof area was 10,700 square feet, the manufacturer's warranty indicated the roof was 9,800 square feet. Additionally, since the scope of the project was changed, the project cost should have been charged at a rate of $2 per square foot for the hydro-stop waterproof coating system installation per the May 2009 agreement. Based on this square footage and the rate for system installation and other miscellaneous charges, the total cost would have been $19,816 for the roof coating work, resulting in questioned costs totaling $28,478. The questioned costs occurred mainly because the

District did not verify the square footage of the roof or the contract rate for the waterproof coating prior to payment of the invoices.

Jackson Middle Gymnasium. In January 2009, the District issued a purchase order for $34,480, later amended to $31,537, to remove and replace the Jackson Middle Gymnasium's west lower elevation roof at $4 per square foot. In October 2009, the District issued the building permit, indicating that the District revised the scope of the work to installing a hydro-stop waterproof coating system. In November 2009, the contractor submitted an invoice for $31,537 for materials and labor for this project, and the Senior Facilities Manager and the OACR approved the payment. However, while the contractor's proposal indicated the roof was 4,900 square feet, the manufacturer's warranty indicated the roof was 4,100 square feet. Additionally, since the scope of the project was changed, the project cost should have been charged at a rate of $2 per square foot for hydro-stop waterproof coating system installation per the May 2009 agreement. Based on this square footage, the rate for system installation, and a $200 mobilization fee, the total project cost would have been $8,400, resulting in $23,137 of questioned costs. The questioned costs occurred mainly because the District did not verify the square footage of the roof or the contract rate for the waterproof coating prior to payment of the invoice.

Consultant's Report. In February 2011, the District received an independent consultant's report assessing the adequacy of the Facilities Department's processes and operations over new construction, major renovations, and capital projects. The consultant's report disclosed various control deficiencies over construction contracting, such as not hiring architects and construction managers concurrently, limiting the construction managers' impact on project design, and overreliance on construction managers to bid project work instead of monitoring the subcontractor bid selection process to limit the cost of such work. The report also disclosed that the District's capital project files lacked evidence of project inspections. As noted above, and in Finding No. 2, our review disclosed similar findings.

Recommendation: The District should enhance controls over roofing projects to ensure that required inspections are timely performed before project completion, contractors complete projects consistent with management's authorization, and payments for such services are consistent with applicable contract terms. Also, the District should determine the propriety of the questioned costs, totaling $299,995, for roofing services, and seek recovery of these funds, as appropriate.

Finding No. 2: Construction Projects - Guaranteed Maximum Price Contracts

Pursuant to Section 1013.45, Florida Statutes, the District may contract for the construction or renovation of facilities with a construction management entity. Under the construction management entity process, the construction manager (CM) is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CM typically encourages subcontractor interest in projects, conducts pre-bid conferences, receives competitive bids, and prepares bid tabulation analyses for review with District personnel. Further, the CM may be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District if actual costs are less than the GMP. As such, a GMP contract requires District personnel to closely monitor construction costs and the award of bids to subcontractors.

In September 2010, the Board awarded a GMP contract, totaling approximately $50.4 million, to a CM for the Oak Ridge High School project. Previously, in February 2009, the Board awarded GMP continuing contracts to three CMs for projects ranging from $200,000 to $1,000,000 that are rotated among the three CMs. During the 2009-10 fiscal year, the District used GMP continuing contracts to pay for services totaling $673,572 for the Pinewood, Oakshire, and Riverdale Elementary schools.

To determine whether the District properly designed controls and whether the controls were operating effectively over GMP contracts, we reviewed District records supporting the Oak Ridge High School and the three elementary school continuing CM projects, and noted the following:

- For the Oak Ridge High School project, although District records evidenced that District personnel attended the CM's initial subcontractor bid opening, District personnel informed us that they did not monitor a subsequent bid opening necessitated by design changes for electrical services totaling approximately $6.4 million.
- District records supporting payments for the CM elementary school projects included applications for payment and schedules of values for subcontractor charges, general conditions, general requirements, contractor-provided labor and materials, and insurance. However, subcontractor invoices, payroll records, and insurance certificates were not available to evidence the basis upon which the District paid the CMs $519,847 for these services. Subsequent to our inquiry, District personnel obtained subcontractor invoices for one of the three projects, supporting $181,418 of the payments.

Without District involvement in the subcontractor selection process and reconciling CM pay requests to detailed supporting documentation from subcontractors, subcontractor services may not be obtained at the lowest and best price consistent with acceptable quality, the CM may be overpaid for subcontractor services, and the District has limited assurance that it has realized maximum cost savings.

Recommendation: For guaranteed maximum price contracts, the District should establish procedures to ensure District personnel properly monitor the subcontractor selection process, review and approve detailed records supporting subcontractor payments, and maintain records evidencing this.

Finding No. 3: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional personnel and school administrators based on student performance. However, District records did not sufficiently evidence a correlation between student performance and the employee performance assessments nor that such assessments were based primarily on student performance. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional and school administrator personnel are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Finding No. 4: Compensation and Salary Schedules

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

The Board had adopted formal policies and procedures establishing the documented process to identify school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes, except for the critical shortage areas factor for school-based administrators. Such policies and procedures could specify the documented process for applying the critical shortage areas factor, and the individuals responsible for doing so.

The 2009-10 fiscal year salary schedule for school-based administrators provided pay levels based on factors such as job classifications, years of experience, level of education, and other factors. The salary schedule evidenced consideration of differentiated pay for additional responsibilities, school demographics, and level of job performance difficulties by providing differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures establishing the documented process to identify school-based administrator critical shortage areas, the District may be limited in its ability to demonstrate that the critical shortage areas factor for school-based administrators was consistently considered and applied.

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

Finding No. 5: Collection of Social Security Numbers

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

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this Section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This Section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This Section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

During the 2009-10 fiscal year, the District used unique identification numbers, instead of SSNs, for filing certain records such as student registration forms and employee travel vouchers. However, the District collected SSNs from employees, prospective employees, and certain contracted vendors for purposes such as payroll deduction authorizations, employment applications, and citizenship verification without providing written notifications to individuals of the purpose and basis for collecting the SSN. In March 2010, subsequent to our inquiry, District personnel started providing the required notifications to individuals who provided SSNs and discontinued the use of SSNs on certain forms. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.

Finding No. 6: Monitoring of Charter Schools

Insurance. During the 2009-10 fiscal year, the District sponsored 20 charter schools. The charter school agreements required, in part, that the charter schools provide the District with evidence of insurance, including general liability, automobile liability, worker's compensation, and school leader's errors and omissions. However, contrary to the agreements, District records provided for our initial review in February 2010 disclosed that insurance certificates did not evidence:

- Professional liability coverage for 11 charter schools, although the required coverage was $2 million annual aggregate coverage per charter school;
- Director and officer liability coverage for 11 charter schools, contrary to charter school agreements;
- Fidelity bonds for administrative staff and staff responsible for handling or expending school funds or property for 10 charter schools, although the required coverage was $100,000 per person;
- Workers' compensation coverage for 6 charter schools, although the required coverage was $1 million per occurrence and $2 million annual aggregate;
- General liability coverage for 1 charter school, although the required coverage was $1 million per occurrence and $2 million annual aggregate;
- Automobile liability coverage for vehicles used for 2 charter schools, although the required coverage was $1 million per occurrence and $2 million annual aggregate;
- The District as an additional insured party for 2 charter schools; and

- Cancellation provisions consistent with the charter school agreement for 18 charter schools. Fifteen charter schools used a 30-day cancellation notice, 2 used a 10-day notice for cancellation, and 1 had no cancellation provision, contrary to the required cancellation notice of 45 days.

In response to our inquiry, District personnel obtained from the applicable charter schools revised insurance certificates consistent with the agreements, except for a fidelity bond for one charter school and professional liability insurance for another charter school.

Additionally, we noted that the agreements require charter schools to provide the District with evidence of the renewal or replacement of insurance no less than 30 days before the expiration or termination of the required insurance. However, District records indicated that none of the charter schools provided changes to policies within the required timeframe, contrary to the charter school agreements.

Floor Plans. Section 1002.33(16)(a)5., Florida Statutes, provides that charter schools are subject to the provisions of Chapter 1013, Florida Statutes, pertaining to student health, safety, and welfare. Section 1013.13, Florida Statutes, requires each school district to annually submit a copy of the floor plan for each educational facility in the school district that was new or modified during the preceding year to the law enforcement agency and fire department with jurisdiction over that facility. However, the floor plans for the District's educational and ancillary plant facilities submitted to law enforcement agencies and fire departments did not include the District's charter schools. In response to our inquiry, District personnel indicated that they will obtain charter school floor plans and submit them to the law enforcement agencies and fire departments.

Without adequate procedures to monitor the charter schools' insurance coverage and timely submission of floor plans to appropriate authorities, there is an increased risk to student health, safety, and welfare, subjecting the District to potential losses. Similar findings were noted in previous audit reports, most recently in our report No. 2008-150.

Recommendation: The District should continue its efforts to enhance monitoring procedures to ensure that its charter schools maintain the required insurance, and submit floor plans to the appropriate law enforcement agencies and fire departments as required.

Finding No. 7: Purchasing Cards

To expedite the purchase of selected goods and services, the District uses purchasing cards in certain situations. The District assigned purchasing cards to approximately 1,080 employees as of February 2010, and incurred total purchasing card expenditures of approximately $12.5 million during the 2009-10 fiscal year.

Orange County Public Schools Purchasing Card Procedures established guidance and instructions for purchasing card use, and credit limits for each cardholder at $999 for a single transaction and $5,000 for total monthly transactions. The procedures also prohibited cash advances and required that each department perform its preauthorization, final approval, and record retention of purchasing card transactions. We initially tested 25 purchasing card transactions totaling $87,235, and noted that improvements in controls over the program were needed, as discussed below.

Our initial tests disclosed that, contrary to the District procedures, a Maintenance Department employee used a District purchasing card to pay $780 to a cash advance business in December 2009. Upon our request for documentation to support this expenditure, the employee reimbursed $780 to the District as a personal charge. We expanded our review of the employee's purchasing card transactions and noted 12 additional payments totaling $8,038 to this business. Further, District records did not evidence the basis upon which these payments were made, and the employee resigned in February 2010.

Subsequent to our inquiry, the District's Internal Audit Department performed a District-wide review of purchasing card expenditures, and identified $10,453 of additional questioned charges by the former employee. The internal audit report indicated that District records only evidenced invoices or receipts for 7 of the employee's 99 transactions examined and that numerous purchases did not appear to be legitimate. It further indicated that the questioned charges occurred, in part, because the supervisor did not properly perform preauthorization of the expenditures. Among other suggestions, the internal auditors recommended that District management implement procedures to ensure that supervisors timely review and determine approval or denial of cardholders' purchases. The State Attorney's Office is conducting an investigation of questioned expenditures, and criminal charges were pending as of January 2011.

Although a purchasing card program is useful for expediting the payment of small purchases in an efficient manner with a significant reduction in overhead, without effective monitoring procedures, there is an increased risk that purchasing cards will not be used for authorized purposes.

Recommendation: The District should improve monitoring procedures over purchasing cards and ensure compliance with the District's purchasing card guidelines, including supervisory review and approval of expenditures. In addition, the District should document the propriety of the questioned charges, or seek reimbursement from the former Maintenance Department employee.

Finding No. 8: Information Technology – Security Management

Effective security relies on a security structure that includes consideration of data classification and ownership, organizational and operational policies, a thorough review of security, and security administration procedures. Specific procedures developed and documented for each of the major functions of security administration include the design of the security hierarchy, the granting and revoking of data and resource access, and the reporting and monitoring of activity.

As similarly noted in our report No. 2008-014, our audit disclosed that some aspects of the District's information technology (IT) security management needed improvement. Specifically:

- Management had not established policies and procedures for the periodic review of user access privileges for the enterprise resource planning (ERP) application, nor had it performed periodic reviews. We reviewed access privileges to selected application functions to determine the appropriateness of the access privileges. We identified nine employees whose access allowed them inappropriate or unnecessary privileges to maintain user accounts (e.g., change user access privileges). In response to audit inquiry, District management indicated that they were in the process of defining a review plan and piloting an application tool to refine the review process with an anticipated completion date of December 2010. Further, District management indicated that the above mentioned access privileges will be removed.
- A District policy to protect sensitive information and software existed only in draft form. We are not disclosing specific details of this issue in this report to avoid the possibility of compromising District information. However, we have notified appropriate District management of this issue.
- Certain important security features available in the software had not been utilized, and certain security controls protecting the network and database were inadequate. We are not disclosing specific details of these issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of these issues.
- The District's monitoring of security events and other key system activity needed improvement. We are not disclosing specific details of these issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of these issues.

These issues increased the risk that information security controls would not be sufficiently assessed and imposed to prevent compromise of the confidentiality, integrity, and availability of data and IT resources.

Recommendation: The District should establish a periodic review of user access privileges for the ERP application and finalize its policy for protecting sensitive information and software. The District should also implement appropriate security control features (including controls protecting the network and database) and improve its monitoring of security events and other key system activity.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Not Applicable
Award Number: P063P084320, P063P094320, P063P084293, P063P094293, P063P084180, P063P094180, P063P084300, P063P094300
Program: Federal Pell Grant Program (CFDA No. 84.063)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $17,205

Special Test and Provisions – Post-Withdrawal Disbursements. Title 34, Section 668.22(a), Code of Federal Regulations (CFR), requires that when a recipient of Pell grant program assistance withdraws from the District during a payment period or period of enrollment in which the recipient began attendance, the District must determine the amount of the Pell grant assistance that the student earned as of the student's withdrawal date. If the total amount of assistance that the student earned was greater than the amount of assistance disbursed to the student, the difference between these amounts is to be treated as a post-withdrawal disbursement. Section 668.22(a)(5), CFR, provides that the District must disburse earned but unpaid Pell grant funds to a student who withdraws prior to receiving Pell program funds and, in determining the earned amount, the District must consistently use either the payment period basis or the period of enrollment basis.

During the 2009-10 fiscal year, the District had Pell program expenditures totaling $3,776,730 for Mid Florida Tech Center, Orlando Tech Center, Winter Park Tech Center (WPTC), and Westside Tech Center (WTC), and the District chose to use the payment period basis to determine the earned amount. We tested post-withdrawal procedures for seven students at the WPTC and three students at the WTC and noted that the District had not accurately determined the Pell program funds earned for two students at the WPTC and one student at WTC as of the student's withdrawal date. For two of the students, tech center personnel used the enrollment period instead of the payment period basis when determining the post-withdrawal disbursements and, for the third student, tech center personnel overstated the scheduled hours in calculating the percentage completed. Overpayments for the three students totaled $4,415 in unearned Pell program funds, and are subject to disallowance by the grantor.

Subsequent to our inquiry, the District performed a recalculation for all students receiving Pell program funds and withdrawing during the audit period, and noted overpayments to 14 students totaling $17,205, including the overpayments cited above. The District is in the process of remitting the total overpayment amount to the United States Department of Education, and has committed to retraining financial aid personnel at each of the tech centers on post-withdrawal calculations.

Recommendation: The District should continue efforts to improve procedures over post-withdrawal calculations and return the overpayments totaling $17,205 to the Pell program.

District Contact Person: Teriann Giessuebel, Financial Aid Administrator

PRIOR AUDIT FOLLOW-UP

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

ORANGE COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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 2009-1	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559), Safe and Drug Free Schools and Communities - National Programs (CFDA No. 84.184), Special Education Cluster (CFDA Nos. 84.027 and 84.173), English Language Acquisition Grants (CFDA No. 84.365), and Improving Teacher Quality State Grants (CFDA No. 84.367)/Allowable Costs/Cost Principles	The District needed to enhance controls to ensure salary and benefit costs are appropriately charged to Federal programs.	Corrected.	New certification forms were prepared noting the six-month time frame and signed by supervisory officials. These new forms were used for all full-time employees for all Federal grants in the 2009-10 fiscal year.
2009-2	Improving Teacher Quality State Grants (CFDA No. 84.367)/Subrecipient Monitoring	The District should develop procedures to determine whether payments to third parties constitute a subrecipient relationship or a vendor relationship to facilitate proper reporting on the Schedule of Expenditures of Federal Awards and ensure compliance with subrecipient monitoring provisions.	Corrected.	Grant Services documented in the grant files if there were subrecipient relationships, and communicated to the Finance Department. The Finance Department maintained a list of subrecipients and reviewed it with Grant Servies prior to finalizing the Schedule of Expenditures of Federal Awards at year-end.

EXHIBIT A

MANAGEMENT'S RESPONSE

Orange County Public Schools

445 West Amelia Street • Orlando, FL 32801-1129 • Phone 407.317.3200 • www.ocps.net

March 17, 2011

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

RE: Audit of Orange County District School Board - Fiscal Year Ended June 30, 2010

Dear Mr. Martin:

Per your letter dated February 18, 2011, the following represents our responses to the findings noted.

Finding No. 1: Roofing Projects

Response: In April 2010 a new process for District wide capital projects was implemented which significantly tightened controls over these types of projects. All projects are now being field inspected for quality assurance and completion by OCPS staff. Invoices are being reviewed and signed by two reviewers to ensure applicable contract terms are being met prior to payment. An auditing firm is reviewing all questionable costs. The appropriateness of payments is being analyzed. The District will seek to recover any findings of overpayment.

Finding No. 2: Construction Projects – Guaranteed Maximum Price Contracts

Response: Per contract, construction management (CM) firms are required to publicly advertise and bid all items above $25,000, as well as notify the Contract Administration (CA) department of these bids. Due to these findings, the CM has been issued a non-compliance notice addressing this matter. Also, a pay application checklist is being created to help insure that all items are included with each pay application.

Finding No.3: Performance Assessments

Response: It is our intention to have new instructional and school administrator personnel evaluation systems in place prior to fiscal year 2012.

Finding No. 4: Compensation and Salary Schedules

Response: The District's Differentiated Accountability Model identified the critical status of low performing schools for fiscal year 2010. These low performing schools are considered "critical shortage areas" as defined in Section 1012.07, FS, "Identification of critical teacher shortage areas". This information was used in fiscal year 2010 to provide bonuses to applicable principals and assistant principals. It will be included in the Administrative Pay Guidelines prior to the end of fiscal year 2011. The District will ask for technical assistance and clarification from FDOE on what is meant in statute by "critical shortage areas" for school administrators to verify the applicability of Section 1012.07, FS, to Section 1012.22(1)(c)4, FS.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 5: Collection of Social Security Numbers

Response: The District will continue its efforts to ensure compliance with Section 119.071(5)(a).

Finding No. 6: Monitoring of Charter Schools

Response: School Choice Services has reviewed all insurance certificates for the charter schools and they are all properly insured. Procedures are now in place to insure that current certificates are received prior to the insurance expiration date. Additionally, procedures are also in place to ask for the charter school floor plans in July of each year and provide those school floor plans to the appropriate law enforcement and fire departments. The submittal of the floor plans will be documented.

Finding No. 7: Purchasing Cards

Response: The District has enhanced controls and monitoring procedures over purchasing cards. These include providing clear definitions of violations, prohibited purchases and disciplinary actions by revising the manual and management directive. To help prevent violations the District has blocked certain merchant category codes, changed the appearance of the P-Card, and required the taking of training courses for all personnel using, reconciling, and certifying P-Cards. Also, various reports are produced weekly, monthly, and semi-annually in order to monitor the District P-Card activities.

Finding No. 8: Information Technology – Security Management

Response: Bullet 1 – We concur. The access privileges for the nine employees have been removed. The pilot stage is continuing and we anticipate the recommendations will be in place by May 2011.

Bullet 2 – We concur. The recommendations should be in place by April 2011.

Bullet 3 – We concur. The recommendations should be in place by April 2011.

Bullet 4 – We concur. The recommendations should be in place by May 2011.

FEDERAL AWARDS

Finding No. 1: Special Test and Provisions – Post-Withdrawal Disbursements (Pell).

Response: The District returned $17,205 on March 11, 2011. To help prevent the issuing of overpayments in the future, multiple trainings have occurred which included the review, line by line, of the Federal Return of Title IV spreadsheet for all financial aid coordinators. The training materials were left with all coordinators and are available from the District office. This information will be reviewed, as appropriate, in the monthly financial aid staff meetings.

Should you have any questions please contact Richard Collins, Chief Financial Officer. I would also like to express my thanks to the auditing staff for their cooperation and professional manner in conducting the audit.

Sincerely,

Ronald Blocker

Ronald Blocker
Superintendent

c: The School Board of Orange County, Florida
Richard Collins, Chief Financial Officer