REPORT NO. 2011-168
MARCH 2011

PALM BEACH 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.
Dr. Monroe Benaim, Chair from 11-17-09	1
Paulette Burdick, Vice Chair to 11-16-09	2
Bill Graham, Chair to 11-16-09	3
Carrie Hill	4
Frank A. Barbieri, Jr., Esq.	5
Dr. Sandra Richmond, Vice Chair from 11-17-09	6
Dr. Debra Robinson	7

Dr. Arthur C. Johnson, 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 Ilene R. Gayle, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. For the information technology portion of this audit, the audit team leader was William Allbritton, 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.

PALM BEACH COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

PAGE NO.

EXECUTIVE SUMMARY i

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS 15

- Statement of Net Assets 15
- Statement of Activities 16
- Balance Sheet – Governmental Funds 18
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 20
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 22
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 24
- Statement of Net Assets – Proprietary Funds 25
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds 26
- Statement of Cash Flows – Proprietary Funds 27
- Statement of Fiduciary Net Assets – Fiduciary Funds 28
- Statement of Changes in Fiduciary Net Assets – Fiduciary Funds 29
- Notes to Financial Statements 30

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General and Major Special Revenue Funds 68
- Schedule of Funding Progress – Other Postemployment Benefits Plan 70
- Notes to Required Supplementary Information 71

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 72

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* 74

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* 76

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 78

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 91

EXHIBIT A MANAGEMENT'S RESPONSE 92

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: The District did not timely calculate the amount owed to the Internal Revenue Service for arbitrage, resulting in $118,300 of interest charges for delinquent arbitrage payments.

Finding No. 2: The District needed to enhance its purchasing card controls.

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 Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 5: District records initially provided for audit review did not evidence that the use of all capital outlay tax levy moneys were consistent with Section 1011.71(2), Florida Statutes.

Finding No. 6: Controls over miscellaneous cash collections could be enhanced.

Finding No. 7: Deficiencies noted on the annual safety inspection reports were not always timely corrected, and floor plans were not always timely delivered to law enforcement agencies and fire departments.

Finding No. 8: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 9: Improvements were needed in the District's monitoring of cellular telephone usage.

Finding No. 10: Some aspects of the District's information technology (IT) security management program needed improvement.

Finding No. 11: The District's IT access controls within the PeopleSoft application environment needed improvement.

Finding No. 12: The District's IT security controls related to user authentication and network administrator access 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; State Fiscal Stabilization Fund; and Education Technology State Grants 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 noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: The District needed to implement procedures for monitoring compliance with maintenance of effort requirements for Special Education programs.

Federal Awards Finding No. 2: District procedures did not ensure that private schools were provided the opportunity to participate in the Federally-funded programs.

Audit Objectives and Scope

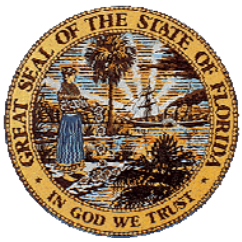
Our audit objectives were to determine whether the Palm Beach County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

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

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 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*.



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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 Palm Beach 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 10 percent of the assets and 27 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 component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Palm Beach 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 Palm Beach 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 14) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 68 through 71) 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 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Palm Beach County, Florida's (the "District") discussion and analysis is designed to provide an objective and easy to read analysis of the District's financial activities for the fiscal year ended June 30, 2010, based on currently known facts, decisions or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the seven elected members of the school board (the "Board"). Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget) and identify individual fund issues or concerns.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

- The overall financial position of the District improved as reflected in an increase in net assets of $78.6 million from $2.026 billion to $2.104 billion as a result of budget reductions, receipt of American Recovery and Reinvestment Act funds and the implementation of Governmental Accounting Standards Board Statement 53, Accounting and Financial Reporting for Derivative Instruments, partially offset by an increase in the unfunded OPEB obligation.
  - The District placed a hold on non-instructional hiring and began hiring all outside personnel on an interim basis, since the majority of the District's costs are salary related at 85 percent of the total budget. This enabled the District to reduce the cost and size of its workforce through attrition, rather than layoffs. Remaining employees have been redirected in some instances to meet student needs. The District also implemented energy saving programs, which resulted in a decrease in electricity costs even though total square footage increased.
  - On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act (ARRA) into law. The ARRA, intended to provide a stimulus to the nation's economy, earmarks more than $90 billion for states to use in key education areas such as the instruction of students with disabilities, services for low-income students and the stabilization of local school district funding. Even though the ARRA was signed in law during the 2008-09 fiscal year, the District did not utilize any funding until the 2009-10 fiscal year.
  - The ARRA funds were provided in three categories: State Fiscal Stabilization Fund (SFSF), targeted assistance, and competitive grants. The Florida Department of Education used SFSF as a stopgap for decreased State funding because of declining sales tax revenues and property tax values. SFSF represents approximately 5 percent of the Florida Education Financial Program (FEFP) Funding. Targeted Assistance funds were filtered through existing programs, including Title I, Individual with Disabilities Education Act, and School Improvement Grants. Competitive grants include funding for areas such as school lunch equipment and educational technology.
  - During the 2009-10 fiscal year, the District received ARRA funds of $99.1 million in total, $65.8 million in stabilization funds, $33.2 million in targeted assistance, and $68,605 in competitive grants. All ARRA-related funds are reported in grants and contributions not restricted on the government-wide financial statements and in the Special Revenue - ARRA Economic Stimulus Fund on the fund level financial statements.
  - In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement 53, Accounting and Financial Reporting for Derivative Instruments. GASB Statement 53 addresses the recognition,

measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The District adopted GASB Statement 53 in the 2009-10 fiscal year. The cumulative effect of applying this statement was reported as a restatement of beginning net assets resulting in a reduction of $17.1 million (shown as a reduction in investment earnings in the restated June 30, 2009, column in Table 2).

- The current year activity resulted in an increase in investment earnings, increase in derivative instruments and related deferred outflow and increase in the borrowing. The fair value of investment derivative instruments increased $17.3 million and the change in fair value is reported as investment earnings. Hedging derivative instruments and the related deferred outflow of hedging derivatives instruments increased $13.4 million from $25.2 million to $38.6 million when compared to prior year due to a decrease in fair value of the derivative instruments. The borrowing related to the upfront payment increased $336 thousand from $7.8 million to $8.1 million when compared to the prior year due to imputed interest.

➢ Total revenues increased by $10.3 million or 0.5 percent, from $1.893 billion to $1.903 billion when compared to the prior year, as restated. General revenue accounted for $1.6 billion, or 82.7 percent, of all revenues, an increase of $25.6 million or 1.7 percent. This increase is primarily attributed to an increase in grants and contributions as a result of ARRA funds received and an increase in investment earnings as a result of the implementation of GASB 53, partially offset by a decrease in property taxes. Program specific revenue in the form of charges for services, grants and contributions accounted for $328.6 million, or 17.3 percent of all revenues.

- The District had $1.8 billion in expenses, which is consistent with the prior fiscal year. These expenses were offset by $328.6 million in program specific charges for services, grants and contributions. General revenues, primarily property taxes, ARRA and Florida Education Finance Program (FEFP) revenues were adequate to provide for these programs.

- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of $567.8 million. The General Fund (the primary operating fund), reflected on a current financial resources basis, ended the year with a fund balance of $97.0 million. Of this amount, $33.6 million is unreserved, undesignated fund balance that is available for reallocation in the subsequent fiscal year at the Board's discretion. During the current fiscal year, General Fund revenues exceeded expenditures and other financing sources by $4.6 million, as a result of successive budget reductions implemented beginning with the 2007-08 fiscal year.

- The District's total long-term debt decreased by $54.9 million or 2.7 percent. The key factor contributing to the decrease were repayments of $61.2 million partially offset by the net impact of the refunding of capital outlay bonds and the change in value of hedging derivative instruments.

- The District's short-term debt of $56.0 million represents revenue anticipation notes (reduced by $16.1 million over the prior year) issued in February 2010. In the prior year, the District had commercial paper of $150.0 million and an $85.0 million tax anticipation note outstanding. Both were paid off during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

➢ The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.

➢ The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.

➢ The *governmental funds* statements tell how *basic* services like instruction and instructional support services were financed in the *short-term* as well as what remains for future spending.

- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as maintenance services and group health self-insurance.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

Figure 1
Major Features of Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: maintenance services and other internal service funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenue, expenditures, and changes in fund balances	• Statement of net assets • Statement of revenue, expenses, and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

Figure 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District's activities are reported as governmental activities.

- *Governmental activities* – All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The government-wide financial statements include not only the District itself, but also legally separate charter schools which are financially dependent on the District for a majority of their funding. Since it would be misleading to exclude these component units from the District's financial statements, the charter school financial information is reported separately from the financial information presented for the primary government itself. See Note 1A of the Notes to the Financial Statements for a listing of the component unit charter schools.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. There are two types of proprietary funds:
  - *Enterprise funds* account for goods and services provided to those outside the district, generally on a user-charge basis. Currently, the District has no enterprise funds.
  - *Internal service funds* report activities that provide supplies and services for the District's other programs and activities.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

  The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets were $2.1 billion at June 30, 2010. The largest portion of the District's net assets, $1.9 billion or 88.0 percent, reflect its investment in capital assets (i.e. land, buildings, furniture and equipment), less any related

debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets ($367.8 million) represents resources that are subject to external restrictions on how they may be used.

The capital assets net increase of $60.2 million or 1.6 percent over the prior year primarily reflects the completion of one (1) new school and modernization/replacement of two (2) existing schools.

The analyses in Table 1 below, and Table 2, focus on the summary of net assets and summary of changes in net assets for the District's governmental activities.

Table 1

Summary of Net Assets
Governmental Activities
(in thousands)

	June 30, 2010	Restated June 30, 2009	Increase (Decrease)	Percentage Change
Current and other assets	$ 858,715	$ 1,155,217	$ (296,502)	(25.7%)
Capital assets (net)	3,752,051	3,691,863	60,188	1.6%
Total assets and deferred outflows	4,610,766	4,847,080	(236,314)	(4.9%)
Current and other liabilities	228,027	602,106	(374,079)	(62.1%)
Long-term liabilities	2,278,465	2,219,306	59,159	2.7%
Total liabilities	2,506,492	2,821,412	(314,920)	(11.2%)
Net assets:				
Invested in capital assets, net of related debt	1,851,072	1,752,405	98,667	5.6%
Restricted	367,817	362,395	5,422	1.5%
Unrestricted (deficit)	(114,615)	(89,132)	(25,483)	28.6%
Total net assets	$ 2,104,274	$ 2,025,668	$ 78,606	3.9%

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from that statement and rearranges them slightly so the reader can see the total revenues for the year compared to the 2008-09 fiscal year, as restated.

As reported in the Statement of Activities, the cost of all of the governmental activities this year was $1.8 billion. Some costs were paid by those who benefited from the programs ($47.4 million), or by other governments and organizations who subsidized certain programs with grants and contributions ($281.2 million). The District paid for the remaining "public benefit" portion of the governmental activities with $1.1 billion in property taxes, $279.8 million in grants and contributions not restricted to specific programs, $99.3 million in local sales taxes, $23.1 million in investment earnings and $35.5 million in miscellaneous revenue.

Table 2

Summary of Changes in Net Assets
Governmental Activities
(in thousands)

	June 30, 2010	Restated June 30, 2009	Increase (Decrease)	Percentage Change
Revenues:				
Program revenue:				
Charges for services	$ 47,369	$ 48,510	$ (1,141)	(2.4%)
Operating grants and contributions	266,066	250,964	15,102	6.0%
Capital grants and contributions	15,122	44,383	(29,261)	(65.9%)
General revenue:				
Property taxes	1,136,598	1,169,627	(33,029)	(2.8%)
Local sales taxes	99,284	100,100	(816)	(0.8%)
Grants and contributions not restricted	279,840	241,445	38,395	15.9%
Investment earnings	23,066	9,903	13,163	132.9%
Miscellaneous	35,529	27,675	7,854	28.4%
Total revenues	1,902,874	1,892,607	10,267	0.5%
Functions/Programs Expenses				
Instruction	918,127	954,271	(36,144)	(3.8%)
Instructional support services	187,977	170,854	17,123	10.0%
Board	5,634	5,293	341	6.4%
General administration	13,061	10,161	2,900	28.5%
School administration	95,817	98,528	(2,711)	(2.8%)
Facilities acquisition and construction	44,039	92,500	(48,461)	(52.4%)
Fiscal services	6,285	6,141	144	2.3%
Food services	62,997	60,858	2,139	3.5%
Central services	14,793	14,520	273	1.9%
Pupil transportation services	44,954	46,217	(1,263)	(2.7%)
Operation and maintenance of plant	195,732	178,469	17,263	9.7%
Administrative technology services	10,450	5,588	4,862	87.0%
Community services	28,626	30,125	(1,499)	(5.0%)
Unallocated interest on long-term debt	83,404	99,581	(16,177)	(16.2%)
Unallocated depreciation/amortization	112,372	108,180	4,192	3.9%
Total expenses	1,824,268	1,881,286	(57,018)	(3.0%)
Change in net assets	78,606	11,321	67,285	594.3%
Net Assets - beginning, as restated	2,025,668	2,014,347	11,321	0.6%
Net Assets - ending	$ 2,104,274	$ 2,025,668	$ 78,606	3.9%

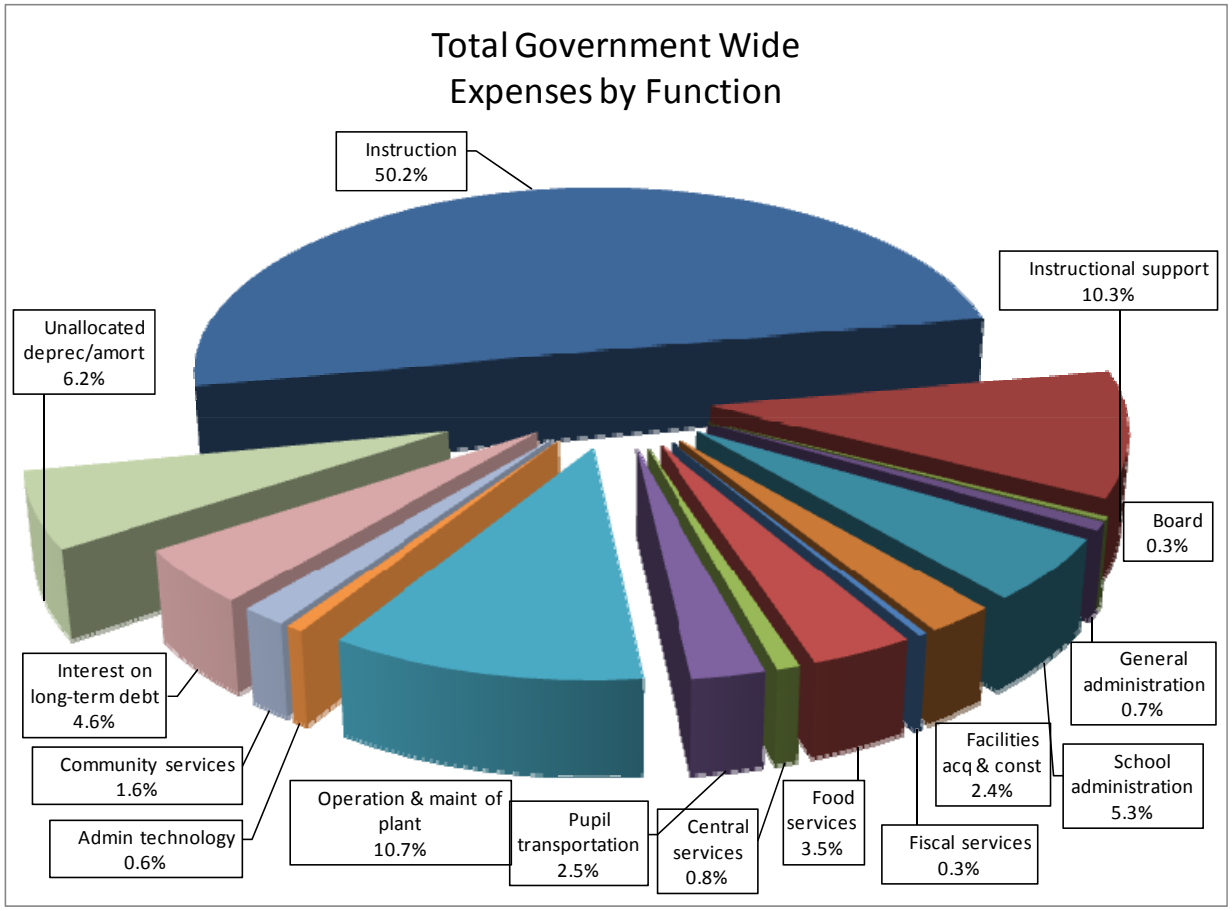
Operating grants and contributions increased $15.1 million or 6.0 percent, which is primarily attributed to an increase in Class Size Reduction of $12.0 million and an increase in food service reimbursement revenue of $5.0 million. The increase in Class Size Reduction is to fund the class size amendment which is due to be fully implemented in the 2010-11 fiscal year. The District's cost to implement the amendment is estimated at $59.0 million. The increase in food service reimbursement revenue is the result of an additional 7,671 or 9.8 percent of eligible students for free and reduced lunch from 78,051 students to 85,722 students.

Capital grants and contributions decreased $29.3 million or 65.9 percent, which is primarily due to a decrease in Public Education Capital Outlay and Class Size Reduction capital funds of $22.8 million.

Property taxes decreased $33.0 million or 2.8 percent, which is primarily attributed to the decrease of property values partially offset by an increase in the maximum property tax levy from 7.251 to 7.983.

Grants and contributions not restricted increased $38.4 million or 15.9 percent, which is primarily attributed to $33.2 million in ARRA targeted assistance funds. The State Fiscal Stabilization Funds (SFSF) do not contribute to the increase since the purpose of $65.8 million was to keep the Florida Department of Education funding whole.

The pie chart below represents total expenses from governmental funds classified by function.



Instruction expenses decreased by $36.1 million, primarily due to reduction in teacher salaries and fewer textbook purchases. To achieve this reduction, class size was raised at each level because class size compliance was at the school level for the 2009-10 fiscal year. The District had been very proactive in reducing class size and was able to back off slightly during the 2009-10 fiscal year and still maintain compliance. Class size in K-3, 4-8 and 9-12 was raised from 17, 21 and 23.5 to 18, 22 and 25, respectively. In addition to a reduction in teacher salaries, there was also a decrease of approximately $8 million in textbook purchases.

Facilities acquisition and construction expenses decreased by $48.5 million because the District's building program is winding down.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As of June 30, 2010 the District's governmental funds reported a combined fund balance of $567.8 million, which is a decrease of $59.0 million or 9.5 percent from the prior fiscal year.

The General Fund, which is the chief operating fund of the District and is always considered a major fund, had an increase in fund balance of $4.6 million from $92.4 million to $97.0 million. The increase is primarily due to budget reductions and SFSF. At first glance, it may appear the General Fund activity significantly declined in the

2009-10 fiscal year; however, $65.8 million of General Fund revenues and expenditures were shifted to the ARRA Economic Stimulus Fund. The purpose of the SFSF is the cover the shortfall of the state funding in the General Fund. As a result, it is important to consider the funds when reviewing the activity of the General Fund. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was $33.6 million.

The Special Revenue – ARRA Economic Stimulus Funds is used to account for all ARRA-related funding including SFSF and ARRA targeted and competitive grant funds of $65.8 million and $34.2 million, respectively. Unused funds will generally expire September 30, 2011. Since the revenues in these funds are typically equal to amounts expended, there is no ending fund balance.

The COPS Debt Service Fund, another major fund, reported an ending fund balance of $109.0 million, which is an increase of $1.4 million or 1.3 percent over the prior year. The increase is related to additional debt service payments the District will make in the 2010-11 fiscal year.

In the Capital Improvement Fund, another major fund, revenue decreased by $21.8 million to $264.7 million from $286.5 million in the 2008-09 fiscal year. The decrease is primarily due to a decrease in ad valorem tax revenue received of $19.1 million as well as decrease in interest income of $2.7 million. Ending fund balance decreased by $31.7 million related to the timing of revenue and capital outlay spending. It should be noted that $21.4 million of fund balance has been encumbered for specific projects.

COPS Fund, another major fund, reported an ending fund balance of $111.0 million which is a decrease of $61.3 million or 35.6 percent under prior fiscal year. This is largely due to capital outlay spending of $111.6 million with no new proceeds from COPS issuance in the current fiscal year. It should be noted that $33.2 million of fund balance has been encumbered for specific projects.

Other Nonmajor Governmental Funds, which represent a summarization of all the other governmental funds, ended the year with total fund balance of $81.3 million, an increase of approximately $28.0 million or 52.5percent. The increase is primarily due to the Sales Tax Fund where total revenues exceeded expenditures and transfers by $31.0 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Enrollment for the 2009-10 fiscal year was projected to decline statewide by 10,000 students from the 2008-09 fiscal year enrollment. Instead, Statewide enrollment increased by approximately 11,000 students. K-12 education funding in Florida is formula driven, based on enrollment, and as a result, the Florida Department of Education imposed an $85 million prorated holdback to balance the K-12 education budget to available funding. The District's portion of the proration was $5.5 million. The District's enrollment increased 3,266 students from the original 2009-10 fiscal year projection. The increased funding associated with the enrollment upswing was partially offset by the proration to available funds, netting the District less funding per student than in the original budget, changing from $7,080.98 to $7,013.80.

Overall, during the year, appropriations and other financing sources increased by $19.6 million from original to final amended budget. The increase is attributable to additional revenues, including a $8.2 million increase in FEFP, an increase in Class Size Reduction funds of $3.0 million, an increase of $2.3 million of property tax revenue, and loss recoveries of $4.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 3 on page 11, at June 30, 2010, the District had $3.8 billion invested in a broad range of capital assets, including land, construction in progress, improvements other than buildings, buildings and fixed equipment, furniture, fixtures and equipment, motor vehicles and audio visual materials and computer software. This amount represents a net increase (including additions, deletions and depreciation) of $60.2 million from last fiscal year. The net increase of $60.2 million reflects the construction of four (4) new schools, one (1) of which opened in the 2009-10 fiscal year, and four (4) modernization projects, two (2) of which were completed in the 2009-10 fiscal year. See Note 6 of the Notes to the Financial Statements for more information on capital assets.

Major capital asset additions included the completion of the following schools:

- Hope Centennial Elementary School

Completed modernized schools included the following:

- Palm Beach Gardens High School
- CO Taylor/Kirklane Elementary School

The District's successful building program is winding down, as the proceeds of the referendum sales tax end and capital millage proceeds decline. Between the 2000-01 and 2009-10 fiscal years, thirty-nine (39) new schools were built, and fifty (50) others were replaced or totally renovated. Two (2) schools were placed in service in August 2010, and the District is currently in the process of planning the replacement for three (3) additional schools in its continuing effort to provide state-of-the-art facilities for all of its students. Future school renovations and replacements will be scheduled based upon the availability of funding.

Table 3

Capital Assets at Year End
Governmental Activities
(in thousands)

	June 30, 2010	June 30, 2009	Increase (Decrease)
Land	$ 341,260	$ 340,454	$ 806
Construction in progress	226,219	335,025	(108,806)
Improvements other than buildings	39,395	35,897	3,498
Buildings and fixed equipment	3,795,120	3,549,877	245,243
Furniture, fixtures and equipment	165,181	158,545	6,636
Motor vehicles	99,931	96,409	3,522
Audio visual materials and computer software	55,479	55,138	341
Less: accumulated depreciation	(970,534)	(879,482)	(91,052)
Total capital assets, net	$ 3,752,051	$ 3,691,863	$ 60,188

Long-Term Debt

As shown in Table 4 below, at the end of this fiscal year, the District had $1.98 billion in debt outstanding compared to $2.03 billion in the 2008-09 fiscal year, a decrease of $54.9 million or 2.7 percent. The key factors contributing to the decrease were debt repayments of $61.2 million, and amortization of issuance premiums. See Note 9 of the Notes to the Financial Statements for more information on long-term liabilities.

Table 4

Long-term Debt Outstanding at Year End
Governmental Activities
(in thousands)

	June 30, 2010	Restated June 30, 2009	Increase (Decrease)
Capital outlay bond issues	$ 29,555	$ 32,835	$ (3,280)
Certificates of participation	1,886,293	1,944,288	(57,995)
Borrowing-Swap Upfront Payment	8,145	7,809	336
Derivative Instruments - Hedging	38,599	25,220	13,379
Plus: issuance premiums	35,967	45,009	(9,042)
Less: deferred amounts	(22,516)	(24,202)	1,686
Total	$ 1,976,043	$ 2,030,959	$ (54,916)

The District's certificates of participation are rated Aa3 by Moody's Investors Service, and AA- by Standard & Poor's and AA- by Fitch Ratings Services.

State statute requires that no more that 75 percent of the capital millage levy be used for COP debt service. The District's debt policy limits the issuance of COPS by stating that the debt service could not exceed half of the capital millage levy. In the 2008-09 fiscal year, when the capital millage levy was reduced to 1.75 mills, the Debt policy was amended to allow debt service to be up to 1 mil but should be within 50 percent of the capital millage levy within five years. Based on the reduction of the capital millage levy and declining property values, the District's capacity to issue new COPS debt has been dramatically reduced.

Other long-term obligations include liability for compensated absences, estimated claims liability, and postemployment benefits.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's portion of the FEFP funding formula depends heavily on State sales tax revenues. Current State general revenue forecast shows sales tax revenues are meeting projections. School districts are not expected to face a mid-year funding reduction, as in previous years.

For the 2010-11 fiscal year, the State is utilizing, once again, ARRA State Stabilization monies to fund the FEFP formula. The amount allocated to Palm Beach is $59.7 million, down $1.9 million from the 2009-10 fiscal year. Funding for the 2010-11 fiscal year represents the second and final year of State Stabilization funding.

The calculation of millage proceeds for inclusion in the budget has changed for the 2010-11 fiscal year. Prior to the 2010-11 fiscal year, the FEFP formula assumed a 95 percent collection rate. Beginning with 2010-11 fiscal year, the rate of collection used for FEFP is 96 percent. The result is that the District's FEFP includes $8.0 million additional revenue in the formula, revenue that the District has collected in recent years, but which is now being used to fulfill the FEFP funding formula. This change effectively created an $8.0 million reduction to the District budget. Based on the actual, lower collection rate, a reserve of $4.4 million has been set up to cover the expected shortfall in collections.

The 2010-11 fiscal year is the year in which the class size amendment is to be fully implemented. Each core class (math, reading, science, social studies, foreign language, etc.) must not exceed 18 students for K-3, 22 for 4-8 and 25 for 9-12, by October, when class size is measured. The District's cost to implement is estimated at $59 million. The

State has implemented penalties, which may be abated up to 75 percent of the penalty if the district submits a specific plan to be in compliance by the 2011-12 fiscal year. The District will make its best effort to comply for the 2010-11 fiscal year using resources available. However, 100 percent compliance, as required by the current statute, is likely unattainable. The potential net penalty after abatement is estimated at $7 million for the 2010-11 fiscal year, and a budgetary reserve has been established to cover this cost.

Benefit costs are increasing on three fronts: health insurance, Florida Retirement Service (FRS) rates and unemployment costs. Health insurance benefit budgets are increasing in the 2010-11 fiscal year by $500 per employee, at a cost of $9 million. Health claims continue to increase each year. A 1 percent increase in FRS rates, implemented by the State for the 2010-11 fiscal year, translates to $8 million in additional cost to the District. Finally, unemployment costs have increased due to the extension of unemployment benefits.

The contingency fund will remain at $44.4 million for the 2010-11 fiscal year. This represents 3.2 percent of the General Fund proposed expenditures. During these lean financial times, it is critically important to the financial health and viability of the District to maintain an adequate fund for emergencies. The contingency fund allowed the District to quickly respond to damage incurred by a series of hurricanes in 2004 and 2005.

Many factors on the horizon indicate that the 2010-11 fiscal year will be a challenging budget year. FEFP funding is dependent on State revenues, local property taxes and State Fiscal Stabilization funds. At the local level, and throughout the State, property values are still falling. Falling property values reduce the amount of revenue available to fund K-12 education, placing pressure on the State to allocate more state resources to education and/or raise the required local effort millage at the local level, both of which are financially and politically difficult, in light of the current recession and high unemployment. The critical millage levy of .25 mills, authorized by the legislature for the 2009-10 and 2010-11 fiscal years only, requires that voters approve the millage to continue beyond the 2010-11 fiscal year. The Board approved placing the referendum on the November 2010 ballot, requesting approval to continue the 0.25 mill levy for the 2011-12 through 2014-15 fiscal years. Discontinuation of this millage represents a loss of approximately $32 million in revenue starting in the 2011-12 fiscal year. Finally, the State Fiscal Stabilization Funds provided by the Federal government for the 2009-10 and 2010-11 fiscal years are scheduled to sunset on June 30, 2011. State Stabilization funding totals $59.7 million for the District in the 2010-11 fiscal year. In short, many of the funding sources that support FEFP funding are either ending or in decline.

In addition to the loss of State Fiscal Stabilization funding, the Title I and IDEA ARRA stimulus funding comes to a close at the end of the 2010-11 fiscal year. The end of ARRA funds represents a loss of approximately $100 million of revenue for the 2011-12 fiscal year. Following the intent of the ARRA funds, the funding has been used for positions, so the District will be faced with prioritizing all appropriations to make reductions that will minimize the impact on student achievement and school safety.

The $10.0 billion Education Jobs Bill recently approved by Congress and the President provides $554.8 million for Florida to fund school based personnel. States must allocate these funds to local education authorities (LEAs), or school districts, in the 2010-11 fiscal year. Local school districts may or may not have the discretion to carry these funds forward to the 2011-12 fiscal year. The discussion is ongoing. The District expects to receive approximately $31.0 to $35.0 million from this Federal grant, which may mitigate the funding cliff for the 2011-12 fiscal year when most ARRA funds are no longer available.

In addition to the normal concerns for escalating operating costs for utilities, diesel and health insurance, the District will also face the full cost of class size reduction implementation at the individual classroom level (i.e. hard caps of 18/22/25 per class).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Michael J. Burke, Chief Financial Officer
The School District of Palm Beach County, Florida
3328 Forest Hill Boulevard, Suite A-306
West Palm Beach, FL 33406

Visit our website at:
http://www.palmbeachschools.org

View an electronic copy of our CAFR at:
http://www.palmbeachschools.org/accounting/

BASIC FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET ASSETS
JUNE 30, 2010
(amounts expressed in thousands)

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash, cash equivalents and investments	$ 699,076	$ 10,975
Accounts and interest receivable	1,040	495
Due from other agencies	82,524	406
Inventories	16,252	
Restricted assets (cash with fiscal agent)	2,384	2,722
Other assets	18,840	
Deferred outflow of resources	38,599	
Capital assets:		
Land	341,260	
Construction in progress	226,219	
Improvements other than buildings	39,395	2,788
Buildings and improvements	3,795,120	8,710
Furniture, fixtures and equipment	165,181	5,086
Motor vehicles	99,931	369
Audio video materials and software	55,479	1,089
Less accumulated depreciation	(970,534)	(5,110)
Total capital assets, net of depreciation	3,752,051	12,932
TOTAL ASSETS AND DEFERRED OUTFLOWS	4,610,766	27,530
LIABILITIES		
Accounts and contracts payable	36,710	3,221
Accrued payroll and payroll deductions	84,981	1,303
Retainage payable on contracts	7,490	
Revenue anticipation notes payable	56,000	
Deposits payable	401	
Matured interest payable	259	
Accrued interest payable	41,487	
Unearned revenue	699	
Noncurrent liabilities:		
Portion due or payable within one year:		
Notes payable		351
Bonds payable	3,405	
Liability for compensated absences	11,813	320
Certificates of participation payable	60,205	
Estimated claims	24,940	
Portion due or payable after one year:		
Notes payable		9,375
Bonds payable	26,727	
Liability for compensated absences	168,365	57
Certificates of participation payable	1,838,962	
Borrowing-swap upfront payment	8,145	
Hedging derivative instruments	38,599	
Arbitrage rebate liability	1,084	
Estimated claims	33,730	
Other postemployement benefits obligation	62,490	
TOTAL LIABILITIES	2,506,492	14,627
NET ASSETS		
Invested in capital assets, net of related debt	1,851,072	6,192
Restricted for:		
State required carryover programs	1,466	
Debt service	67,151	
Capital projects	276,266	450
School food service	21,184	
Other purposes	1,750	96
Unrestricted (deficit)	(114,615)	6,165
TOTAL NET ASSETS	$ 2,104,274	$ 12,903

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Instruction	$ 918,127	$ 1,958	$ 194,661	$
Instructional support services	187,977			
Board	5,634			
General administration	13,061			
School administration	95,817			
Facilities acquisition and construction	44,039			10,375
Fiscal services	6,285			
Food services	62,997	20,437	43,955	
Central services	14,793			
Pupil transportation services	44,954	2,269	25,504	
Operation of plant	133,055			
Maintenance of plant	62,677			
Administrative technology services	10,450			
Community services	28,626	22,705	1,946	
Unallocated interest on long-term debt	83,404			4,747
Unallocated depreciation expense	110,820			
Amortization expense	1,552			
Total primary government governmental activities	$ 1,824,268	$ 47,369	$ 266,066	$ 15,122
Component Units:				
Charter schools	$ 65,332	$ 1,589	$ 5,529	$ 2,147

General revenues:
Taxes:
Property taxes, levied for general purposes
Property taxes, levied for capital projects
Local sales taxes
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Change in net assets
Net Assets—beginning, as previously reported
Change in accounting principle
Change in charter school beginning net assets
Net Assets—beginning, as adjusted
Net Assets—ending

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Units
Governmental Activities	
$ (721,508)	$
(187,977)	
(5,634)	
(13,061)	
(95,817)	
(33,664)	
(6,285)	
1,395	
(14,793)	
(17,181)	
(133,055)	
(62,677)	
(10,450)	
(3,975)	
(78,657)	
(110,820)	
(1,552)	
$ (1,495,711)	$
	(56,067)
873,359	
263,239	
99,284	
279,840	56,267
23,066	112
35,529	637
1,574,317	57,016
78,606	949
2,042,740	12,288
(17,072)	
	(334)
2,025,668	11,954
$ 2,104,274	$ 12,903

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(amounts expressed in thousands)

	GENERAL FUND	SPECIAL REVENUE ARRA ECONOMIC STIMULUS FUND	COPS DEBT SERVICE FUND	CAPITAL IMPROVEMENT FUND
ASSETS				
Cash, cash equivalents and investments	$ 141,272	$ 2,675	$ 108,951	$ 170,064
Accounts and interest receivable	937		3	
Due from other agencies	34,590			8,873
Due from other funds	15,000			
Inventories	14,814			
Other assets	-			
TOTAL ASSETS	$ 206,613	$ 2,675	$ 108,954	$ 178,937
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts and contracts payable	12,521	2,675		8,191
Accrued payroll and payroll deductions	94,859			
Due to other funds				
Retainage payable on contracts				1,196
Revenue anticipation notes payable				
Deposits payable	401			
Matured interest payable				
Deferred/Unearned revenue	1,800			
TOTAL LIABILITIES	109,581	2,675		9,387
FUND BALANCES				
Fund balances reserved:				
Reserved for encumbrances	2,816			21,378
Reserved for inventories	14,814			
Reserved for state required carryover programs	1,466			
Reserved for debt service			108,954	
Fund balances unreserved:				
General Fund - designated for board contingency	44,369			
Undesignated, reported in:				
General Fund	33,567			
Capital Projects Funds				148,172
Special Revenue Funds				
TOTAL FUND BALANCES	97,032		108,954	169,550
TOTAL LIABILITIES AND FUND BALANCES	$ 206,613	$ 2,675	$ 108,954	$ 178,937

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

COPS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
$ 181,284	$ 64,539	$ 668,785
	100	1,040
	39,061	82,524
		15,000
	1,438	16,252
	88	88
$ 181,284	$ 105,226	$ 783,689
8,753	4,281	36,421
		94,859
	15,000	15,000
4,859	1,435	7,490
56,000		56,000
		401
259		259
439	3,231	5,470
70,310	23,947	215,900
32,195	7,024	63,413
	1,438	16,252
		1,466
	768	109,722
		44,369
		33,567
78,779	51,194	278,145
	20,855	20,855
110,974	81,279	567,789
$ 181,284	$ 105,226	$ 783,689

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
(amounts expressed in thousands)

Total Fund Balances - Governmental Funds		$ 567,789
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Cost of the assets	$ 4,722,585	
Accumulated depreciation	(970,534)	3,752,051
Debt issuance charges are reported as expenditures in the governmental funds when first incurred, however, they are included as deferred charges in the governmental activities in the statement of net assets.		14,851
Deferred outflow of resources are reported at the fair values of corresponding hedging derivative instruments in the statement of net assets.		38,599
Investment derivative instruments reported on the statement of net assets.		757
Expenditures for insurance extending over more than one accounting period not allocated between or among accounting periods, but accounted for as expenditures of the period of acquisition in the funds.		3,901
An internal service fund is used by management to charge the costs of maintenance activities and health premiums to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Assets	$ 31,918	
Liabilities	20,163	
Net assets		11,755
Revenues that have been deferred or unearned in the governmental funds but are recognized as revenue in the governmental-wide financial statements.		4,771
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities (net of discounts/premiums and deferred amounts on refundings) at year-end consist of:		
Bonds payable	$ 30,132	
Certificates of participation payable	1,899,167	
Borrowing-swap upfront payment	8,145	
Hedging derivative instruments	38,599	
Compensated absences (less internal service fund and matured amour	165,245	
Long-term claims payable (less internal service fund amount)	45,270	
Arbitrage rebate payable	1,084	
Other postemployment benefits (less internal service fund amount)	61,071	
Accrued interest on long-term debt	41,487	(2,290,200)
Total Net Assets - Governmental Activities		$ 2,104,274

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

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THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	GENERAL FUND	SPECIAL REVENUE ARRA ECONOMIC STIMULUS FUND	COPS DEBT SERVICE FUND	CAPITAL IMPROVEMENT FUND
REVENUES:				
Local sources:				
Ad valorem taxes	$ 873,359	$	$	$ 263,239
Sales tax				
Impact fees				
Interest income and other	1,509		96	1,467
School age child care fees	22,705			
Food service sales				
Local grants and other	31,941			
Total local sources	929,514		96	264,706
State sources:				
Florida education finance program	62,127			
Capital outlay and debt service	99			
Food service				
Public education capital outlay				
Class size reduction	194,661			
State grants and entitlements	28,032			
Total state sources	284,919			
Federal sources:				
Federal grants and entitlements	5,935	98,925		
National school lunch act		39		
Total federal sources	5,935	98,964		
TOTAL REVENUES	1,220,368	98,964	96	264,706
EXPENDITURES:				
Current:				
Instruction	845,920	16,636		
Instructional support services	88,912	40,104		
Board	5,579			
General administration	7,364	3,129		
School administration	93,238	924		
Facilities acquisition and construction	999			
Fiscal services	6,192	11		
Food services		5		
Central services	14,220	237		
Pupil transportation services	39,332	3,168		
Operation of plant	97,615	34,262		
Maintenance of plant	60,702			
Administrative technology services	9,533			
Community services	27,885	125		
Total Current Expenditures	1,297,491	98,601		
Capital outlay	1,537	363		73,140
Debt service:				
Retirement of principal			57,995	
Interest	486		89,250	
Fiscal charges			433	
TOTAL EXPENDITURES	1,299,514	98,964	147,678	73,140
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(79,146)		(147,582)	191,566
OTHER FINANCING SOURCES (USES):				
Transfers in	79,693		149,002	
Transfers out				(223,256)
Issuance of long-term and refunded debt				
Net premium (discount) from issuance of long-term and refunded debt				
Payments to refunded debt escrow agent				
Proceeds from loss recoveries	4,073			
Sale of capital assets and other				
TOTAL OTHER FINANCING SOURCES (USES)	83,766		149,002	(223,256)
NET CHANGE IN FUND BALANCES	4,620		1,420	(31,690)
FUND BALANCES, JULY 1, 2009	92,412		107,534	201,240
FUND BALANCES, JUNE 30, 2010	$ 97,032	$	$ 108,954	$ 169,550

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

COPS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
$	$	$ 1,136,598
	99,284	99,284
	1,203	1,203
1,821	790	5,683
		22,705
	20,437	20,437
	7,240	39,181
1,821	128,954	1,325,091
		62,127
	6,597	6,696
	926	926
	1,964	1,964
	8,411	203,072
	3,678	31,710
	21,576	306,495
	105,846	210,706
	42,990	43,029
	148,836	253,735
1,821	299,366	1,885,321
	48,044	910,600
	56,553	185,569
		5,579
	2,693	13,186
	1	94,163
		999
	31	6,234
	63,167	63,172
	252	14,709
	1,954	44,454
	88	131,965
		60,702
		9,533
	68	28,078
	172,851	1,568,943
111,626	39,910	226,576
	3,190	61,185
428	1,807	91,971
64	49	546
112,118	217,807	1,949,221
(110,297)	81,559	(63,900)
48,960		277,655
	(54,399)	(277,655)
	1,655	1,655
	166	166
	(1,806)	(1,806)
	428	4,501
	367	367
48,960	(53,589)	4,883
(61,337)	27,970	(59,017)
172,311	53,309	626,806
$ 110,974	$ 81,279	$ 567,789

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

Total net change in fund balances - governmental funds		$ (59,017)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlays ($180,133) exceed depreciation expense ($110,820) in the period.		69,313
The cost of capital assets is recognized as an expenditure in the governmental funds in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of disposed assets.		(9,125)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Issuance Cost Amortization	$ (1,552)	
Issuance Cost on Current Year Refunding	15	
Premium/Discount and Deferred Refunding Amortization	7,461	
Premium on Current Year Issuance	(166)	5,758
Investment revenue related to derivative instruments reported in statement of activities that are not reported as revenue in the governmental funds		17,297
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		3,771
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		61,185
Bond refunding proceeds provided current financial resources to governmental funds. Bond refunding payments are expenditures in the governmental funds. The amount by which the refunding payment ($1,806) exceeded refunding proceeds ($1,655) in the current period.		151
Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds.		
Prepaid insurance	$ (70)	
Compensated absences	3,470	
Long-term claims payable	953	
Liability for arbitrage rebate	1,103	
Other postemployment benefits (less internal service fund amount)	(18,056)	
Imputed interest on borrowing (borrowing swap upfront payment)	(336)	
Accrued interest on long-term debt	870	(12,066)
An internal service fund is used by management to charge the costs of maintenance activities and health premiums to individual funds. The net revenue of the internal service fund is reported with governmental activities.		1,339
Change in net assets of governmental activities		$ 78,606

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010
(amounts expressed in thousands)

	Governmental Activities Internal Service Funds
ASSETS	
Cash, cash equivalents and investments	$ 31,918
LIABILITIES	
Current liabilities:	
Accounts payable	$ 289
Noncurrent liabilities:	
Portion due or payable within one year:	
Estimated unpaid claims	13,400
Liability for compensated absences	331
Portion due or payable after one year:	
Liability for compensated absences	4,724
Other postemployment benefits obligation	1,419
Total liabilities	20,163
NET ASSETS	
Unrestricted	$ 11,755

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Service revenue	$ 28,365
Premium revenue	156,199
Other operating revenue	3,599
TOTAL OPERATING REVENUES	188,163
OPERATING EXPENSES:	
Salaries	21,482
Benefits	7,531
Purchased services	1,004
Claims expense	150,243
Other expenses	6,650
TOTAL OPERATING EXPENSES	186,910
OPERATING INCOME	1,253
NONOPERATING REVENUES:	
Interest and other income	86
TOTAL NONOPERATING REVENUES	86
CHANGE IN NET ASSETS	1,339
NET ASSETS - Beginning of year	10,416
NET ASSETS - End of year	$ 11,755

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers and interfund services provided	$ 184,564
Cash payments to suppliers for goods and services	(158,467)
Cash payments for salaries, benefits, and other expenses	(27,855)
Other receipts	4,572
Net cash provided by operating activities	2,814
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earnings on investments	86
Net cash provided by investing activities	86
Net increase in cash and cash equivalents	2,900
Cash and cash equivalents, beginning of year	29,018
Cash and cash equivalents, end of year	$ 31,918
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 1,253
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts and interest receivable	973
Increase in accounts payable	280
Decrease in estimated unpaid claims	(850)
Increase in compensated absences and OPEB	1,158
Total adjustments	1,561
Net cash used in operating activities	$ 2,814

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010
(amounts expressed in thousands)

	PRIVATE-PURPOSE TRUST FUND	AGENCY FUND
	FLORIDA FUTURE EDUCATORS OF AMERICA	SCHOOL INTERNAL FUNDS
ASSETS		
Cash, cash equivalents and investments	$ 494	$ 15,163
Accounts receivable		978
TOTAL ASSETS	494	$ 16,141
LIABILITIES		
Accounts payable	$	$ 306
Due to student organizations		15,835
TOTAL LIABILITIES		$ 16,141
NET ASSETS		
Held in trust for scholarships	494	
TOTAL NET ASSETS	$ 494	

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	PRIVATE-PURPOSE TRUST FUND FLORIDA FUTURE EDUCATORS OF AMERICA
ADDITIONS	
Donations	$ 60
Interest	8
TOTAL ADDITIONS	68
DEDUCTIONS	
Scholarship disbursements	90
TOTAL DEDUCTIONS	90
CHANGE IN NET ASSETS	(22)
NET ASSETS - Beginning of year	516
NET ASSETS - End of year	$ 494

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of Palm Beach County, Florida (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to Florida Statutes, Section 1010.01, the Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies:

A. Reporting Entity

The District and its governing board are organized and operated under Section 4, Article IX, of the Constitution of Florida and Chapter 1001 of Florida Statutes. The District's boundaries are coterminous with those of Palm Beach County. Management of the School District is independent of county and city governments. The membership of the governing board of the District (the "Board") consists of seven members elected from single member districts for overlapping four-year terms. The Superintendent is appointed by the Board to act as executive officer of the District.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component units and/or joint ventures reportable within the accompanying financial statements are the Palm Beach School Board Leasing Corporation, (the "Corporation") and twenty-eight of the thirty-two Charter Schools operating within the District. These Charter Schools are included due to the fact that the exclusion of them would cause the District's financial statements to be incomplete. Based on the Auditor General's Rules, Chapter 10.850, *"Audits of Charter Schools and Similar Entities"* District management has determined that the following four charter schools are non-component units: Palm Beach Maritime Academy, Potentials Charter School, Potentials South Charter School and Seagull Academy Charter School. Each of these charter schools are operated by entities other than the District and are not legally separate from those entities. As such, each of these charter schools is included as a component unit of their respective operating entity.

Blended Component Unit - The Corporation's sole purpose is to provide for financing and construction of certain District school facilities. Additionally, the Corporation is legally separate from the District and the Board of the Corporation consists of the seven Board members of the District. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

Discretely Presented Component Units - Florida State Statute 1002.33 authorized the establishment of Charter Schools as part of the State's education program. Charter Schools are public schools operating under a performance contract with the local school district and are fiscally dependent on the District for a majority of their funding.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Revenues such as Florida Education Finance Program ("FEFP"), State Categoricals and other State and Federal revenue sources are received by the District on behalf of the Charter schools and then remitted to them. As such, Charter schools are funded on the same basis and are subject to the same financial reporting requirements as the District. Additionally, all students enrolled in Charter Schools are included in the District's total enrollment. At fiscal year-end, there were twenty-eight Charter Schools operating within the School District of Palm Beach County meeting the criteria for presentation as a discretely presented component unit. While it would be misleading to exclude them from the District's financial statements, none of the individual component units are considered to be major.

During the 2009-10 fiscal year, Gulfstream Goodwill Transition Academy merged its operations with Gulfstream Goodwill L.I.F.E. Academy and changed the charter school name to Gulfstream Goodwill Transition to LIFE Academy as of July 1, 2009. All assets of the dissolved not-for-profit corporation were assumed by Gulfstream Goodwill Transition to LIFE Academy. Palm Beach Academy for Learning merged its operations with Palm Beach School for Autism as of July 1, 2009. All assets of the dissolved not-for-profit corporation were assumed by Palm Beach School for Autism.

Complete financial statements of the individual component units can be obtained from their administrative offices. The twenty-eight component unit charter schools in operation at fiscal year-end are listed below:

Academy for Positive Learning
128 North C. Street
Lake Worth, Florida 33460

Boca Raton Charter School
269 NE 14th Street
Boca Raton, Florida 33432

Charter School of Boynton Beach
1375 Gateway Boulevard
Boynton Beach, Florida 33426

Delray Youth Vocational Charter School
601 North Congress Avenue, Unit 110
Delray Beach, Florida 33445

Everglades Preparatory Academy
360 East Main Street, Building C
Pahokee, Florida 33476

Glades Academy
1200 East Main Street
Pahokee, Florida 33476

Hope Learning Community of Riviera Beach
(Noah's Ark International)
21 West 22nd Street
Riviera Beach, Florida 33404

Believers Academy
5840 Corporate Way, Suite 100
West Palm Beach, Florida 33407

Bright Futures International
757 Lighthouse Drive
North Palm Beach, Florida 33408

DayStar Academy of Excellence
970 North Seacrest Boulevard
Boynton Beach, Florida 33435

Ed Venture Charter School
117 East Coast Avenue
Hypoluxo, Florida 33462

G-STAR School of the Arts
2065 Prairie Road, Building J
West Palm Beach, Florida 33406

Gulfstream Goodwill Transition to L.I.F.E
Academy
3800 South Congress Avenue, Suite 12
Boynton Beach, Florida 33426

Imagine Schools - Chancellor Campus
Formerly Chancellor Charter School at Lantana
600 South East Coast Avenue
Lantana, Florida 33462

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Inlet Grove Community High School
7071 Garden Road
West Palm Beach, Florida 33404

JFK Medical Center Charter School
4696 Davis Road
Lake Worth, Florida 33461

Joseph Littles-Nguzo Saba Charter School
5829 Corporate Way, 2nd Floor
West Palm Beach, Florida 33407

Lakeside Academy Charter School
716 South Main Street
Belle Glade, Florida 33430

Leadership Academy West
2030 South Congress Avenue
West Palm Beach, Florida 33406

Life Skills Center, Palm Beach
600 North Congress Avenue, Suite 560
Delray Beach, Florida 33445

Montessori Academy of Early Enrichment
6201 South Military Trail
Lantana, Florida 33462

Palm Beach School for Autism, Inc.
1199 West Lantana Road, Cottage #16
Lantana, Florida 33462

Renaissance Learning Academy
5841 Corporate Way, Suite 101
West Palm Beach, Florida 33407

Renaissance Learning Center
5800 Corporate Way
West Palm Beach, Florida 33407

Riviera Beach Maritime Academy
251 West 11th Street
Riviera Beach, Florida 33404

South Tech Charter Academy
1300 S.W. 30th Avenue
Rivera Beach, Florida 33426

Toussaint L'Ouverture
1325 Gateway Boulevard
Boynton Beach, Florida 33426

Western Academy Charter School
500F-K Royal Plaza Road
Royal Palm Beach, Florida 33411

Since the District is independent of and is not financially accountable for other governmental units or civic entities, these financial statements represent the operations of the District and the Corporation, as well as all of the funds of the District as a governmental unit.

Prior Year Adjustments

There have been adjustments to the beginning fund balance to the following charter schools: Everglades Preparatory Academy, Glades Academy, Inlet Grove, and Joseph Littles-Nguzo Saba Charter School. As a result of these prior year adjustments, the net assets of the component units as a whole have been adjusted as follows (in thousands):

Net Assets - Beginning of year, as previously reported	$ 12,288
Prior Period Adjustments to Beginning Fund Balance	
Everglades Preparatory Academy	(14)
Glades Academy	(25)
Inlet Grove	(265)
Joseph Littles-Nguzo Saba Charter School	(30)
Net Assets - Beginning of year, adjusted	$ 11,954

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. Internal Service Fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. 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.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and presented in a single column. All of the component units are nonmajor and are aggregated and presented in a single column. Internal Service Funds are aggregated and presented in a single column on the face of the Proprietary Fund statements. Fiduciary Funds are reported by fund type.

The Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Proprietary Fund reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's major Governmental Funds:

General Fund

The General Fund is the primary operating fund of the District. Ad valorem tax revenues, revenues from the Florida Education Finance Program ("FEFP") and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Similarly, general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from this fund.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Special Revenue - ARRA Economic Stimulus Fund

To account for both state stabilization funds and targeted assistance funds provided by the American Recovery and Reinvestment Act (ARRA).

COPS Debt Service Fund

The COPS Debt Service Fund accounts for the repayment of the certificates of participation.

Capital Improvement Fund

The Capital Improvement capital projects fund accounts for locally received funds, primarily ad valorem tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

COPS Fund

Certificates of Participation ("COPS") capital projects fund which accounts for construction projects and equipment purchases financed by the sale of certificates of participation.

Other Nonmajor Governmental Funds

The Other Nonmajor Governmental Funds are a summarization of all the Non-major Governmental Funds.

PROPRIETARY FUNDS

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. The only Proprietary Fund that the District has is an Internal Service Fund. 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. Operating expenses for Internal Service Funds include salaries, benefits, administrative expenses, and claims paid. All items not meeting this definition are reported as nonoperating revenues and expenses.

Internal Service Funds

Internal Service Funds are used to account for the financing of goods and services provided by one department to another on a cost reimbursement basis. The District has two Internal Service Funds, one for maintenance and one for group health.

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

Agency Funds

Agency Funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private Purpose Trust Fund

A trust fund was established in January 1993 and is used to account for a District supported Florida Future Educators of America. Revenues consist of employee donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and Fiduciary Funds also use the accrual basis of accounting.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "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 all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year-end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaid expenses, which are recognized when due/paid.

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. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies 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 expenditures. In the other type, monies 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, monies received before the revenue recognition criteria have been met are reported as deferred revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources – Significant revenues from State sources for current operations include the Florida Education Finance Program ("FEFP"), administered by the Florida Department of Education ("FDOE"), under the provisions of Chapter 1011, Florida Statutes. The District files reports on full time equivalent ("FTE") student membership with FDOE. FDOE accumulates information from these reports and calculates the allocation of FEFP funds to the District. After review and verification of FTE reports and supporting documentation, FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

The District receives revenue from the State to administer certain educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical and earmarked educational programs.

The District, at various times, receives authorization for the expenditure of funds for Public Education Capital Outlay ("PECO"), Classrooms First, Effort Index Grant and Class Size Reduction projects from the State of Florida. For State reporting purposes, PECO, Classrooms First, Effort Index Grant and Class Size Reduction revenue is

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

recognized at the time authorization is approved by the State. For financial reporting purposes however, as there is no assurance that all funds made available will become eligible, and since authorizations are made available for several years, revenue is not recognized until the eligibility criteria is met.

Property Taxes – On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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.

C. Budgetary Policies

Revenues and expenditures are controlled by budgetary systems in accordance with various legal and administrative requirements that govern the District's operations. The budget represents a process through which policy decisions are made, implemented and controlled. The budget is adopted on a basis consistent with GAAP, except for encumbrances, and the PECO, Classrooms First, Effort Index Grant and Class Size Reduction revenues. The budgetary process includes encumbrances and the aforementioned revenues in the current year budget. The encumbrances and revenues are reported as expenditures or revenues respectively, on the budgetary basis of accounting.

Annual budgets are legally adopted for all funds except the Fiduciary Funds. The budget amounts for revenues and expenditures reflect all amendments to the original budget dated September 9, 2009, the date of the final amendment approved by the Board. Significant dates in the budgeting timetable follow:

1. The Palm Beach County Property Appraiser certifies to the District the taxable value of all nonexempt District property by July 1 of each year, or the Clerk of the Circuit Court is required to certify an interim tax roll.

2. Within 24 days of tax roll certification, the Board considers and approves for advertising a tentative budget.

3. Within 29 days after tax roll certification, the District advertises the tentative budget and the millage rates therein.

4. A public hearing to adopt the tentative budget and proposed millage rate is held not less than two nor more than five days after the budget is advertised.

5. Within 35 days of tax roll certification, the District notifies the Palm Beach County Property Appraiser of proposed millage rates.

At a final public hearing within 80 days, but not less than 65 days, after tax roll certification, the Board adopts the District budget.

The major functional level is the legal level of budgetary control. Per Board policy, management is authorized to make budget amendments at function level with Board approval. All interim budget amendments between major functional areas within each fund are submitted to the Board for approval. Federal and State grant budget amendments which require State approval prior to processing are also submitted to the Board for approval with monthly amendments. The Board is not legally authorized to approve expenditures that exceed appropriations; therefore, during fiscal year 2009-10, budget amendments were approved as necessary to comply with legal requirements.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Unreserved appropriations are canceled at the end of the fiscal year. However, encumbered appropriations for funds do not lapse at the end of the fiscal year. Undesignated fund balances at June 30, 2010, for funds under budgetary control have been reappropriated for the fiscal year 2010-11 operating budget within the appropriate fund. Programs reserved for carryover include all State categorical grants required to be expended on specific programs and District approved carryover programs.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts reserved for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

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 total $8,108.35 at June 30, 2010.

E. Cash, Cash Equivalents and Investments

The District maintains a Treasurer's pool for the District's cash and investments. Each fund's portion of the pool is presented on the financial statements. Investments are stated at fair value, based on quoted market prices. Investments consist of direct obligations of the United States Treasury, U.S. Government Agency Securities, money market funds investing in U.S. Treasury Securities, corporate notes, U.S. Government Supported Corporate Debt, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank and other investments allowable by the District's investment policy. For purposes of the statement of cash flows, cash equivalents are considered to be the money market funds and all highly liquid investments with a maturity of three months or less when purchased.

F. Inventories

Inventories are valued at cost, which approximates market, using the average cost method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, donated foods, etc. USDA donated foods received from the Federal government are recorded at the value established by the Federal government using the average cost method. Inventory items are recorded as expenditures when shipped to schools and department offices (the consumption method). The reserve for inventories at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are not available for appropriation and expenditure.

G. Prepaid Items

Expenditures for insurance and similar services extending over more than one accounting period are not allocated between or among accounting periods in the governmental funds and are instead accounted for as expenditures in the period of acquisition (consumption method).

H. Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the District. Purchased assets are recorded as expenditures in the fund financial statements and are capitalized at cost on the government-wide statement of net assets. In the case of gifts or contributions, such assets are recorded at fair market value at the time received.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The District's capitalization levels are $1,000 on tangible personal property, $100,000 on building improvements, $50,000 on improvements other than buildings and $100,000 on intangible assets. Other costs incurred for repairs and maintenance are expensed as incurred. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Furniture, Fixtures and Equipment	3 – 15 years
Motor Vehicles	5 – 10 years
Audio Video Materials & Software	3 – 5 years
Buildings and Improvements	15 – 50 years
Improvements Other Than Buildings	15 years

I. Long Term Debt

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net assets. Premiums/discounts are amortized over the life of the debt, while deferred gains and losses on advance refundings and issuance costs are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

The District enters into interest rate swap agreements to modify interest rates on outstanding debt. The fair value of these instruments are reflected on the government wide financial statements. On the fund level financial statements, up-front premium payments received are recognized as other financing sources. In addition, the net interest expenditures resulting from these agreements are recorded in the financial statements (See Note 10).

J. Self-Insurance

The District is self-insured for portions of its general and automobile liability insurance and workers' compensation. Claim activity (expenditures for general and automobile liability and workers' compensation) is recorded in the governmental fund as payments become due each period. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (See Note 7). Consistent with GAAP guidelines, for the governmental funds, in the fund financial statements, the liability for self-insured risks is considered long-term and therefore, is not a fund liability (except for any amounts due and payable at year-end) and represents a reconciling item between the fund-level and government-wide presentations.

The District is also self-insured for health insurance. The District provides health insurance for its employees and eligible dependents. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (See Note 7). Consistent with GAAP guidelines, in the Proprietary Fund financial statements, the liability for self-insured risks is recorded under the accrual basis of accounting.

K. Compensated Absences

Compensated absences are payments to employees for accumulated vacation and sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused vacation and sick leave up to a specified amount depending on their date of hire. Vacation and sick leave is payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The District uses the vesting method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The portion related to employees in the Internal Service Fund is recorded at the fund level. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund-level and government-wide presentations.

L. Reserves and Designations of Fund Equity

Portions of fund equity that have been reserved indicate the amount of fund balance that cannot be appropriated for expenditures since it is legally segregated for a specific future use. In addition, the District established a designation of fund equity for Board Contingency. The Board Contingency policy requires a minimum designation of 3 percent of the total annual General Fund appropriations and transfers.

M. Accounting Estimates

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

N. Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

In June 2008, GASB issued Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The District adopted GASB Statement 53 in the 2009-10 fiscal year. This statement requires the cumulative effect of applying this Statement be reported as a restatement of beginning net assets and impacts the beginning balances in Note 9, Long-term Liabilities, and Note 10, Derivative Instruments. The effects of the accounting change on net assets as previously reported for the 2008-09 fiscal year and prior years is a reduction of $17.1 million and is adjusted as of June 30, 2009, as follows (amounts in thousands; debit (credit)):

	Governmental Activities
Net Assets, previously reported	$ 2,042,740
Adjustments of Assets and Deferred Outflows:	
Deferred Outflow of Resources	25,220
Derivative Instrument - Investment	(16,540)
Adjustments of Liabilities:	
Interest Payable	(3,583)
Non-current Liabilities:	
Certificates of Participation Payable*	10,860
Borrowing-swap Upfront Payment	(7,809)
Hedging Derivative Instruments	(25,220)
Net Assets, as restated	$ 2,025,668

* relates to premiums

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Recently Issued Accounting Pronouncements

In May 2009, GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District will adopt this Statement in the 2010-11 fiscal year. Retroactive restatement of fund balance is required for all prior periods presented. Management is currently evaluating the impact of the adoption of this statement on the District's Financial Statements.

In June 2010, GASB issued Statement 59, *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The District is currently assessing the impact of GASB 59 on its financial position.

2. AD VALOREM TAXES

The Board is authorized by Florida Statutes to levy property taxes for District operations, capital improvements and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Palm Beach County Property Appraiser assesses property values and the Palm Beach County Tax Collector collects the property taxes.

Property values are assessed as of January 1 each year and become a lien on that date. The Board levies the property tax at the final budget hearing each year based on the assessed valuation of all non-exempt property. This levy finances the expenditures of the current fiscal year. Tax bills are mailed by the Palm Beach County Tax Collector on November 1 and are due no later than April 1. After this date, taxes become delinquent. Discounts of up to four percent are available for early payment. The majority of ad valorem taxes are collected in November and December and remitted to the School Board. Section 197.383, Florida Statutes, requires the Palm Beach County Tax Collector to distribute the taxes collected to each taxing authority at least four times during the first two months after the tax roll comes into the Tax Collector's possession, and at least once per month thereafter. Taxes are considered delinquent if not paid prior to April 1. State law provides for enforcement of collection of taxes by the sale of tax certificates on real property and for levy upon, seizure and sale of personal property after the Palm Beach County Tax Collector initiates a sequence of required procedures resulting in a court order to carry out the action.

The State Legislature prescribes the maximum non-voted millage that may be levied by the Board for each fiscal year. The total millage rate levy was 7.983 mills and the total assessed value on which the 2009-10 levy was based was $149 billion. Gross taxes levied were approximately $1.2 billion. Total revenue, net of discounts, was approximately $1.1 billion. A portion of the taxes levied for the Local Capital Improvement Capital Project Fund, designated for repairs and maintenance programs, are transferred to the General Fund as provided by Chapter 1013, Florida Statutes. For the 2009-10 fiscal year, the maintenance transfer from the Local Capital Improvement Capital Project Fund amounted to approximately $66.2 million. Additionally, approximately $8.1 million was transferred for property insurance, bringing the total transfer from the Local Capital Improvement Fund to approximately $74.3 million.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Florida Statutes authorize the deposit of District funds in demand deposits or time deposits of financial institutions approved by the State Treasurer and are defined as public deposits. All District public deposits are held in qualified public depositories pursuant to chapter 280, Florida Statutes, the "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50 percent to 125 percent depending upon the depository's financial

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

condition and the length of time that the depository has been established. All collateral must be deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories of the same type as the depository in default. All bank balances of the District are fully insured or collateralized. At June 30, 2010, the carrying amount of the District's cash deposits was approximately $200.3 million and the bank balance was approximately $217.0 million. The carrying amount of the Fiduciary Fund - School Internal cash deposits was approximately $15.7 million.

The District receives interest on all collected balances in its cash accounts from the qualified public depository acting as its banking agent. Interest earnings are allocated to all funds based on the average daily balance of each fund's equity in the Treasurer's Pool.

Cash Equivalents consist of amounts invested in the Dreyfus Treasury and Agency Cash Mgt Money Market Fund, JP Morgan US Government Money Market Fund, Federated Government Obligation Money Market Fund, PFM Funds Government Series Money Market Fund, Fidelity Institutional Government Money Market Fund and SBA Local Government Investment Pool (the "LGIP"). As of June 30, 2010, Dreyfus Treasury & Agency Cash Management Money Market was rated AAAm by Standard & Poors, JP Morgan US Government Money Market Fund was rated Aaa by Moody's Investors Service and AAAm by Standard & Poors, Federated Government Obligation Money Market Fund was rated Aaa by Moody's Investor Service and AAAm by Standard & Poors, PFM Funds Government Series Money Market Fund was rated AAAm by Standard & Poors, Fidelity Institutional Government Money Market Fund was rated Aaa by Moody's Investor Service and AAAm by Standard & Poors and the Local Government Investment Pool was rated AAAm by Standard & Poors.

Investments

The District's investment policy permits investments in the SBA Local Government Surplus Funds Trust Fund, securities of the United States Government, U.S. Government Agencies, Federal instrumentalities, interest bearing time deposit or savings accounts, repurchase agreements, commercial paper, corporate notes, bankers' acceptances, state and/or local government debt, and money market mutual funds. The District's investment advisor used the effective duration method to calculate effective duration measures for the securities held by the District. Besides measuring the sensitivity of the securities market value to changes in interest rates, the effective duration method accounts for any call (early redemption) features which a security may have.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

As of June 30, 2010, the District had the following unrestricted cash and investments and maturities (amounts in thousands and duration in years):

PORTFOLIO / INVESTMENTS	CARRYING VALUE	EFFECTIVE DURATION
Cash Deposits	$ 200,316	N/A
Money Market Funds		
Dreyfus Treasury and Agency	97,817	0.13
Federated Government Obligation	15,923	0.13
PFM Funds Government Series	81,356	0.15
Fidelity Institutional Government Fund	16,520	0.15
JP Morgan US Government	101	
Florida State Board of Administration	10	0.13
Commercial Paper	958	0.33
Investment Derivative Instruments	757	16.86
Core Fund Investments:		
US Treasury - Notes/Bills	22,841	2.10
Federal Agency - Bonds/Notes	200,892	0.82
US Government Supported Corporate Debt	7,183	1.40
Corporate Notes	4,423	2.02
Commercial Paper	49,979	0.17
Total Nonfiduciary	699,076	
Fiduciary Funds Cash Deposits	15,657	
TOTAL	$ 714,733	

Interest Rate Risk

To limit exposure to fair value losses resulting from increases in interest rates, the District's Investment Policy limits operating funds to maturities of two years or less. Investments of reserves, project funds, debt proceeds and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years, and the average duration of the funds as a whole may not exceed three (3) years. The District's investments in the Federal Home Loan Bank mature between July 2010 and March 2013. The District's investment in the Federal Home Loan Mortgage Corporation matures between September 2011 and June 2012. The District's investments in the Federal National Mortgage Association mature between January 2012 and June 2013. The District's investment in derivative instruments mature between August 2011 and June 2028. As of June 30, 2010, the District held approximately $11.6 million in market value of callable securities issued by Federal Instrumentalities, which permit the issuer to redeem the securities prior to their original maturity date. A decrease in interest rate levels could trigger calls on these securities, forcing the District to reinvest the proceeds in lower-yielding securities.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The District is invested in two basis swaps with the 2002D certificates, each with a notional amount of $100,000,000. On the first basis swap the District makes semiannual payments to the counterparty of SIFMA Swap Index less 0.665 percent and receives variable payments based on 67 percent of 1-mo LIBOR. On the second basis swap the District makes semiannual payments to the counterparty of 67 percent of 1-mo LIBOR and receives variable payments based on 59.93 percent of 10-Year LIBOR. The first basis swap was effective in January 2003 and the second June 2007 and both mature in June 2028. At June 30, 2010, the fair value of the swaps are ($1,430,548), and $5,816,665, respectively.

The District entered into two swaptions with the 2002D and 2001B certificates with a notional amount of $116,555,000 and $162,980,000, respectively. The swaptions are hybrid instruments consisting of a borrowing and an embedded derivative instrument (time value). Therefore, for accounting and financial reporting purposes, the embedded derivative instrument is considered an investment derivative instrument. The swaptions allow the counterparty to exercise the swaps on fixed dates starting August 2012 and August 2011, respectively through February 2014 and August 2014, respectively. If the swaptions are exercised, the maturity date of the options are August 2028 and August 2025, respectively. At June 30, 2010, the fair value of the swaptions are ($1,652,678) and ($604,761), respectively.

In exchange for an upfront premium payment of $3,010,000 received by the District, the swap counterparty has the right to terminate the 2003B Interest Rate Swap if the 180-day average of the BMA Index exceeds 7.0 percent in the future. The barrier feature was effective June 2003 and is exercisable anytime until August 2018. Once the barrier option expires the District will be left with a fixed-payer swap that matures on August 2029. Therefore, for accounting and financial reporting purposes, the barrier option derivative instrument is considered an investment derivative instrument. At June 30, 2010, the fair value of the barrier option is ($1,372,165).

Credit Risk

The District's Investment Policy lists the authorized investment types as well as the minimum allowable credit rating for each investment type. Corporate notes purchased for investment must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long term debt rating of "AA" by Standard & Poor's ("S&P"). The maximum length to maturity for corporate notes shall be three (3) years from the date of purchase. As of June 30, 2010, the District held $4.4 million of corporate notes, which had an S&P rating of AA+. The money market funds were all rated AAAm by S&P and Aaa by Moody's. All investments in the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association were rated between A-1+ and AAA by S&P. All other rated investments were rated AAA by S&P. As of June 30, 2010, the Local Government Investment Pool was rated AAAm by S&P.

The District's Debt Management Policy does not limit the maturities of derivative instruments classified as investment derivative instruments. As of June 30, 2010, the District held $756,513 of investment derivative instruments, all of which were rated A+ by S&P and Aa3 to A7 by Moodys.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Concentration of Credit Risk

The District's Investment Policy specifies the maximum percentage allocation to any single investment type as well as the maximum percentage holding per issuer. Up to 100 percent of the portfolio may be invested in the SBA Local Government Surplus Funds Trust Fund or securities of the United States Government. Investments in Federal Instrumentalities may be no greater than 80 percent of the portfolio with a maximum of 50 percent invested with any single issuer. Corporate notes are limited to 15 percent of the portfolio and no greater than 5 percent may be in a single issuer.

PORTFOLIO / INVESTMENTS	CARRYING VALUE (in thousands)	%
Cash Deposits	$ 200,316	28.65%
Money Market Funds		
Dreyfus Treasury and Agency	97,817	13.99%
JP Morgan US Government	101	0.01%
Federated Government Obligation	15,923	2.28%
PFM Funds Government Series	81,356	11.64%
Fidelity Institutional Government Fund	16,520	2.36%
Florida State Board of Administration (SBA)	10	0.00%
Commercial Paper		
General Electric Commercial Paper	958	0.14%
Investment Derivative Instruments	757	0.11%
Investments in Securities		
US Treasury - Notes/Bills	22,841	3.27%
Morgan Stanley	3,116	0.45%
JP Morgan Chase & Co	2,074	0.30%
Citigroup, Inc.	1,993	0.29%
General Electric Capital Corporation	4,423	0.63%
Federal National Mortgage Association	83,004	11.87%
Farmer Mac GTD NT	493	0.07%
Federal Home Loan Bank	65,490	9.37%
Federal Home Loan Mortgage Corp.	51,905	7.42%
General Electric CAP Services	49,979	7.15%
Total Nonfiduciary	699,076	100.00%
Fiduciary Funds Cash Deposits	15,657	
TOTAL	$ 714,733	

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

As of June 30, 2010, all District investments were in compliance with the District's Investment Policy or Debt Management Policy and did not exceed portfolio allocation or issuer maximums.

Custodial Risk

The District's investment policy requires that all securities, with the exception of certificates of deposit, be held with a third-party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal government, the state of Florida, or any other state or territory of the United States which has a branch or principal place of business in the state of Florida as defined in Section 658.12, Florida Statutes, 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 the state of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities are made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. As of June 30, 2010, the District's investment portfolio was held with a third-party custodian.

4. DUE FROM OTHER AGENCIES

At June 30, 2010, the District had a total of approximately $82.5 million in "Due from other agencies". Approximately $38.3 million is due from the local property tax collector. Approximately $16.3 million is due from the State for sales taxes. Approximately $19.5 million is due from Federal, State and local governments for various grant programs. Approximately $3.0 million is due from Palm Beach County for impact fees. Approximately $2.9 million is due from Medicaid for reimbursement for services performed which is recorded as deferred revenue at the fund level. Approximately $1.6 million is due from the Internal Revenue Service for refunds due to COBRA. Another $0.9 million is due from other state and local agencies for miscellaneous items.

5. INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances at June 30, 2010 (amounts in thousands):

	Interfund Receivables	Interfund Payables
General Fund	$ 15,000	$ -
Other Nonmajor Governmental Funds	-	15,000
Total Interfund	$ 15,000	$ 15,000

The amount payable by the other governmental funds to the General Fund is to cover temporary cash shortages.

Interfund transfers for the year ended June 30, 2010, were as follows (amounts in thousands):

	Transfer to:			
Transfer from:	General Fund	COPS Debt Service Fund	COPS	Total
Capital Improvement Fund	$ 74,254	$ 149,002	$ -	$ 223,256
Other Nonmajor Governmental Funds	5,439		48,960	54,399
Total	$ 79,693	$ 149,002	$ 48,960	$ 277,655

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The $79.7 million interfund transfer was for maintenance transfer, property insurance transfer and charter school capital outlay. The $149.0 million and $49.0 million interfund transfers were for annual debt service and capital expenditures, respectively.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, is as follows (amounts in thousands):

	Beginning Balance July 1, 2009	Additions	Retirements and Transfers	Ending Balance June 30, 2010
Non-Depreciable Assets:				
Land	$ 340,454	$ 836	$ 30	$ 341,260
Construction in Progress	335,025	155,891	264,697	226,219
Total Non-Depreciable Assets	675,479	156,727	264,727	567,479
Depreciable Assets:				
Improvements Other Than Buildings	35,897	3,498	-	39,395
Buildings and Improvements	3,549,877	265,967	20,724	3,795,120
Furniture, Fixtures, and Equipment	158,545	11,689	5,053	165,181
Motor Vehicles	96,409	6,417	2,895	99,931
Audio Visual Materials and Software	55,138	532	191	55,479
Total Depreciable Assets	3,895,866	288,103	28,863	4,155,106
Less Depreciation For:				
Improvements Other Than Buildings	(7,499)	(2,551)	-	(10,050)
Buildings and Improvements	(668,427)	(77,655)	(12,161)	(733,921)
Furniture, Fixtures, and Equipment	(111,718)	(13,788)	(4,787)	(120,719)
Motor Vehicles	(54,423)	(7,980)	(2,639)	(59,764)
Audio Visual Materials and Software	(37,415)	(8,846)	(181)	(46,080)
Total Accumulated Depreciation	(879,482)	(110,820)	(19,768)	(970,534)
Capital Assets, Net	$ 3,691,863	$ 334,010	$ 273,822	$ 3,752,051

Depreciation expense for the year ended June 30, 2010, of approximately $110.8 million was not allocated to specific functions. The District's capital assets essentially serve all functions and as such the depreciation expense is included as a separate line item in the statement of activities.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; administrative errors and omissions; injuries to employees, students and guests; as well as natural disasters. The District is self-insured for portions of its general and automobile liability insurance, workers compensation and health insurance. Losses involving auto and general liability claims are limited (generally) by provisions of the Florida State Statute 768.28. These self-insured funds are administered by a third party. The District purchases commercial insurance for other risks including property, construction and other miscellaneous risks.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The employee health insurance claims liability is based on an analysis performed by management, which is based on historical trends. The remaining claims liability is based on an actuarial evaluation performed by an independent actuary as of June 30, 2010 using a discounted rate factor of 4.0 percent. The liability consists of claims reported and payable, as well as an estimate for claims incurred but not reported. At June 30, 2010, the liability for insurance claims consisted of approximately $13.4 million, $9.6 million and $35.7 million for employee health, auto and general liability and workers' compensation, respectively.

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

	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2010
Beginning Balance	$ 58,233	$ 61,472
Additions:		
Current year claims and changes in estimates	160,789	157,626
Reductions:		
Claim payments	(157,550)	(160,428)
Ending Balance	$ 61,472	$ 58,670

The District maintains excess insurance coverage for health care costs. There have been no other significant reductions in insurance coverage. There have been no settlements that exceeded the District's coverage for fiscal years ended June 30, 2007, 2008, 2009 and 2010.

8. SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2010 was as follows (amounts in thousands):

	Beginning Balance July 1, 2009	Issued	Redeemed	Beginning Balance June 30, 2010
Tax anticipation notes	$ 85,000	$ 85,000	$ (170,000)	$ -
Revenue anticipation notes	72,135	56,000	(72,135)	56,000
Commercial paper notes	150,000	-	(150,000)	-
Total short-term debt	$ 307,135	$ 141,000	$ (392,135)	$ 56,000

Tax Anticipation Notes and Revenue Anticipation Notes

On October 28, 2009 the District issued Tax Anticipation Notes ("TANS"), Series 2009 for $85.0 million. Note proceeds were used to pay fiscal year 2010 District operating expenditures prior to the receipt of ad valorem taxes. The notes were paid in February 2010.

On February 24, 2010, the District issued Revenue Anticipation Notes ("RANS"), Series 2010. This $56.0 million issue was sold at a coupon interest rate of 1.50 percent with an effective yield of .283557 percent. Interest costs incurred on this issue for the year ended June 30, 2010 were $49 thousand net of a premium of $210,039. Note proceeds were used to pay 2009-10 fiscal year RANS. RANS Series 2009 was used to pay 2009-10 fiscal year construction expenditures prior to the planned issuance of COPS. RANS are subject to arbitrage rebate,

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

although the District expects to meet the spenddown requirements, thereby resulting in no arbitrage rebate. The notes are due February 22, 2011.

Sales Tax Revenue Commercial Paper Notes

The District has established a commercial paper debt program whereby Tax Exempt Commercial Paper notes (TECP) issued are payable from and secured by a pledge of the proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. The TECP is payable solely from the sales tax revenues generated for the school construction projects identified in the sales tax resolution that was approved by the voters in Palm Beach County in November 2004. The sales tax collection began on January 1, 2005 and will be in place for six years, through December 2010. The sales tax was projected to generate at least $560 million, or 224 percent of the principal over the six years. Current projections indicate the total revenues will be approximately $645.2 million. Total sales tax revenue earned through June 30, 2010 is $601.0 million with $99.3 million received during the 2009-10 fiscal year. The District repaid the remaining TECP in December 2009, one year ahead of schedule. For the 2009-10 fiscal year, principal and interest paid were $150 million and $204.6 thousand, respectively.

9. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2010, is as follows (amounts in thousands):

	Beginning Balance June 30, 2009 Restated	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Capital Outlay Bond Issue	$ 32,835	$ 1,655	$ (4,935)	$ 29,555	$ 3,405
Certificates of Participation	1,944,288	-	(57,995)	1,886,293	60,205
Borrowing-Swap Upfront Payment	7,809	336	-	8,145	-
Derivative Instruments-Hedging	25,220	13,379	-	38,599	-
	2,010,152	15,370	(62,930)	1,962,592	63,610
Plus(Less) Insurance Premium (Discount)	45,009	166	(9,208)	35,967	-
Less Deferred Amount on Refundings	(24,202)	(61)	1,747	(22,516)	-
Total Bonds and Leases Payable	2,030,959	15,475	(70,391)	1,976,043	63,610
Other Liabilities:					
Compensated Absences	179,652	10,584	(10,058)	180,178	11,813
Claims and Judgments	61,472	157,626	(160,428)	58,670	24,940
Arbitrage Rebate Liability	2,188	-	(1,104)	1,084	-
Other Postemployment Benefits	43,976	22,095	(3,581)	62,490	-
Total Other Liabilities	287,288	190,305	(175,171)	302,422	36,753
Total Governmental Activities Long-Term Liabilities	$ 2,318,247	$ 205,780	$ (245,562)	$ 2,278,465	$ 100,363

The compensated absences, claims and judgments and post employment benefits are generally liquidated by the General Fund.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

State Board of Education Capital Outlay Bond Issues

State Board of Education Capital Outlay Bond Issues ("COBI") are serviced entirely by the State using a portion of the District's share of revenue derived from motor vehicle license taxes pursuant to Chapter 320, Florida Statutes, and Article XII, Section 9(d), of the Florida Constitution. The State Board of Administration determines the annual sinking fund requirements. The amounts necessary to retire bonds and interest payable are withheld from the entitlement to the District. Interest rates on the COBI bonds range from 2.00 percent to 6.00 percent. Interest is payable semiannually on January 1 and July 1. The bonds are redeemable at par.

A summary of bond terms are presented as follows (amounts in thousands):

Capital Outlay Bond Issues	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding June 30, 2009	Debt Issued	Debt Matured/ Refunded FY 09-10	Debt Outstanding June 30, 2010
COBI 1999-A (1)	3/1/1999	$ 2,650	0%	1/1/2019	$ 1,745	$ -	$ 1,745	$ -
COBI 2000-A (2)	3/16/2000	1,650	0%	1/1/2020	80	-	80	-
COBI 2002-A	4/15/2002	2,845	4.00% to 5.00%	1/1/2022	2,280	-	95	2,185
COBI 2002-B	7/15/2002	6,815	4.00% to 5.375%	1/1/2015	4,135	-	655	3,480
COBI 2003-A	7/15/2003	6,050	3.00% to 4.25%	1/1/2023	5,225	-	190	5,035
COBI 2005-A	5/1/2005	21,200	4.00% to 5.00%	1/1/2017	16,835	-	1,890	14,945
COBI 2005-B	7/1/2005	2,675	5.00%	1/1/2020	2,535	-	130	2,405
COBI 2009-A	9/10/2009	1,655	2.00% to 5.00%	1/1/2019	-	1,655	150	1,505
		$ 45,540			$ 32,835	$ 1,655	$ 4,935	$ 29,555

(1) Refunded by COBI 2009-A
(2) Refunded by COBI 2005-B

The debt service requirements through maturity to the holders of the Capital Outlay Bond Issue are as follows (amounts in thousands):

Year Ended June 30	Principal Capital Outlay Bonds	Interest	Total Principal and Interest
2011	$ 3,405	$ 1,409	$ 4,814
2012	3,650	1,245	4,895
2013	3,900	1,077	4,977
2014	4,170	886	5,056
2015	3,895	680	4,575
2016-2020	8,315	1,334	9,649
2021-2024	2,220	187	2,407
Total	$ 29,555	$ 6,818	$ 36,373

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Capital Outlay Bond Issue Refunding

On August 20, 2009, the Florida Department of Education issued State Board of Education Capital Outlay Bonds, 2009 Series A (COBI 2009A). The bonds were issued to refund the outstanding State Board of Education Capital Outlay Bonds, 1999 Series A (COBI 1999A). The District's portion of the COBI 2009A is $1.7 million, which refunded the District's portion of the COBI 1999A of $1.7 million. The refunding resulted in gross debt service savings of approximately $0.2 million, and present value savings of approximately $0.1 million. The COBI 2009A coupon rates range from 2.0 percent to 5.0 percent. The COBI 2009A bonds are due on January 1, 2019.

Certificates of Participation

On November 16, 1994, the District entered into a Master Lease Purchase Agreement (the "Master Lease") dated November 1, 1994, with the Palm Beach School Board Leasing Corporation ("Corporation"), a Florida not-for-profit corporation, to finance the acquisition and construction of certain facilities, and equipment for District operations. The Corporation was formed by the Board solely for the purpose of acting as the lessor for Certificates of Participation financed facilities, with the District as lessee. The Corporation issued Certificates of Participation to third parties, evidencing undivided proportionate interest in basic lease payments to be made by the District, as lessee, pursuant to the Master Lease. Simultaneously therewith, the Board entered into Ground Leases with the Corporation for the Facilities sites.

The District also sold Certificates of Participation Qualified Zone Academy Bonds ("QZAB"). The QZAB program is a financial instrument that provides a different form of subsidy from traditional tax-exempt bonds. Interest on QZABs is paid by the Federal government in the form of an annual tax credit to an eligible financial institution that holds the QZAB. The QZAB issuer is responsible for repayment upon maturity. The tax credits and bonding authority are made available by the Federal government to support innovative school partnerships; enhance reform initiatives, including augmenting Federal education programs, technology and vocational equipment; and development of curriculum or better teacher training to promote market driven technology. To be eligible, a school must:

1. Be located in an Empowerment Zone or an Enterprise Community or have 35 percent or more of its students eligible for free or reduced lunch under the National School Lunch Act.

2. Obtain cash and/or in-kind contribution agreements from partnerships equal to at least 10 percent of the gross proceeds of the QZAB.

The District deposits funds annually in an escrow, which when coupled with interest earnings will be sufficient to pay off the principal at maturity.

The Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable annually unless terminated, in accordance with the provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases. The remedies on default or upon an event of non-appropriation include the surrender of the Series 1994A, Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, Series 2007A, 2007B and 2007E Facilities by the District and the Trustee's re-letting for the remaining Ground Lease term, or the voluntary sale of the Series 1994A, Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005B, Series 2006A, 2007A, 2007B and 2007E Facilities by the School Board. In either case, the proceeds will be applied against the School Board's obligations under the Master Lease.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

A summary of lease terms are presented as follows (amounts in thousands):

Certificates	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding June 30, 2009	Debt Matured FY 09-10	Debt Outstanding June 30, 2010	Ground Lease Term
Series 1994A (1)	11/1/1994	$ 62,095	-	-	$ -	$ -	$ -	6/30/2020
Series 1995A (2)	6/1/1995	133,600	-	-	-	-	-	6/30/2020
Series 1996A (3)	5/1/1996	32,155	-	-	-	-	-	8/1/2021
Series 2001A (4)	4/1/2001	135,500	4.25% to 5.50%	8/1/2011	1,670	450	1,220	8/1/2031
Series 2001B (5)	6/1/2001	169,445	4.30% to 5.375%	8/1/2025	165,640	650	164,990	n/a
Series 2002A (6)	2/1/2002	115,250	4.00% to 5.375%	8/1/2018	50,535	6,620	43,915	8/1/2023
Series 2002B	3/20/2002	115,350	4.22% Swap rate *	8/1/2027	115,350	-	115,350	8/1/2032
Series 2002C (7)	5/15/2002	161,090	4.125% to 5.50%	8/1/2012	14,825	3,555	11,270	8/1/2032
QZAB Series 2002	6/11/2002	950	-	6/11/2016	950	-	950	n/a
Series 2002D (8)	12/1/2002	191,215	3.70% to 5.25%	8/1/2028	153,680	3,850	149,830	8/1/2033
Series 2002E (9)	9/1/2002	93,350	4.00% to 5.375%	8/1/2016	76,540	9,045	67,495	n/a
Series 2003A	6/26/2003	60,865	2.75% to 5.00%	8/1/2021	46,805	3,130	43,675	8/1/2026
Series 2003B (10)	6/26/2003	124,295	Variable Est. 3.91% **	8/1/2029	124,295	-	124,295	8/1/2034
Series 2004A	5/4/2004	103,575	3.10% to 5.00%	8/1/2029	92,965	2,795	90,170	8/1/2034
QZAB Series 2004	4/30/2004	2,923	-	4/30/2020	2,923	-	2,923	n/a
Series 2005A (11)	3/22/2005	124,630	3.25% to 5.00%	8/1/2022	124,090	190	123,900	n/a
Series 2005B	6/7/2005	38,505	3.125% to 5.00%	8/1/2010	16,340	8,020	8,320	8/1/2015
QZAB Series 2005	12/15/2005	2,150	-	12/15/2020	2,150	-	2,150	n/a
Series 2006A	5/25/2006	222,015	3.75% to 5.00%	8/1/2031	211,335	5,765	205,570	8/1/2036
Series 2007A	2/28/2007	268,545	3.75% to 5.50%	8/1/2031	259,010	9,885	249,125	8/1/2036
Series 2007B (12)	3/22/2007	119,400	4.429%	8/1/2025	116,225	-	116,225	8/1/2030
Series 2007C (13)	3/22/2007	192,310	4.00% to 5.00%	8/1/2027	191,085	235	190,850	n/a
Series 2007D (14)	5/3/2007	30,485	5.00%	8/1/2015	30,485	3,805	26,680	n/a
Series 2007E	10/31/2007	147,390	3.625% to 5.00%	8/1/2032	147,390	-	147,390	8/1/2037
		$ 2,647,088			$ 1,944,288	$ 57,995	$ 1,886,293	

* 2002B - Variable rate paid to certificate holders based on current market rate. Resets weekly, 0.30% at 6/30/2010
** 2003B - Variable rate paid to certificate holders SIFMA + 65 basis points. Resets weekly, 0.96% at 6/30/2010
n/a - Bonds were issued to refund prior issuances - no new ground lease.

(1) Refunded and partially defeased by Series 1997A Certificates of Participation.
(2) Refunded and partially defeased by Series 2002E Certificates of Participation.
(3) Refunded and partially defeased by Series 2002E Certificates of Participation.
(4) Refunded and partially defeased by Series 2005A and Series 2007C Certificates of Participation.
(5) Issued to advance refund and defease the Series 2000A Certificates of Participation. **
(6) Refunded and partially defeased by Series 2005A Certificates of Participation.
(7) Refunded and partially defeased by Series 2005A and Series 2007C Certificates of Participation.
(8) Refunded and partially defeased by Series 2005A Certificates of Participation.
(9) Issued to advance refund and defease a portion of the Series 1995A and Series 1996A Certificates of Participation, which mature on or after August 1, 2007. **
(10) On March 20, 2008 the District converted and remarketed the 2003B resulting in no change to principal.
(11) Issued to advance refund and defease a portion the Series 2001A, Series 2002A, Series 2002C and Series 2002D Certificates of Participation. **
(12) On March 12, 2008 the District converted and remarketed the 2007B resulting in a reduction of principal of $3,175,000.
(13) Issued to advance refund and defease a portion of the Series 2001A and Series 2002C Certificates of Participation. **
(14) Issued to advance refund and defease a portion of Series 1997A Certificates of Participation which mature on or after August 1, 2008. **

** These refunding issues were done in order to achieve debt service savings (See Defeased Debt).

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The Certificates are not separate legal obligations of the Board but represent undivided proportionate interests in lease payments to be made from appropriated funds budgeted annually by the School Board for such purpose from current or other funds authorized by law and regulations of the Department of Education, including the local optional millage levy. However, neither the Board, the District, the State of Florida, nor any political subdivision thereof are obligated to pay, except from Board appropriated funds, any sums due under the Master Lease from any source of taxation. The full faith and credit of the Board and the District are not pledged for payment of such sums due under the Master Lease, and such sums do not constitute an indebtedness of the Board or the District within the meaning of any constitutional or statutory provision or limitation. A trust fund was established with a Trustee to facilitate payments in accordance with the Master Lease and the Trust Agreement. Various accounts are maintained by the Trustee in accordance with the trust indenture. Interest earned on invested funds is applied toward the basic lease payments. Basic lease payments are deposited with the Trustee semi-annually on June 30 and December 30, and are payable to Certificate holders on August 1 and February 1.

Due to the economic substance of the issuances of Certificates of Participation as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to Certificate holders. Payment of the outstanding Certificates of Participation is insured through AMBAC Indemnity Corporation. During the year ended June 30, 2010, approximately $111.6 million was expended for capital outlay in the Certificates of Participation Capital Projects Funds.

All Certificates of Participation issued are subject to arbitrage rebate. At June 30, 2010, the arbitrage liability was $1.084 million.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

The debt service requirements through maturity to the holders of the Certificates of Participation, which will be serviced by the annual lease payments, are as follows (amounts in thousands):

Year ended June 30	Series 2001-A	Series 2001-B	Series 2002-A	Series 2002-B	Series 2002-C	Series 2002-D	Series 2002-E	Series 2003-A	Series 2003-B	Series 2004-A
2011	$ 725	$ 675	$ 6,870	$ -	$ 3,435	$ 3,980	$ 9,495	$ 3,195	$ -	$ 2,870
2012	495	705	7,130	-	3,845	4,115	9,990	3,280	-	2,955
2013	-	735	7,425	-	3,990	4,325	10,515	3,365	-	3,050
2014	-	765	7,710	-	-	4,505	11,070	3,465	-	3,185
2015	-	805	8,025	-	-	4,650	11,665	3,570	-	3,335
2016-2020	-	54,070	6,755	13,465	-	10,335	14,760	20,325	-	19,205
2021-2025	-	87,115	-	59,435	-	25,690	-	6,475	19,150	24,425
2026-2030	-	20,120	-	42,450	-	92,230	-	-	105,145	31,145
2031-2033	-	-	-	-	-	-	-	-	-	-
Total	$ 1,220	$ 164,990	$ 43,915	$ 115,350	$ 11,270	$ 149,830	$ 67,495	$ 43,675	$ 124,295	$ 90,170

Year ended June 30	Series 2005-A	Series 2005-B	Series 2006-A	Series 2007-A	Series 2007-B	Series 2007-C	Series 2007-D	Series 2007-E	Series 2002-QZAB	Series 2004-QZAB
2011	$ 195	$ 8,320	$ 5,975	$ 10,270	$ -	$ 245	$ 3,955	$ -	$ -	$ -
2012	200	-	6,195	10,680	-	255	4,110	4,080	-	-
2013	210	-	6,045	11,155	-	775	4,320	4,240	-	-
2014	215	-	6,330	11,660	-	4,990	4,535	4,395	-	-
2015	220	-	6,585	12,205	-	5,325	4,760	4,585	-	-
2016-2020	97,840	-	37,580	54,875	14,900	5,305	5,000	26,115	950	2,923
2021-2025	25,020	-	47,535	-	83,915	67,170	-	32,445	-	-
2026-2030	-	-	60,625	88,160	17,410	106,785	-	41,390	-	-
2031-2033	-	-	28,700	50,120	-	-	-	30,140	-	-
Total	$ 123,900	$ 8,320	$ 205,570	$ 249,125	$ 116,225	$ 190,850	$ 26,680	$ 147,390	$ 950	$ 2,923

Year ended June 30	Series 2005-QZAB	Total Lease Payment	Total Interest	Total Lease Payment & Interest
2011	$ -	$ 60,205	$ 87,654	$ 147,859
2012	-	58,035	84,788	142,823
2013	-	60,150	81,774	141,924
2014	-	62,825	78,933	141,758
2015	-	65,730	75,821	141,551
2016-2020	2,150	386,553	326,919	713,472
2021-2025	-	478,375	225,621	703,996
2026-2030	-	605,460	99,662	705,122
2031-2033	-	108,960	6,274	115,234
Total	$ 2,150	$ 1,886,293	$ 1,067,446	$ 2,953,739

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Series 2002B is a VRDO or variable rate demand obligation. The rates on these certificates are reset weekly, but have been synthetically fixed using interest rate swaps. The District has an underlying standby purchase agreement with Dexia Credit Local that expires March 20, 2012. The available principal commitment is currently $115,350,000, and at June 30, 2010, nothing was drawn against the standby purchase agreement. The District pays an annual commitment fee of 12 basis points.

State statute requires that no more that 75 percent of the capital millage levy be used for COP debt service. The District's debt policy limits the issuance of COPS by stating that the debt service could not exceed half of the capital millage levy. In the 2008-09 fiscal year, when the capital millage levy was reduced to 1.75 mills, the Debt Policy was amended to allow debt service to be up to 1 mil but should be within 50 percent of the capital millage levy within five years. Based on the reduction of the capital millage levy and declining property values, the District's capacity to issue new COPS debt has been dramatically reduced.

Defeased Debt

In prior years, the District defeased certain certificates of participation by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements. As of June 30, 2010, the total amount of defeased debt outstanding but removed from the District's financial statements amounted to approximately $491.6 million.

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 10 for information on derivative instruments (amounts in thousands):

Fiscal Year Ending June 30	Principal	Interest	Hedging Derivative Instruments, Net	Total
2011	$ -	$ 1,539	$ 9,104	$ 10,643
2012	-	1,540	9,105	10,645
2013	-	1,539	9,104	10,643
2014	-	1,539	9,105	10,644
2015	-	1,539	9,104	10,643
2016-2020	13,465	7,667	45,140	66,272
2021-2025	78,585	6,521	36,008	121,114
2026-2030	147,595	3,176	17,786	168,557
	$ 239,645	$ 25,060	$ 144,456	$ 409,161

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Borrowings of Hybrid Derivative Instruments

The District sold two swaptions with the 2002D and 2001B certificates with a notional amount of $116,555,000 and $162,980,000, respectively. Upon entering into the swaptions, the District received up-front payments of $4,240,000 and $6,250,000, respectively, from the counterparty. The up-front payments were composed of the swaptions' intrinsic value and time value. Accordingly, the swaptions are hybrid instruments consisting of a borrowing and an embedded derivative instrument. The embedded derivative instrument – the option – was recorded at a value equal to the time value of the option only and the remaining value of the swaption was allocated to the companion instrument (borrowing). The embedded derivative instrument is considered an investment and is discussed in Note 3. The intrinsic value of the borrowing was calculated using the net present value method and is recorded at historical cost. During the option period interest accretes at the market rate at inception of the borrowing of 4.40 percent and 4.20 percent, respectively totaling $591,307 and $934,002, respectively, through June 30, 2010. The ending balance of borrowings including accreted interest from inception at June 30, 2010 are $3,071,099 and $5,074,294, respectively. The borrowing at inception was $2,479,792 and $4,140,292, respectively. The swaptions allow the counterparty to exercise the swaps on fixed dates starting August 2012 and August 2011, respectively through February 2014 and August 2014, respectively. If the swaptions are exercised, the maturity date of the options are August 2028 and August 2025, respectively. The District's termination values at June 30, 2010, are negative $14,116,331 and negative $22,243,595, respectively. Aggregate debt service requirements of the District's borrowing amounts assume that current interest rates on variable-rate bonds is equal to the at the market rates at inception of the derivative instruments and will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the derivative instruments will vary. Refer to Note 10 for information on derivative instruments. Debt service requirements for both the 2001B and 2002D borrowing at June 30, 2010, were as follows (amounts in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total Principal and Interest
2011	$ -	$ -	$ -
2012	135	199	334
2013	518	333	851
2014	708	317	1,025
2015	723	287	1,010
2016-2020	3,545	975	4,520
2021-2025	2,373	347	2,720
2026-2029	667	41	708
	$ 8,669	$ 2,499	$ 11,168

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

10. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, 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 (amounts in thousands; debit (credit)):

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Hedging Derivatives:					
2002B Pay-fixed Interest Rate Swap	Deferred outflow of resources	$ (5,662)	Liability	$ (25,022)	$ 115,350
2003B Pay-fixed Interest Rate Swap	Deferred outflow of resources	(7,717)	Liability	(13,577)	124,295
Total Hedging Derivative Instruments				$ (38,599)	
Investment Derivatives:					
2002D-Basis Swap	Investment earnings	860	Investment	$ (1,431)	100,000
2002D-Basis Swap (CMS)	Investment earnings	2,560	Investment	5,817	100,000
2002D-Swaption	Investment earnings	4,215	Investment	(1,652)	116,555
2001B-Swaption	Investment earnings	5,843	Investment	(605)	162,980
2003B-Barrier Option at 7%	Investment earnings	3,819	Investment	(1,372)	100,000
Total Investment Derivative Instruments				$ 757	

The basis swaps, swaptions and barrier option are considered investment derivative instruments. Refer to Note 3. Cash, Cash Equivalents and Investments for information on investment derivative instruments. All other derivative instruments are considered hedging derivative instruments.

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 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.

Fair values of options may be based on an option pricing model, such as the Black-Scholes-Merton model. That model considers probabilities, volatilities, time, settlement prices, and other variables.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

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 (amounts in thousands):

	Objective	Notional	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Rating
Governmental Activities Hedging Derivatives:								
2002B - Interest Rate Swap	Hedge changes in cash flows on the 2002B Certificates	$ 115,350	3/20/2002	8/1/2027	N/A	Pay 4.22%; receive 67% of USD LIBOR or SIFMA Swap Index	Citigroup Financials Products Inc.	A3,A,A+
2003B - Interest Rate Swap	Hedge changes in cash flows on the 2003B Certificates	124,295	6/26/2003	8/1/2029	N/A	Pay 3.91%; receive SIFMA Swap Index	UBS AG, Stamford Branch	Aa3,A+
Investment Derivatives:								
2002D - Basis Swap	Reduce the net borrowing costs associated with the 2002D Certificates	100,000	1/14/2003	6/30/2028	N/A	Pay SIFMA Swap Index less 0.66500%; receive 67% of USD 1-mo LIBOR	Citibank NA	A1,A+
2002D - Basis Swap (CMS)	Reduce the net borrowing costs associated with the 2002D Certificates	100,000	6/30/2007	6/30/2028	N/A	Pay 67% of USD 1-mo LIBOR; receive 59.93% of 10 Year LIBOR	UBS AG, Stamford Branch	Aa3,A+
2002D - Swaption	Hedge against future increase in interest rates	116,555	8/1/2012	8/1/2028	$ 4,240	Pay 4.17%; receive SIFMA Swap Index (if executed)	Citibank NA	A1,A+
2001B - Swaption	Hedge against future increase in interest rates	162,980	8/11/2011	8/1/2025	6,250	Pay 4.59%; receive SIFMA Swap Index (if executed)	Citibank NA	A1,A+
2003B - Barrier option at 7%	Hedge against future increase in interest rates	100,000	6/26/2003	8/1/2018	3,010	Counterparty has right to terminate the 2003B Interest Rate Swap if the 180 day average of the BMA index exceeds 7.0% in the future	UBS AG, Stamford Branch	Aa3,A+

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Risks

Credit Risk. The District is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions on all swap agreements. These terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The District has never failed to access collateral when required.

It is the District's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a 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. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or 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 on its pay-fixed 2002B interest rate swap hedging derivative instrument because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 7 days. As of June 30, 2010, the weighted-average interest rate on the District's hedged variable-rate debt is 0.65 percent, while the 2009-10 fiscal year average of the SIFMA swap index rate is 0.28 percent and 67 percent of LIBOR is 0.18 percent.

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 party's credit rating falls below designated levels. In addition, the District is exposed to termination risk on its 2003B interest rate swap with barrier option because the counterparty has the option to terminate the swap if the 180-day average of the BMA index exceeds 7.0 percent at any time beginning on the commencement date. If at the time of termination, a hedging derivative instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

11. RETIREMENT PLANS

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

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.

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $84,505,584, $84,443,771, and $82,282,051, respectively, which were equal to the required contributions for each fiscal year. There were 23,868 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled $10,353,555.

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.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to the retirement benefits described in Note 11, the District has authorized early retirement incentives to provide financial assistance for the purchase of health and life insurance to our retirees. In all cases, employees who retire from the District may purchase health and life insurance through the District. The retired employee must send a payment each month to cover the cost of the insurance premiums.

For those eligible employees who qualify for the Retirement Incentive Program ("RIP"), below is brief description and eligibility criteria of the Plan:

RIP 1999 – Eligibility criteria include the following:

- 30 years of service with the Palm Beach County School District or
- Age 62 or higher (60 or higher if in the Teachers Retirement System) with at least 10 years of service with the Palm Beach County School District or
- Employees whose age plus years of service equal or exceed 80 and
- Employees must retire between April 21, 1999 and June 30, 2000.

The District pays an annual insurance subsidy for up to ten years beginning at $2,400 and increasing 3 percent each year thereafter. Payments for this subsidy began August 1999 and were paid through August 2009 when the program ended.

The government-wide financial statements recognize a liability for these post-retirement benefits. Consistent with GAAP guidelines, in the governmental funds statements, no expenditure or liability is recognized until the benefits are due. A summary of the total liability and related expenditure as recorded in the governmental funds statements for the fiscal year ended June 30, 2010, is as follows (amounts in thousands):

	Number of Participants	Beginning Balance July 1, 2009	Total Paid FY 2010	Ending Balance June 30, 2010
RIP 99	113	$ 297	$ 297	$ -

The District follows the guidance contained in Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Post Employment Benefits Other than Pensions* (GASB 45), for certain postemployment healthcare benefits provided by the District for the fiscal year ended June 30, 2010.

Plan Description. Pursuant to Section 112.0801, Florida Statutes, the District is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100 percent of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The other postemployment benefits plan (Plan) is a single employer defined benefit plan administered by the District. The Plan does not issue a stand-alone report and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established by, and may be amended through, Board action. The District is financing the postemployment benefits on a pay-as-you-go basis. Expenditures for these insurance premiums are prorated between the General Fund and other funds where the personnel are located. For 2009-10 fiscal year, 1,459 retirees received healthcare benefits. The District provided

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

required contributions of approximately $3.3 million toward the annual OPEB cost. Retiree contributions totaled approximately $7.7 million, which represents .8 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan (amounts in thousands):

Annual Required Contribution	$ 22,346
Interest on Net OPEB Obligation	1,310
Adjustment to Annual Required Contribution	(1,561)
Annual OPEB Cost (Expense)	22,095
Contribution Towards OPEB Cost	(3,284)
Increase in Net OPEB Obligation	18,811
Net OPEB Obligation - Beginning of Year	43,679
Net OPEB Obligation - End of Year	$ 62,490

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, was as follows (amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 22,095	15%	$ 62,490
June 30, 2009	21,760	27%	43,679
June 30, 2008	31,300	11%	27,800

Funded Status and Funding Progress. As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $216.0 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $926.3 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 23.3 percent.

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan 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 plan members to that point. The 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 Projected Unit Cost method (PUC) with benefits attributed from date of hire to expected retirement age was used in the actuarial valuation as of July 1, 2008, and rollforward to July 1, 2009. The unfunded actuarial accrued liability is amortized over the maximum acceptable period of thirty years on an open basis. It is calculated assuming a level dollar percentage. The remaining amortization period at June 30, 2010, is thirty years (open method).

The following assumptions were made:

Retirement Age – Annual retirement probabilities have been determined based on the Florida Retirement System Actuarial Valuation as of July 1, 2008.

Covered Spouses – Assumed number of eligible spouses is based on the current census information.

Per Capita Health Claim Cost – Per capita health claim costs are developed from a combination of historical claim experience and manual claim costs developed using a representative database. The per capita cost at age 60 is $9,186 and $5,292 at age 70.

Age Based Morbidity – The assumed per capita health claim costs are adjusted to reflect expected increases related to age. The increase in per capita heath claim costs related to age range from 3.19 percent to 5.06 percent under age 65 and from 3.00 percent to .05 percent over age 65.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP-2000 Table, applied on a gender specific bases was used.

Healthcare Cost Trend Rate—The expected rate of increase in healthcare insurance premiums was based on District historical experience, marketplace knowledge and macro-economic theory. A rate of 11 percent initially, reduced 0.5 percent each year until reaching the ultimate trend rate of 5.0 percent.

Retiree Contributions – Retiree contributions are assumed to increase with healthcare cost trend.

Non-Claim Expenses – Non-claim expenses are based on the current amounts charged per retired employee.

Termination – The rate of withdrawal for reasons other than death and retirement has been developed from the Florida Retirement System Actuarial Valuation as of July 1, 2008. The annual termination probability is dependent on an employee's age, gender, and years of service.

Plan Participation Percentage – It is assumed that 35 percent of all future retirees and their dependents who are eligible for benefits participate in the post employment benefit plan.

Lapse Rates – Annual postretirement lapse rates of 0.5 percent for pre 65 and 1.0 percent for post 65 retirees were used.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Medicare Part D Prescription Drug Subsidy – Based on GASB Technical Bulletin No. 2006-1, an employer should apply the measurement requirements of GASB Statement 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for RDS payments. For this reason, the Medicare Part D employer subsidy was excluded from this valuation.

Census Data – The census data was provided as of June 2009.

Discount Rate – 3 percent per annum

13. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year (amounts in thousands):

Source	Amount
Categorical Educational Program - Class Size Reduction	$ 194,661
Florida Education Finance Program	62,127
Workforce Development Program	14,598
School Recognition	9,147
Class Size Reduction Construction	8,411
Motor Vehicle License Tax (Capital Outlay and Debt Service)	6,696
Charter School Capital Outlay	3,475
Gross Receipts Tax (Public Education Capital Outlay)	1,964
Voluntary PreKindergarten Program	1,866
Adults with Disabilities	1,010
Food Service Supplement	926
Discretionary Lottery Funds	506
Mobile Home License Tax	269
Miscellaneous	839
Total	$ 306,495

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

14. CONSTRUCTION CONTRACT COMMITMENTS

As part of its capital outlay program, the District has entered into various construction contracts. At June 30, 2010, the District had construction commitments of approximately $60 million. The following is a summary of major construction contract commitments remaining at fiscal year-end (amounts in thousands):

Project	Contract Amount	Completed to Date	Balance Committed
Belle Glade Elementary Classrooms & Pre-K			
Architect	$ 476	$ 447	$ 29
Construction	5,389	4,330	1,059
Boca Raton High School Swimming Pool			
Construction	2,792	791	2,001
CO Taylor/ Kirklane Elementary Modernization			
Architect	1,772	1,718	54
Construction	26,686	25,110	1,576
Manatee Elementary Classrooms for Programs			
Architect	1,051	860	191
Construction	10,273	2,014	8,259
Northboro Elementary Modernization			
Architect	1,936	1,784	152
Construction	24,268	20,946	3,322
Pahokee Elementary			
Construction	1,004	43	961
Pahokee Middle			
Architect	2,061	1,882	179
Construction	28,474	22,702	5,772
Plumosa Elementary SOA at Seacrest Modernization			
Architect	2,070	1,926	144
Construction	23,775	19,299	4,476
Riviera Beach High			
Architect	2,035	46	1,989
Seminole Trails Elementary Classrooms Addition			
Architect	845	690	155
Construction	10,321	7,541	2,780
Suncoast High Replacement			
Architect	3,821	3,426	395
Construction	58,993	55,523	3,470
Everglades Elementary			
Architect	1,822	1,693	129
Construction	18,714	15,356	3,358
Total	$ 228,578	$ 188,127	$ 40,451

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

15. 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	Maintenance Fund	Health Insurance Fund
Total Assets	$ 31,918	$ 6,369	$ 25,549
Liabilities and Net Assets:			
Accounts Payable	$ 289	$ 10	$ 279
Estimated Insurance Claims Payable	13,400	-	13,400
Compensated Absences Payable	5,055	4,960	95
Other Post Employment Benefits Payable	1,419	1,381	38
Net Assets:			
Unrestricted Net Assets	11,755	18	11,737
Total Liabilities and Net Assets	$ 31,918	$ 6,369	$ 25,549
Revenues:			
Premium Contributions	$ 156,199	$ -	$ 156,199
Charges for Services	28,365	28,365	
Other Operating	3,599		3,599
Interest Income	86	35	51
Total Revenues	188,249	28,400	159,849
Total Expenses	(186,910)	(28,354)	(158,556)
Change in Net Assets	$ 1,339	$ 46	$ 1,293

16. COMMITMENTS AND CONTINGENCIES

The District receives funding from the State that is based, in part, on a computation of the number of full time equivalent ("FTE") students enrolled in different types of instructional programs. The accuracy of data compiled by individual schools supporting the FTE count is subject to State audit and, if found to be in error, could result in refunds or in decreases in future funding allocations. It is the opinion of management that the amount of revenue which may be remitted back to the State due to errors in the FTE count or the amount of grant expenditures which may be disallowed by granting agencies, if any, will not be material to the financial position of the District.

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District.

The District is involved in various lawsuits arising in the ordinary course of operations. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with legal counsel that the final settlements of these matters will not result in a material adverse effect on the financial position of the District.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

17. SUBSEQUENT EVENTS

On September 21, 2010, the District issued Tax Anticipation Notes ("TANS") Series 2010. This $115.0 million issue was sold at a coupon rate of 1.50 percent with an effective yield of .25 percent. The notes are dated October 5, 2010, and are due January 14, 2011.

On October 14, 2010, the Florida Department of Education issued State Board of Education Capital Outlay Bonds, 2010 Series A (COBI 2010A). This $9.7 million issue was sold at coupon rates ranging between 3.0 percent and 4.0 percent. The COBI 2010A bonds are due on January 1, 2030.

On November 3, 2010, the District issued Certificate of Participation Qualified School Construction Bond ("QSCB"), Series 2010. This $67.7 million issue was sold at a coupon rate and effective yield of 5.40 percent. The notes are dated November 15, 2010, and are due August 1, 2025.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	$ 926,658	$ 929,514	$ 929,514	$ 2,856	$
State sources	274,100	284,919	284,919	10,819	
Federal sources	4,399	5,935	5,935	1,536	
TOTAL REVENUES	1,205,157	1,220,368	1,220,368	15,211	
EXPENDITURES:					
Instruction	854,472	866,283	846,488	(11,811)	19,795
Instructional support services	96,780	94,619	89,445	2,161	5,174
Board	7,990	7,114	5,620	876	1,494
General administration	7,289	7,647	7,364	(358)	283
School administration	93,144	93,350	93,247	(206)	103
Facilities acquisition and construction	924	1,530	1,213	(606)	317
Fiscal services	6,805	7,012	6,198	(207)	814
Central services	15,295	16,376	14,317	(1,081)	2,059
Pupil transportation services	36,594	39,442	39,621	(2,848)	(179)
Operation of plant	98,994	103,597	97,645	(4,603)	5,952
Maintenance of plant	66,519	68,105	61,679	(1,586)	6,426
Administrative technology services	9,918	10,001	9,538	(83)	463
Community services	35,700	36,615	27,932	(915)	8,683
Capital outlay			1,537		(1,537)
Debt service	2,133	486	486	1,647	
TOTAL EXPENDITURES	1,332,557	1,352,177	1,302,330	(19,620)	49,847
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(127,400)	(131,809)	(81,962)	(4,409)	49,847
OTHER FINANCING SOURCES:					
Transfers in	79,357	79,693	79,693	336	
Proceeds from loss recoveries		4,073	4,073	4,073	
TOTAL OTHER FINANCING SOURCES	79,357	83,766	83,766	4,409	
NET CHANGE IN FUND BALANCE	$ (48,043)	$ (48,043)	$ 1,804	$ 0	$ 49,847
FUND BALANCE, JULY 1, 2009 (GAAP BASIS)			92,412		
FUND BALANCE, JUNE 30, 2010 (BUDGETARY BASIS)			94,216		
Adjustment To Conform With GAAP:					
Elimination of encumbrances			2,816		
FUND BALANCE, JUNE 30, 2010 (GAAP BASIS)			$ 97,032		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
SPECIAL REVENUE FUND - ARRA ECONOMIC STIMULUS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Federal sources	$ 132,346	$ 137,984	$ 98,964	$ 5,638	$ (39,020)
TOTAL REVENUES	132,346	137,984	98,964	5,638	(39,020)
EXPENDITURES:					
Instruction	29,907	33,662	16,636	(3,755)	17,026
Instructional support services	58,132	60,971	40,104	(2,839)	20,867
General administration	2,077	4,227	3,129	(2,150)	1,098
School administration	966	924	924	42	
Fiscal services		14	11	(14)	3
Food services	40	142	5	(102)	137
Central services	257	245	237	12	8
Pupil transportation services	4,745	3,412	3,168	1,333	244
Operation of plant	36,222	34,262	34,262	1,960	
Community services		125	125	(125)	
Capital outlay			363		(363)
TOTAL EXPENDITURES	132,346	137,984	98,964	(5,638)	39,020
EXCESS OF REVENUES OVER EXPENDITURES					
NET CHANGE IN FUND BALANCE	$ 0	$ 0		$ 0	$ 0
FUND BALANCE, JULY 1, 2009 (GAAP BASIS)					
FUND BALANCE, JUNE 30, 2010 (BUDGETARY BASIS)					
Adjustment To Conform With GAAP:					
Elimination of encumbrances					
FUND BALANCE, JUNE 30, 2010 (GAAP BASIS)			$ 0		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (in thousands) (b)	Unfunded AAL (UAAL) (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
July 1, 2008	$ 0	$ 216,013	$ 216,013	0.0%	$ 926,287	23.3%
June 30, 2008	0	239,500	239,500	0.0%	930,821	25.7%

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

1. GAAP TO BUDGET COMPARISON

The budget is adopted on a basis consistent with GAAP, except for encumbrances. The budgetary process includes encumbrances in the current year budget. General Fund encumbrances are reported as expenditures in the budgetary basis of accounting.

Functional Expenditures:	Schedule	Statement	Difference
Instruction	$ 846,488	$ 845,920	$ 568
Instructional support services	89,445	88,912	533
Board	5,620	5,579	41
General administration	7,364	7,364	-
School administration	93,247	93,238	9
Facilities acquisition and construction	1,213	999	214
Fiscal services	6,198	6,192	6
Central services	14,317	14,220	97
Pupil transportation services	39,621	39,332	289
Operation of plant	97,645	97,615	30
Maintenance of plant	61,679	60,702	977
Administrative technology services	9,538	9,533	5
Community services	27,932	27,885	47
Capital outlay	1,537	1,537	-
Debt service	486	486	-
	$ 1,302,330	$ 1,299,514	$ 2,816

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

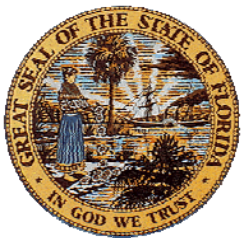
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 8,876,817	$
National School Lunch Program	10.555	300	30,119,611	
Summer Food Service Program for Children	10.559	323, 325	1,240,227	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	2,584,438	
Summer Food Service Program for Children	10.559 (2)	None	169,089	
Total Child Nutrition Cluster			42,990,182	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	38,944	
Total United States Department of Agriculture			43,029,126	
United States Department of Justice:				
Direct:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	301,506	
Bulletproof Vest Partnership Program	16.607	N/A	9,836	
Total United States Department of Justice			311,342	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	7,002	
Magnet Schools Assistance Grant	84.165	N/A	2,957,855	
Safe and Drug Free Schools and Communities - National Program	84.184	N/A	433,401	
Fund for the Improvement of Education	84.215	N/A	2,540,761	
Advanced Placement Program	84.330	N/A	652,564	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	37,086,074	2,010,421
Special Education - Preschool Grants	84.173	266, 267	927,588	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	22,409,846	46,631
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	617,270	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	7,099	
Total Special Education Cluster			61,047,877	2,057,052
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	40,897,462	734,330
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	9,431,356	60,681
Total Title I, Part A Cluster			50,328,818	795,011
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	102,962	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	45,965	
Total Education for Homeless Children and Youth Cluster			148,927	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	349,960	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	653,803	9,654
Total Educational Technology State Grants Cluster			1,003,763	9,654

PALM BEACH 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):				
Indirect (Continued):				
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	$ 59,368,040	$
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	6,398,866	153,290
Total State Stabilization Fund Cluster			65,766,906	153,290
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	1,819,784	
Migrant Education - State Grant Program	84.011	217	1,881,257	
Career and Technical Education - Basic Grants to States	84.048	151	1,738,416	2,918
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	561,654	
Charter Schools	84.282	298	187,500	187,500
Reading First State Grants	84.357	211	10,135	
Voluntary Public School Choice	84.361	299	342,871	55,633
English Language Acquisition Grants	84.365	102	2,228,454	
Improving Teacher Quality State Grants	84.367	224	7,503,128	
School Improvement Grants	84.377	126	284,537	19,092
Total Indirect			194,854,027	3,280,150.00
Total United States Department of Education			201,445,610	3,280,150.00
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	292,545	
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	LK902	649,266	
Refugee and Entrant Assistance - Discretionary Grants	93.576	LK902	643,732	61,689
Florida Department of Education:				
Refugee and Entrant Assistance - Discretionary Grants	93.576	137	277,071	
Head Start Cluster:				
Palm Beach County Board of County Commissioners:				
Head Start	93.600	04CH3046/003/2009	714,836	
ARRA - Head Start	93.708	04CH3046/003/2009	29,662	
Total Head Start Cluster			744,498	
Total United States Department of Health and Human Services			2,607,112	61,689
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	5,394	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	181,898	
Homeland Security Grant Program	97.067	532	30,708	
Total Department of Homeland Security			212,606	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	755,459	
Total Expenditures of Federal Awards			$ 248,366,649	$ 3,341,839

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

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



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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 Palm Beach 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 Palm Beach 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*.

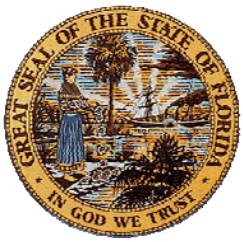
We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

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 23, 2011



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

Compliance

We have audited the Palm Beach 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered 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 23, 2011

PALM BEACH 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 a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	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); 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

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

ADDITIONAL MATTERS

Finding No. 1: Arbitrage

Arbitrage earnings occur when a governmental entity issues tax-exempt debt and uses the proceeds to make investments that have a higher rate of return than the interest cost paid on the debt. Section 148, Title 26, United States Code (USC), requires that arbitrage be calculated and rebated at the end of each five-year period that tax-exempt debt is outstanding, and at maturity. In addition, the USC allows the Internal Revenue Service to assess penalties for late arbitrage rebate payments.

The District engaged a consultant to perform the required arbitrage calculations for 17 Certificates of Participation (COP) issued from March 2002 to October 2007, and the consultant determined that the District had an estimated arbitrage rebate liability at June 30, 2010, for five COP issues totaling $4,525,000. Although the District owed no arbitrage rebate payments for three of the five COP issues, the consultant determined that payments totaling $697,000 and $980,000, respectively, were delinquent for two of the issues based on computation dates of March 2008 and August 2010 for the 2007B (original COPs remarketed and matured in March 2008) and 2005B COP issues, respectively. Payments on the two issues were made on December 17, 2010, or over 32 months late for the 2007B issue and 4 months late for the 2005B issue. These two payments included interest assessments of $9,900 and $108,400, respectively, for not timely making the arbitrage rebate payments.

The late arbitrage payments occurred, in part, because the District did not maintain a cumulative record setting forth each of its 17 outstanding debt issues that were subject to arbitrage rebate and related information, such as when the last calculation was made and when the next calculation is due. Sufficiently monitoring Federal arbitrage requirements may help the District avoid potential penalty and interest payments to the IRS.

Recommendation: The District should establish procedures to closely monitor the tax-exempt debt issues for potential arbitrage liability and related payments, and ensure arbitrage calculations are performed timely to avoid late interest and penalty payments.

Finding No. 2: Purchasing Cards

To expedite the purchase of selected goods and services, the District used purchasing cards in certain situations. The District assigned purchasing cards to approximately 1,300 employees, and incurred total purchasing card expenditures of approximately $13.4 million during the 2009-10 fiscal year. The District appointed a District card administrator to oversee purchasing card expenditures on a District level, and a site administrator to approve purchasing card expenditures at each site, collect supporting correspondence to support the charges from cardholders, obtain supervisory approval of the expenditures, and submit the supporting correspondence to the District administrator. The District's purchasing card manual addressed management controls over purchasing cards.

As a control measure, the District placed monthly dollar purchasing limits on the purchasing cards, and most purchasing cards had single transaction purchasing limits less than $1,000, and monthly limits were originally set based on employee position. The District's purchasing manual required terminating employees to submit their purchasing cards to the District card administrator and also required supervisory approval of purchasing card expenditures. District personnel indicated that supervisors could request temporary increases to the monthly and daily limits established for their employees if purchases were for District purposes. On a semi-annual basis, the District card administrator notified all supervisors of active purchasing cardholders of the cardholder's current limits for verification that the account status and limits were appropriate. However, our review of purchasing card procedures and transactions disclosed that purchasing card controls could be enhanced, as follows:

- Our review of cardholder limits for 10 employees from August 2009 through June 2010 disclosed 4 employees with card limits that appeared excessive based on the employee's actual card use, as shown in the table below:

Cardholder	Monthly Limit	Highest Monthly Charge	Lowest Monthly Charge	Average Monthly Charge
Exceptional Student Education Director	$ 60,000	$ 35,717	$ 7,945	$ 19,545
Budget Analyst	30,000	20,715	0	6,488
Senior Budget Technician	25,000	8,306	888	4,206
Director of Recruitment	15,000	8,541	60	2,507

  In addition, District personnel did not perform an actual use analysis to determine the reasonableness of the monthly limits. Without effective controls to monitor the reasonableness of purchasing card credit limits, the risk of unauthorized use is increased.

- The purchasing card manual did not establish procedures to document the dates of card cancellation or destruction for terminating employees. Also, seven purchasing cardholders terminated employment with the District during the 2009-10 fiscal year; however:

  - The District did not cancel one card until 98 days after the employee's termination date. Although the employee submitted the card to the site purchasing card administrator, the District administrator responsible for cancelling the card was not notified until the District performed its semiannual verification procedures.
  - The District reduced one terminating employee's card limit to $1 in the District's accounting system within a couple of days after termination; however, because of oversight, the bank was not notified to cancel the account until 79 days after the limit was reduced.

  While there were no transactions on the accounts subsequent to the termination dates, untimely cancellation of procurement card accounts and lack of evidence that the cards for terminated employees were destroyed, increases the risk of unauthorized purchasing card use.

Recommendation: The District should enhance its purchasing card controls to ensure that the review of the reasonableness of purchasing card credit limits is done frequently and that purchasing card accounts are timely cancelled, and cards destroyed, for terminated employees.

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 pursuant to Board Policy 6Gx50, Section 3.302(3), based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional personnel and school administrators employees based on student performance. While employee performance appraisal forms included student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessments nor that student performance was the primary factor for the overall evaluation rating. 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 personnel and school administrators 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)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and 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.

Board Policy 6Gx50 provides for salary supplements for personnel based on performance; however, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be

used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedules and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. Pursuant to Board Policy, instructional personnel who demonstrated outstanding performance were to be provided a supplement of 5 percent of their annual salary. However, during the 2009-10 fiscal year, no outstanding performance supplements were provided to instructional personnel. As such, District records did not evidence that a reasonable attempt was made to ensure that a portion of each instructional personnel's compensation was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes.

  The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the normal work day, such as supplements for athletic coaches and band directors. In addition, the District provided differentiated pay for school demographics of the Glades area, an economically disadvantaged area; for level of job performance difficulties of vocational instructors, school psychologist, audiologist, and other specific instructors; and for critical shortage areas of autism, biology, chemistry, and visually-impaired students. However, District records did not sufficiently evidence consideration of differentiated pay based on critical shortage areas for instructional personnel. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

- **School-based Administrators**. The salary schedule for school-based administrators reasonably provided differentiated pay for additional responsibilities such as mentoring and beacon programs, school demographics (Glades Area), and level of performance difficulties based on the student enrollment of the school. For example, high school principals at schools with more than 700 students are in a higher pay scale than those high school principals with 700 students or less. 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 for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and that the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 5: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not more than 1.5 mills for capital outlay purposes. This section also provides the allowable uses of capital outlay tax levy proceeds, which includes funding new construction and remodeling projects; and the maintenance, renovation, and repair of existing school plants. The section further allows use of these proceeds to purchase enterprise resource software applications classified as capital assets that have a useful life of at least 5 years and are used to support districtwide administration or State-mandated reporting requirements. The District accounts for the capital outlay tax levy proceeds in the Capital Projects - Local Capital Improvement (LCI) Fund.

District records indicated that the District used capital outlay tax levy proceeds totaling approximately $296 million for the 2009-10 fiscal year, including reimbursements from the LCI Fund to the General Fund for costs associated with the District's information technology departments. Our review disclosed that the District generally used capital outlay tax levy proceeds consistent with the statutory requirements. While the District could use capital outlay millage proceeds to purchase enterprise resource software applications classified as capital assets, District records did not initially evidence that the use of these proceeds for information technology (IT) departments was consistent with Section 1011.71(2), Florida Statutes, resulting in $7.19 million of questioned costs, as follows:

Description	Questioned Costs
Salaries and Benefits (1)	$ 5,687,000
Purchased Services (2)	1,423,000
Materials, Supplies, and Other Miscellaneous Costs (3)	80,000
Total Questioned Costs	$ 7,190,000

Notes:

(1) Salaries and benefits expenditures for managers, secretaries, and support specialists in the District's Chief Information Office, Infrastructure/Systems Support, Application Support/Quality Assurance, Technical Operations, IT Governance, and Project Management IT Departments.

(2) Repairs, maintenance, travel, and communication costs of the IT Departments.

(3) Amounts paid for items of an expendable nature for the IT Departments.

Without adequate controls to ensure that capital outlay tax levy proceeds are expended for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions. Section 1011.71(6), Florida Statutes, provides that a school district that violates the expenditure restrictions of Section 1011.71, Florida Statutes, shall have an equal dollar reduction in Florida Education Finance Program funds appropriated to the school district in the fiscal year following the audit citation.

Subsequent to delivery of our preliminary and tentative findings, the District provided documentation evidencing that the District had other General Fund expenditures exceeding the initial questioned costs above that are allowable uses of capital outlay tax levy proceeds, such as capital outlay purchases, contracted transportation services, and copier rentals.

Recommendation: The District should enhance its procedures to ensure that District records evidence that capital outlay tax levy proceeds are expended only for authorized purposes.

Finding No. 6: Cash Collections

The District received the majority of its revenues by wire transfers, and some miscellaneous revenues by checks at the District office and certain decentralized locations. Our review of collection procedures at Early Childhood Education and Safety and Learning Departments, with collections of $757,000 and $285,000, respectively, during the 2009-10 fiscal year, disclosed that school personnel did not restrictively endorse checks upon receipt to limit negotiability in case of loss or theft, and transfer documents were not always used to document the transfer of collections between employees. In addition, at the District office, the accounting services department mail opener provided collections to

the accounts payable clerk, who recorded the collections, without use of transfer documents. Transfer documents fix responsibility should loss or theft of collections occur. A similar finding was noted in audit report No. 2008-156.

Recommendation: The District should strengthen procedures to ensure that checks are restrictively endorsed upon receipt and responsibility for collections is established for transfers among employees.

Finding No. 7: Educational Facilities – Safety Procedures

Section 1013.12, Florida Statutes, and the Florida Department of Education publication *State Requirements for Educational Facilities - 2007*, Section 4.4 (*SREF*), requires that the District annually provide for an inspection of each educational and ancillary plant to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. Further, the *SREF* requires annual fire safety inspections of District facilities by persons certified by the Division of State Fire Marshal.

District records indicated that the District provided for the required inspections of its facilities during the 2009-10 fiscal year. The inspector's report for each facility recorded information for the noted deficiencies, such as: building and room number, type and description of deficiency, number of times previously cited, and corrective action date. Our review of the inspection reports for 10 facilities for the 2009-10 fiscal year disclosed that the District had corrected many deficiencies cited in the 2008-09 fiscal year inspection reports; however, we noted that 44 percent of the deficiencies (98 out of 223) were previously cited, ranging from 1 to 14 years. Examples of these deficiencies included the lack of fire-rated doors and frames (14 times) and lack of verification whether the fire alarm will initiate the gas shut off (13 times). Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy, and could result in additional costs in the future due to further deterioration. Similar findings were noted in previous audits, most recently in our report No. 2008-156.

In addition, Section 1013.13, Florida Statutes, requires that the Superintendent, by October 1 each year, provide a copy of the District's educational facility floor plans and other relevant documents for facilities modified during the preceding year to the local law enforcement agencies and fire departments that have jurisdiction over each educational facility. The District's school police are responsible for delivering the floor plans to the applicable law enforcement agencies and fire departments. However, we noted that the floor plans of 10 schools that were opened or modified during the 2008-09 fiscal year, were not delivered to the appropriate law enforcement agencies and fire departments until after our inquiries in March and April 2010, approximately six to seven months late. Should these agencies need access to District facilities, notification of floor plan information may be critically important.

Recommendation: The District should continue its efforts to ensure the timely correction of facility deficiencies, and delivery of floor plans to local law enforcement agencies and fire departments.

Finding No. 8: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided

by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

For the 2009-10 academic year, the District reported 4,210,166 adult general education contact hours for 21,113 students to FDOE. To determine the propriety of the amounts reported to FDOE, we tested District records for 20 students enrolled in 45 adult general education classes. Our test disclosed that of the 2,876 hours reported for the students in our test, 217 hours or 7.5 percent were overreported, as follows:

- The attendance rosters for two students indicated that the students never attended class, and the District was unable to provide an attendance roster to support a third student's attendance. Therefore, the District did not maintain documentation to support a total of 158 hours reported for three classes for these students.
- District records for three other students enrolled in five classes disclosed that based on enrollment and withdrawal dates, the District overreported 59 hours because of clerical errors.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to FDOE. The District should also contact FDOE for resolution of the misreported hours.

Finding No. 9: Cellular Telephones

The District provided cellular telephones (cell phones) to certain employees for use in performing their duties. According to District's records, over 1,600 cell phones were used during the 2009-10 fiscal year at a cost of approximately $700,000. District records also indicated e-rate reimbursements, totaling approximately $463,000, for telecommunication charges.

The Board adopted a resolution in July 2009, limiting the issuance of cell phones, personal digital assistants (PDAs) and other wireless devices to those who require them for their duties, and the District deactivated 46 devices from March 2010 to May 2010 in an effort to limit such use. The policy also provides that every cell phone issued must be approved by the employee's Director-level supervisor and justified as reasonably necessary for the employee's responsibilities. District Policy 3.29(3) requires employees to review phone bills, identify all personal calls, and reimburse the District for any additional costs incurred; Director-level supervisors, or designee, to periodically monitor and approve bill and call details; and cell phones be on the most cost-effective plan available for performing District business. To monitor cell phone use, the District requires cell phone users to complete a cell phone use statement (statement) to document the user's personal calls and reimbursements to the District. We judgmentally selected 15 monthly cell phone bills and related statements to determine if District controls were designed properly and operating effectively to monitor cell phone use, and noted the following:

- Statements did not include a supervisory approval and signature line to evidence that cell phone use was reviewed and approved, nor had the District otherwise documented supervisory review and approval of the cell phone bills we selected.
- One statement included a written note that personal calls were made but did not indicate the amount related to those calls and no reimbursement was made to the District. Total charges relating to this bill were approximately $120, although District records did not evidence the extent to which the personal calls resulted in additional costs to the District. Also, two statements were dated 185 days after the cell phone bill date, decreasing the usefulness of the statements. In addition, no statements were on file for three bills, as follows:

- For one bill, no statement was on file for a cell phone assigned to the school police department. The District typically redacts cell phone bill information relating to police investigations and the administrative services director was responsible for reviewing all cell phone bills assigned to this department; however, District records did not evidence the director's review nor whether cell phone users identified personal calls on the bills.
- For two bills, correspondence indicated that the employee's cell phone had been stolen in mid August 2009, and the cell phone was not reported as stolen until early October 2009, upon review of the September billing by the employee. The bill included a $448 charge for 4,482 unauthorized text messages. The District cancelled the cell phone service, and was subsequently credited for a portion of the unauthorized charges; however, due to the delay in reporting the theft, the District incurred a cost of $521 for net charges on the stolen cell phone for the period between the dates it was stolen and the service was cancelled.

➢ For eight bills, we noted per usage charges for texting totaling $822; however, if the District had determined that texting was necessary and placed these phones on an unlimited texting plan the charges incurred would have only been $40 ($5 per month per phone), for a savings of $782 relating to the bills reviewed.

Without adequate monitoring procedures to verify the proper use of cell phones, the risk of unauthorized or excess charges to the District is increased.

Recommendation: The District should improve its monitoring procedures to ensure that cell phone use is in accordance with its policies and procedures. The District should also ensure that the most economic rate plan is selected for each cell phone commensurate with the cell phone's usage and, in doing so, assess the need for the plan to provide for texting.

Finding No. 10: Information Technology – District Security Management Program

An entitywide program for security planning and management is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. The program establishes a framework and continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Principles that help ensure that information security policies address current risks include performing a periodic risk assessment to determine needs, implementing appropriate security policies and controls to mitigate identified risks, promoting security awareness, and monitoring the effectiveness of the policies and controls.

As similarly noted in our report No. 2008-156, some aspects of the District's entitywide information technology (IT) security management program needed improvement. Specifically:

➢ The District had not performed a risk assessment identifying and documenting the IT systems and resources, vulnerabilities and exposures, policies and control measures, and management's signed acceptance of the unmitigated risks.

➢ The District did not have written IT security policies and procedures for the following areas: new user access; employee transfers and the associated access changes; operations; system administration; definition, proper storage, handling, transmission, and use of sensitive and confidential District data; and reporting suspected, and responding to actual, security incidents.

➢ Although District IT security personnel distributed various e-mails and brochures to keep users informed of security issues, a formal ongoing security awareness program had not been developed. The District had developed an *IT User Standards and Guidelines Manual* to inform users of IT security issues; however, the manual had not been distributed to the users. As a result, the District had not obtained user written acknowledgement that the users had read, understood, and agreed to be bound by the terms and conditions within the manual.

Without a well-designed IT security management program, controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. This increases the risk that sensitive or critical IT resources will not be sufficiently protected.

Recommendation: The District should continue its development of an entitywide IT security management program. A risk assessment should be the starting point for identifying risks and determining the District's needs. Appropriate policies, procedures, and controls should be implemented to mitigate the identified risks and support the confidentiality, integrity, and availability of information resources. Management should also promote security awareness through adequate training programs.

Finding No. 11: Information Technology – PeopleSoft Application Access Controls

Access controls are intended to protect data and IT resources from improper disclosure, modification, or destruction. We noted certain District access controls related to the PeopleSoft application that needed improvement, as described below:

- As similarly noted in our report No. 2008-156, the District did not timely remove the access capabilities of some former employees. Our test of access privileges to the PeopleSoft application for 24 employees who had terminated employment during the 2009-10 fiscal year disclosed 13 user accounts for former employees that remained in an active status on the finance module security file for between 14 and 265 days after the employee termination dates. We also noted 1 user account for a former employee that remained in an active status on the human resources module security file for 14 days after the employee termination date. Additionally, during other test procedures, we discovered that a former employee who terminated employment in 2007, still had an active account. In response to our inquiry, District management indicated that an error was discovered in the nightly process that removes access of terminated employees, and a new nightly process was implemented on July 1, 2010. District management indicated that they will begin a cleanup effort to locate and lock the active accounts of former employees.
- As similarly noted in our report No. 2008-156, the District granted excessive superuser access privileges to some users. We are not disclosing specific details of the issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District personnel of this issue.
- The access privileges of some PeopleSoft application users were unnecessary or contrary to an appropriate separation of duties. Specifically, 5 user identification codes (IDs) within the PeopleSoft finance module and 24 user IDs within the PeopleSoft human resources module had been assigned excessive access privileges that were contrary to an appropriate separation of duties. For example, within the PeopleSoft human resources module, we noted that the 24 users had the capability to add an employee and update salary rates. In addition to these capabilities, 21 of the 24 users were also able to initiate the payroll payment process. Without an appropriate separation of duties, there is an increased risk that unauthorized salary payments will be processed and not detected in a timely manner. We also noted that, within the PeopleSoft human resources module, 234 user IDs had the capability to add an employee record and 283 user IDs had the capability to update a salary record. This appeared to be an excessive number of users to perform these sensitive functions. In response to our inquiry, District management acknowledged that the access privileges were not necessary for these individuals to perform their job functions.
- Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their job functions. The District had begun the process of reviewing PeopleSoft security roles and the appropriateness of user access privileges associated with the roles, but had not completed the review as of January 2011.
- Although the District had enabled the auditing (logging) function within PeopleSoft for selected data fields, logging of security event monitoring had not been enabled, thus security monitoring was not being performed.

- Effective access controls include limiting physical access to the computer room. As similarly noted in our report No. 2008-156, 79 people had keycard access to the front lobby of the District computer room, including law enforcement officers. This appeared to be an excessive number of people with access to the computer room.

The District had compensating controls in place (e.g., separation of the duties on initiating and approving purchases, adding and updating vendors, and payroll updating and processing; department supervisor monitoring of budget and actual expenditures) to mitigate some of the risks relating to the areas needing improvement as noted above. However, the access privileges either permitted the employees to perform incompatible duties or the access privileges were not necessary for their job functions, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should complete its cleanup of the security files as soon as possible, including implementing a timely account termination procedure and a more restrictive access policy. In addition, the District should complete its review of the appropriateness of PeopleSoft security roles and associated user access privileges and reperform the review on a periodic basis. To monitor PeopleSoft security, the District should log and monitor PeopleSoft security events. The District should also evaluate personnel with physical access to the computer room and limit the access to only those who need it to perform their job functions.

Finding No. 12: Information Technology – Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication and network administrator access that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Similar issues regarding user authentication were noted in our report No. 2008-156. Without adequate security controls related to user authentication and network administrator access, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve its security controls related to user authentication and network administrator access to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Matching, Level of Effort, and Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of local funds or the combined State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain

reasons such as departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

The District did not have procedures to monitor its compliance with the maintenance of effort requirements during the 2009-10 fiscal year. Our initial review of State and local expenditures for special education services indicated that the District may not have complied with maintenance of effort requirements, either in total or average per capita. Subsequent to delivery of our preliminary and tentative findings, the District, on March 23, 2011, provided an alternate calculation using methodology developed by the grantor, Florida Department of Education (FDOE), which attempted to separate special education services funded from local funds from services funded with combined State and local resources. Preliminary results indicated that the District expended $211,889,070 of local funds for special education services in the 2009-10 fiscal year, exceeding the $208,573,496 of local funds expended in the 2008-09 fiscal year. However, as of March 23, 2011, FDOE had not formally approved the District's calculations as demonstrating compliance with the maintenance of effort provisions. Additionally, insofar as these calculations were not performed until approximately nine months after the end of the 2009-10 fiscal year, it is not apparent how District staff effectively monitored its compliance with the requirements during the fiscal year. Without procedures to monitor applicable maintenance of effort requirements, the risk increases that local funds will not be properly allocated and expended for special education services.

Recommendation: The District should establish controls over local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should request the FDOE to formally review its 2009-10 fiscal year calculations to determine whether the District complied with the Federal maintenance of effort requirement.

Contact Person: Heather Knust, Director of Accounting Services

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Cluster (CFDA Nos. 84.010 and 84.389-ARRA)
Finding Type: Noncompliance
Questioned Costs: Not applicable

Special Tests and Provisions - Private School Participation. Pursuant to Section 9501 of the Elementary and Secondary Education Act (ESEA), a local educational agency grantee is required to engage in timely and meaningful consultation with private school officials during the design and development of specified programs and to make such educational services or other benefits available to private school students and educational personnel. Section 9501 of the ESEA further provides that consultation with private school officials shall include such issues as how the children's needs will be identified; what services will be offered; how, where, and by whom the services will be provided; how the services will be assessed and how the results of the assessment will be used to improve those services; the size and scope of services to be provided; as well as other decisions about delivery of services.

District personnel indicated that they contacted all the private schools regarding participation in Title I programs prior to receiving notification of the availability of ARRA funds. When District personnel learned of the availability of ARRA funds, they held meetings with private school officials that already expressed interest in participating in these programs, but did not send out any notices to those private schools who initially did not ask to participate. Without notifying private school officials of available Federal funding, there is a possibility that the views of private school officials regarding participation in Federal programs may change or new officials may desire their schools to

participate, and students attending those schools may not receive services from Federal grants received by the District.

Recommendation: The District should continue its efforts to ensure that private schools are provided the opportunity to participate in all Federally-funded programs.

Contact Person: Sherrie Hall, Audit Compliance Specialist

OTHER MATTERS

The Board contracted with an independent accounting firm to investigate alleged misconduct involving employee compensation, benefits, compliance with leave policies, and other matters primarily relating to the former chief academic officer. Final resolution of the investigation was pending as of March 2011. The investigation is expected to be completed by April 30, 2011.

PRIOR AUDIT FOLLOW-UP

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

PALM BEACH 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)/Eligibility	The District needed to enhance its review procedures over free and reduced meals eligibility determinations.	Corrected.	

EXHIBIT A

MANAGEMENT'S RESPONSE

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

SUPERINTENDENT'S OFFICE
3340 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406-5869

(561) 434-8200 FAX: (561) 434-8571

WILLIAM F. MALONE
ACTING SUPERINTENDENT

FRANK A. BARBIERI, JR., ESQ.
CHAIRMAN

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VICE CHAIRMAN

MARCIA ANDREWS
MONROE BENAIM, M.D.
KAREN M. BRILL
JENNIFER PRIOR BROWN, ESQ.
CHUCK SHAW

March 23, 2011

David W. Martin
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Fl 32399-1450

Mr. Martin,

Enclosed is our response to the preliminary and tentative audit findings and recommendations on our financial, Federal, and operational audit for the fiscal year ended June 30, 2010 dated February 21, 2011. Pursuant to Section 11.45(4)(d), Florida Statute, the District is required to respond within 30 days of receipt which is March 23, 2011. As requested, our written statement of explanation is submitted electronically in source format with my digitized signature.

Sincerely,

William F. Malone
Acting Superintendent

Attachment

cc:
Judy Klinek, Chief Academic Officer
Joseph Moore, Chief Operating Officer
Michael Burke, Chief Financial Officer
Heather Knust, Director of Accounting

PALM BEACH COUNTY SCHOOLS - RATED "A" BY THE FLORIDA DEPARTMENT OF EDUCATION – 2005 - 2010
"HOME OF FLORIDA'S FIRST LEED GOLD CERTIFIED SCHOOL"
WWW.PALMBEACHSCHOOLS.ORG
The School District of Palm Beach County is an Equal Education Opportunity Provider and Employer

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 1:

The District did not timely calculate the amount owed to the Internal Revenue Service for arbitrage, resulting in $118,300 of interest charges for delinquent arbitrage payments.

Management Response:

The District's Investment Advisor is contracted to perform all arbitrage calculations. In addition, the Investment Advisor prepared a detailed schedule of all outstanding debt including the issue date, computation date, payment due date and liability. Management has added additional procedures to ensure that the calculations are performed timely in the future.

Finding No. 2:

The District needed to enhance its purchasing card controls.

Management Response:

We agree to add an additional management control to ensure that purchasing card limits are in line with usage no less than once per year and to ensure that purchasing card accounts are timely cancelled for terminated employees.

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.

Management Response:

The School District of Palm Beach is currently addressing the changes needed in both the teachers' evaluation and the school administrators' evaluation. As recently as the week of March 7, several members of the District's evaluation process committee attended the State sponsored Learning Sciences International Evaluation Academies to learn more of what the State DOE is requiring in the evaluation. It is our intent (as indicated by the most recent School Board Meeting) to replace the current evaluations for both groups with evaluations that weight student achievement as the primary measure.

Finding No. 4:

The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Management Response:

On February 28, 2003, the District adopted Policy 3.302 Performance Pay for School Administrators and Instructional Personnel specifically pursuant to Fla. Stat. 1012.22(1)(c)4 to, as stated in the Policy, "furnish incentives . . . . with the goal of promoting learning gains of students in such employees classrooms or schools". Subsequently, the District has made payments, based on student achievement, to school-based administrators and instructional personnel in the years following the adoption of Policy 3.302 as dictated by the availability of funding. As noted in the Audit Finding, the District has not provided these payments to instructional or school based administrative personnel in recent years, however the lack of such payment is due to continued limitations in available funding.

Regarding differentiated pay opportunities for instructional personnel, the Audit finding notes that while the District provides differentiated pay opportunities for instructional personnel though various means, the district could improve by ensuring "documentation ... include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel." The District concurs with such recommendation and will strive to improve such documentation as we align our processes and practices with state statute with particular attention to proposed legislative revisions coming out of the 2011 session.

Regarding differentiated pay opportunities for school-based administrators, the Audit finding states the District "reasonably provided differentiated pay for additional responsibilities such as mentoring and beacon programs, school demographics (Glades Area), and level of performance difficulties based on the student enrollment of the school.....However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators". In response, the District offers for consideration that our school complexity calculation is designed as a "differentiated pay opportunity" to attract and retain employees to the more challenging and critical school assignments taking into account a myriad of factors in addition to merely school enrollment, such as socio-economic status (FRL) and level of community activities. This complexity formula was designed to attract school based administrators to our more challenging assignments and critical shortage areas for administrators. The complexity formula design has been successful for the District and has been the subject of independent education studies which have highlighted the innovative approach and success in attracting and retaining school based administrators to more critical assignments.

Finding No. 5:

District records did not initially evidence that the use of all capital outlay tax levy moneys were consistent with Section 1011.71(2), Florida Statutes.

Management Response:

The District is currently working with the Florida Department of Education to verify costs for information technology (IT) departments i.e. ERP System, Infrastructure/Systems Support, Application Support, Technical Operations and Project Management Office which maintain the District's IT infrastructure are allowable expenditures under Florida Statute Section 1011.71. The District provided additional costs deemed allowable under section 1011.71 over and above the costs in question.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 6:

Controls over miscellaneous cash collections could be enhanced.

Management Controls:

The Accounting department has reinforced that checks must be restrictively endorsed upon receipt and implemented procedures to have the mail opener log the collections to eliminate the need for a transfer document.

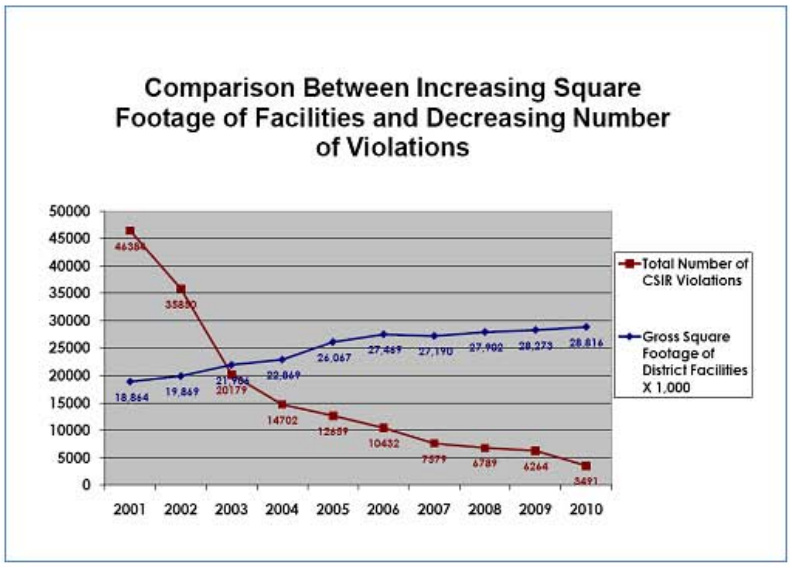
Finding No. 7:

Deficiencies noted on the annual safety inspection reports were not always timely corrected, and floor plans were not always timely delivered to law enforcement agencies and fire departments.

Management Response:

Management concurs that while many the deficiencies cited in the 2008-09 reports were corrected, some still remained uncorrected for reasons indicated in the previous response.

As indicated in the chart below, the District has reduced deficiencies by 93% since 2000 despite a significant increase in square footage. This is the result of a concerted effort by the District to provide students and staff with safe facilities.



Pursuant to Section 1013.12, Florida Statutes, the District and/or the local fire official has the responsibility and authority to withdraw facilities that pose immediate life threatening deficiencies from

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

use. It is important to note that no such action has been recommended by either the District or the local fire official.

Multi-year citations are often the result of an economic determination to save taxpayer dollars when the structure with the deficiencies is scheduled for demolition or major renovation within the Five-Year Capital Plan. Some of the noted deficiencies undergo intra-departmental review based on interpretation of the appropriate edition of the building code. While this increases the time required to address the noted citation, this allows management to identify and implement the most cost effective correction thus saving taxpayers money by avoiding unnecessary costs.

The District allocates funding annually for the correction of deficiencies noted in the annual CSIR report. The funding requests for CSIR corrections are based on the number of remaining deficiencies from the prior year and an estimate of the current years' volume of work. The district will continue to correct serious safety citations immediately and continue efforts to improve the timely correction of all multi-year deficiencies within the approved budgetary and personnel resources.

To improve the timeliness of delivery of floor plans to law enforcement agencies and fire departments, the District has implemented a procedure that all current plans and all future new plans for remodeled, renovated or new schools will be placed on a SharePoint site that will be made available to all law enforcement agencies and fire departments. Additionally, the School Police Dispatch Center, which operates 24/7, will be able to export these plans to any agency needing them in any emergency.

Finding No. 8:

Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Management Response:

Adult & Community Education programs are located throughout the district and the administrative process varies by location and principal. The District is working to create a standardized process for all Adult & Community Education locations as well as utilizing an online attendance reporting system. It is important to note that although the attendance rosters were not necessarily maintained it did not present a funding issue since the District is not currently funded based on the number of contact hours reported.

Finding No. 9:

Improvements were needed in the District's monitoring of cellular telephone usage.

Management Response:

A revised policy was adopted on July 7, 2010. The revised policy strengthens the controls over District provided cellular devices (such as cellular phones.)

The revised policy covers the following topics:

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

- "District business use only." It is clearly stated in the revised policy that "personal calls on District cellular devices are prohibited."
- Cost control is addressed in the policy which states that "each District cellular device must be placed on the most cost-effective plan under the District's contract to satisfy the work-related needs of each particular employee" and that the Director, Principal or Area Superintendent "shall monitor and approve the bills and call details generated by the employee usage."
- To further strengthen this, it is stated that based on a monthly review of the bill the Director, Principal or Area Superintendent "shall consider altering or terminating the employee's plan."

The district is currently working on the following processes to improve the monitoring of cell phone use including:

1) Electronic form with supervisor sign-off
2) Electronic pre-approval signature from department head prior to distribution of device will be required
3) Creation of a program to assist in identifying anomalies

Finding No. 10:

Some aspects of the District's information technology (IT) security management program needed improvement.

Management Response:

A risk assessment process is being developed to address the concerns identified in this finding. A standard operating procedure will be developed and annual district-wide security awareness training will be instituted.

Finding No. 11:

The District's IT access controls within the PeopleSoft application environment needed improvement.

Management Response:

The Security Redesign Project is addressing user role assignment and PeopleSoft access requirements. In addition, a formal role definition and access review process, which will be run periodically to validate the employee's role and their PeopleSoft access is being developed.

Finding No. 12:

The District's IT security controls related to user authentication and network administrator access needed improvement.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Management Response:

The Security Redesign Project is addressing user role assignment and PeopleSoft access requirements. In addition a formal role definition and access review process, which will be run periodically to validate the employee's role and their PeopleSoft access is being developed.

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1:

The District needed to implement procedures for monitoring compliance with maintenance of effort requirements for Special Education programs.

Management Response:

Both the internal District calculation and FLDOE preliminary calculation support that the District has met the FY 2010 MOE requirements. An official FLDOE calculation from FLDOE validating Palm Beach's MOE compliance for FY2010 is expected in the next few weeks. The District has made a concerted effort in spite of severe budget reductions to not only meet the MOE requirement but also provide all necessary services to children with disabilities.

In FY2009, the State FEFP ESE contribution was reduced $8,244,515 compared to FY2008, a significant decrease. Although it appears the state did not maintain its effort the District was able to increase its local contribution beyond state revenue received in FY2009 to subsidize the states shortfall temporarily even while the District was facing severe budget cuts. Then in FY2010, the State FEFP ESE contribution decreased an additional $8,736,329. The State FEFP ESE cumulative decrease over the past three years totals $18,580,981 compared to the District cumulative decrease of only $7,813,695. The amount the District expends over the state FEFP designated ESE revenue received has increased significantly over the past four years from 127% in FY2007 to 130% in FY2008 to 144% in FY2009 and finally 149% in FY2010.

The District performs a review on at least an annual basis to ensure MOE requirements are met. Despite a multi-year trend of State ESE funding reductions, FY2010 marked the first year that total district ESE expenditures declined. As a result, additional analysis was needed to delineate between state and local support and demonstrate district compliance. The District has created a supplemental analysis demonstrating that even though total expenditures declined, the District successfully maintained its local required MOE. Again, preliminary calculations from FLDOE support this proclamation.

Federal Awards Finding No. 2:

District procedures did not ensure that private schools were provided the opportunity to participate in the Federally-funded programs.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Management Response:

The Department of Federal and State Programs did notify all *participating* private schools of the consultation regarding the new ARRA funds, but did not include those schools, which earlier in the year declined to participate. In the future, should additional funds become available after the initial required consultation, the Department of Federal and State Programs will provide opportunity for all schools to benefit.