

**DISTRICT SCHOOL BOARD OF  
POLK COUNTY, FLORIDA**

**Financial Statements  
for the year ended  
June 30, 2010**

**DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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**DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**

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## **Independent Auditors' Report**

The Honorable Members of the  
Polk County District School Board  
Bartow, Florida

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 School District of Polk County, Florida (the "District"), as of and for the 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, comprising 8% of the assets and 15% of the liabilities of the aggregate remaining fund information in the accompanying financial statements. 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 have been provided to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Required Supplementary Information for Other Post Employment Benefits on pages 64 and 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Cherry, Behant & Holland, L.L.P.*

Orlando, Florida  
February 9, 2011

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

As management of the School Board of Polk County, Florida (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the beginning of this report, directly behind the Table of Contents page.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$901.2 million (*net assets*). Of this amount, \$23.5 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$22.6 million as compared to prior year. This increase is primarily attributable to an increase in capital assets net of accumulated depreciation.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$316.8 million, a decrease of \$11.2 million in comparison to the prior year. Approximately 71 percent of this total amount, \$220.6 million, is *available for spending* at the District's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$57.0 million, or 8.8 percent of total general fund expenditures.
- The District's total long-term debt, net of premiums and discounts, increased by \$8.8 million (1.5 percent) during the current fiscal year. The key factor in this change was the increase in refunding certificates of participation issued.
- The District's total capital assets, net of accumulated depreciation, increased by \$38.2 million (3.7 percent). The key factors in this included an overall increase to buildings, net of accumulated depreciation, of \$124.0 million, which reflected the completion of new school buildings, as well as remodeling and renovations to existing schools; this increase in buildings was offset by an \$85.3 million overall reduction to construction in progress.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

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

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

The statement of activities presents information on changing the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the event giving rise to the change occurs, *regardless of the timing of cash flows*. Therefore, some revenues and expenses reported in this statement will only result in cash flows and uses in future fiscal periods, such as tax collections due from other agencies and earned but unused vacation leave.

Both of the government-wide financial statements, as required by the Florida Department of Education and defined by Generally Accepted Accounting Principles, differentiate functions of the District that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include general government, pre-K activities, basic K-12 instructional services, exceptional student education, adult and career vocational education, student transportation services, and community service activities that promote public education awareness. Management has not designated any business-type activities for the District.

The government-wide financial statements include not only the District itself (known as the *primary government*), but also a legally separate foundation and legally separate charter schools for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Financing Corporation for the School Board of Polk County, Florida (Financing Corporation), which was formed to facilitate acquisition of facilities and equipment, although legally separate, is included as an integral part of the primary government due to the substantive economic relationship between the District and the Financing Corporation.

**Fund Financial Statements** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories:

- Governmental funds
- Proprietary funds
- Fiduciary (Agency) funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital improvement section 1011.71(2) Florida Statutes fund, and capital projects--other fund, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary Funds** There are two types of proprietary funds—*enterprise funds* and *internal service funds*. Of these, the District maintains internal service funds. Both fund types appear in the reporting format, proscribed by the Florida Department of Education and defined by generally accepted accounting principles. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. However, as noted earlier, since management has not designated any business type activities for the District, there are no enterprise funds maintained by the District. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses five internal service funds to account for its self-insurance programs including worker's compensation, general liability, fleet liability, error & omissions, and health insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The five internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements, since they are considered nonmajor funds. Individual fund data for these internal service funds is provided in the form of *combining statements* elsewhere in this report.

**Fiduciary (Agency) Funds** Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. The District maintains one fiduciary (agency) fund to account for school internal funds related to co-curricular and extra-curricular activities. Fiduciary (agency) funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary (agency) funds is much like that used for proprietary funds.

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

**Other Information** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's annual appropriated budget for its general fund and the District's progress in funding its obligation to provide other postemployment retiree healthcare insurance benefits.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$901.2 million at the close of the most recent fiscal year.

Information for 2009 has been restated, where applicable, on the tables included in the management discussion and analysis for the effects of GASB 53, *Accounting and Reporting for Derivative Instruments*.



THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

**District's Net Assets**

**Governmental Activities  
As of June 30, 2010 and June 30, 2009  
(in thousands of dollars)**

	<u>2010</u>	<u>Restated 2009</u>
Current and other assets	\$477,680	\$513,165
Capital assets	1,081,118	1,042,936
Total Assets	<u>1,558,798</u>	<u>1,556,101</u>
Long-term liabilities outstanding	575,685	566,882
Other Liabilities	81,963	110,705
Total Liabilities	<u>657,648</u>	<u>677,587</u>
Net Assets:		
Invested in capital assets, net of related debt	741,500	589,452
Restricted	136,136	271,820
Unrestricted	<u>23,514</u>	<u>17,242</u>
Total net assets	<u>\$901,150</u>	<u>\$878,514</u>

By far the largest of the District's net assets (82.3 percent) reflects its \$741.5 million investment in capital assets (e.g., land, land improvements, buildings, furniture, equipment, motor vehicles, and software), less any related debt to acquire or construct those assets that remains outstanding. The District uses these capital assets to provide services to citizens; 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, \$136.1 million (15.1 percent), represent resources that are subject to external restrictions on how they may be used--primarily for the acquisition and construction of facilities. The remaining balance of *unrestricted net assets*, \$23.3 million (2.6 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year. Compared to the prior fiscal year ending balances, invested in capital assets, net of related debt, increased by \$152.0 million, restricted net assets decreased by \$135.7 million, and unrestricted net assets increased by \$6.3 million. These changes primarily related to the funding of facilities acquisition and construction.

Total assets has an increase of \$27.0 million compared to the prior fiscal year end driven by the change in other liabilities. Other key changes included the following:

- Operational property taxes, which were included in general revenues, decreased by \$14.4 million (6.8 percent) during the year, while property taxes for capital improvements and debt service, which were also included in general revenues, decreased by \$14.3 million (22.7 percent) during the year. Decreases were generally derived from decreases in taxable property value.
- General revenues through non-specific program grants, including the state education finance program, increased by \$75.8 million (15.9 percent) during the year. This increase was driven by increases in Individuals with Disabilities Education Act and Title I funding as well as new American Recovery and Reinvestment Act funding.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

- Discretionary sales tax revenue and impact fees, which were included in general revenues, decreased \$8.0 million (21.3 percent) during the year, which reflected a continued downturn in the state and local economy.
- Program revenues through operating and capital grants decreased by \$30.3 million (39.9 percent), which reflected decreases in facilities acquisition and construction funding and transportation funding through the state, and a small increase in food service funding.
- For the most part, increases in expenses of \$17.6 million (20.4 percent) were a result of increased direct instructional and pupil transportation spending.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

**District's Changes in Net Assets**  
**Governmental Activities**  
**For the Fiscal Years Ended June 30, 2010 and June 30,2009**  
(in thousands of dollars)

	<u>2010</u>	<u>Restated 2009</u>
Revenues:		
Program Revenues:		
Charges for services	\$11,970	\$12,347
Operating grants and contributions	33,547	53,178
Capital grants and contributions	12,107	22,759
General Revenues:		
Property taxes-operational	195,839	210,238
Property taxes-capital & debt service	48,373	62,631
Local sales tax and impact fees	29,510	37,507
Grants and contributions not restricted to specific programs	551,962	476,204
Other	<u>17,612</u>	<u>10,895</u>
Total revenues	900,920	885,759
Expenses:		
Instruction	523,680	517,547
Pupil personnel services	35,808	32,553
Instructional media services	12,440	11,842
Instruction and curriculum development services	15,506	13,171
Instructional staff training services	15,255	13,448
Instructional related technology	6,515	4,268
School board	2,608	2,564
General administration	7,021	6,350
School administration	42,785	42,743
Facilities acquisition and construction	7,218	4,413
Fiscal services	3,111	2,775
Food services	45,300	43,818
Central services	17,832	19,280
Pupil transportation	35,429	34,329
Operation of plant	52,825	50,246
Maintenance of plant	23,807	25,516
Administrative technology services	5,079	5,282
Community services	3,044	1,511
Interest on long-term debt	22,488	27,960
Unallocated depreciation and amortization expense	533	784
Total expenses	<u>878,284</u>	<u>860,400</u>
Increase in net assets	22,636	25,359
Net assets - beginning of year	878,514	858,998
GASB 53 implementation restatement		(5,843)
Net assets - ending of year	<u>\$901,150</u>	<u>\$878,514</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010

**Financial Analysis of the District's Funds**

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$316.8 million, a decrease of \$11.2 million when compared to the prior year. Approximately 69.6 percent (\$220.6 million) of the ending fund balance represents unreserved amounts which are available for spending primarily in the capital projects area. The remaining approximate 30.4 percent (\$96.2 million) of the ending fund balance reflects reserved amounts that are not available for new spending because they have already been committed for: (1) carrying forward of state required categorical programs (\$4.9 million); (2) liquidating contracts and purchase orders, primarily in the capital projects area (\$80.5 million); and (3) accounting for inventory on hand (\$6.9 million).

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the general fund had a fund balance of \$68.8 million. Of this, about 82.8 percent (\$57.0 million) was unreserved and available for operations, while the remaining 17.2 percent (\$11.8 million) was already committed to state required categorical programs, purchase order/contract liquidations, and inventory on hand. As a measure of the general fund's liquidity, it may be useful to compare its unreserved fund balance and its total fund balance to total general fund expenditures. These figures were 9 percent and 11 percent, respectively.

The fund balance of the District's general fund increased by \$6.8 million during the current fiscal year. Other key factors affecting fund balance include the following:

- Local source revenues of the general fund decreased by \$12.7 million - primarily as a result of a decrease in collections of property taxes for operational purposes. Additionally, there was a \$6.6 million reduction in state source revenues due to decreased funding through the Florida Education Finance Program and other state programs.
- In anticipation of the lower state and local revenue sources, expenditures in the general fund decreased by \$34.9 million. And, although expenditures exceeded revenues by \$12.2 million, this was more than offset by \$19.0 million of other financing sources--primarily due to transfers in from the capital project funds for maintenance related expenditures, as well as proceeds received in the refinancing of energy related loans.

**Capital Project Funds** The capital project funds are used to primarily account for the acquisition and construction of major capital facilities. At the end of the current fiscal year the total fund balance for all capital project funds had reached \$235.4 million. The fund balance of the District's capital projects funds decreased by \$20.0 million during the current fiscal year. This is due to revenue being recognized in a prior year when the District received the funding, and project construction costs occurring in the current fiscal year.

**Proprietary Funds** The District's proprietary funds, which consist of the self-insurance internal services funds, provide similar type of information found in the government-wide financial statements, but in more detail.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**General Fund Budgetary Highlights**

Differences between the general fund original budget and the final amended budget included:

- \$4.6 million increase in revenue projections due to collections of property taxes being greater than planned.
- \$43.0 million reduction in expenditure allocations driven by prior year cut backs brought forward into the current year in anticipation of future reductions of revenues.

The final budget projected a net decrease in fund balance of \$28.8 million. However, due to the following actual results, actual fund balance was increased by \$6.8 million:

- Revenues exceeded budgetary estimates by \$4.6 million which was primarily due to higher than expected local source revenues offsetting state revenue shortfalls.
- Expenditures were \$37.5 million less than budgetary estimates due to the lapsing of appropriated salaries/benefits and continuing the District freeze on hiring and spending during the fiscal year in order to preserve fund balance due to the anticipated loss of the Federal Stimulus funding in 2011-2012.
- Other financing sources were less than budgetary estimates by \$12.0 million which was primarily caused by the timing of general fund maintenance project costs--i.e., transfers to the general fund take place when expenditures occur.

**Capital Asset and Debt Administration**

**Capital Assets** The District's investment in capital assets, net of accumulated depreciation, as of June 30, 2010, amounted to \$1.08 billion. This investment in capital assets, net of accumulated depreciation, consists of 95 percent of real property, such as land, improvements other than buildings and construction in progress. The remainder, which reflected 5 percent of the total, consisted of tangible property such as furniture, fixtures, equipment, and vehicles. The overall increase in the District's investment in capital assets, net of accumulated depreciation, was 4 percent compared to the balance at prior year end.

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

- Various new buildings, renovations, and remodeling were completed which resulted in a \$151.1 million additions to building acquisition costs.
- Construction in progress on one new school, as well as, major renovations and remodeling to existing schools, was \$66.8 million by fiscal year end. Also, commitments remaining at fiscal yearend on existing construction contracts totaled \$56.1 million.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**District's Schedule of Capital Assets,  
Net of Accumulated Depreciation  
(dollars in thousands)**

	<b>2010</b>	<b>2009</b>
Land	\$94,738	\$94,725
Construction in progress	66,807	152,156
Improvements other than buildings	14,258	15,391
Buildings and fixed equipment	855,549	731,573
Furniture, fixtures, and equipment	21,902	20,991
Motor vehicles	18,291	21,918
Audio visual materials and computer software	9,573	6,182
<b>Total</b>	<b>\$1,081,118</b>	<b>\$1,042,936</b>

*Additional information on the District's capital assets can be found in the Notes to the Financial Statements found later in this report.*

**Long-term Debt** At the end of the current fiscal year, the District had total bonded debt outstanding of \$213.2 million. This included \$19.9 million of state school bonds issued on behalf of the District by the State Board of Education and backed by the full faith and credit of the State of Florida, as well as, \$193.2 million of sales tax bonds secured by a local option half cent sales tax. Additionally, the District had \$233.6 million in certificates of participation in which the annually appropriated lease payments on the part of the District are the pledged revenue stream. The District's total debt increased during the current fiscal year as a result of implementation of GASB Statement 53, which required the District to record a liability for derivative instruments (swap) and the premium (upfront payment) associated with the swaptions.

**District's Long-Term Debt  
(in thousands of dollars)**

	<b>2010</b>	<b>Restated 2009</b>
		\$219,33
Sales tax revenue bonds	\$202,037	3
Certificates of participation	231,522	217,446
State school bonds	19,935	18,267
Derivative instruments	17,890	11,086
Premium - upfront payments	5,615	5,843
Notes payable	6,522	7,563
Compensated absences	42,245	42,771
Est. liability for claims	32,975	33,952
OPEB liability	16,944	10,621
		<b>\$566,88</b>
<b>Total</b>	<b>\$575,685</b>	<b>2</b>

The District maintains an *insured rating* of "AAA" from Standard & Poor's and "AA3" from Moody's regarding certificates of participation with the understanding that the timely payment on the debt is insured by Financial Security Assurance, Inc. The District maintains an *underlying rating* of "A" from Standard & Poor's and an "A2" from Moody's concerning s certificates of participation bonds.

State statutes limit the amount of debt service on the certificates of participation to 75 percent of the local capital improvement tax receipts. The current debt limitation for the District is \$30.7 million, which provides a debt service margin of \$11.5 million when compared to the District's \$19.2 million debt service on the certificates of participation during fiscal year ended 2010.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Sales Tax proceeds that can be applied towards Sales Tax Anticipation Bonds are estimated to be \$28.5 million, which provides a debt service margin of \$2.0 million when compared to the District's 26.5 million debt service on Sales Tax Anticipation Bonds during fiscal year ended 2010.

**Economic Factors and Next Year's Budget**

- The current local unemployment rate for the District is 11.4 percent, which is a slight decrease from the 11.5 percent reported for calendar year 2009.
- The District's regional consumer price index increased 2.3 percent from July 2009 to the same time this year.
- The State's consumer confidence index was 79 in April 2010, an increase from the all-time low of 58 in July 2008.
- With the end of the Federal level of the American Recovery and Reinvestment Act (ARRA) stimulus package in 2011, the District will lose Federal Stabilization funding of about \$34 million. However, in August 2010, the Federal Government passed an emergency \$26 billion funding plan to save teaching and public safety jobs. The Florida Department of Education officials estimated that the District's portion of the plan will be around \$22 million.

Such factors, which reflect a downturn in the local economy, were considered in preparing the District's budget for the 2011 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Assistant Superintendent for Business Services, the School Board of Polk County, Florida, P.O. Box 391, Bartow, Florida 33831.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Net Assets  
June 30, 2010

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	<b>Component Units</b>
<b>ASSETS:</b>		
Cash	\$ 164,234,173	\$ 11,634,160
Investments	222,847,407	5,525,133
Accounts receivable, net	4,107,354	4,932,035
Due from other governmental agencies	34,523,369	3,000
Inventories	6,940,870	-
Deferred charges	4,689,885	-
Prepaid items	2,234,135	1,745,017
Cash with Fiscal Agent	20,213,025	-
Deferred outflow of resources	17,890,466	-
Capital Assets (net of accumulated depreciation):		-
Land and Improvements	94,738,187	1,012,546
Construction in progress	66,806,899	776,997
Improvements other than buildings	14,258,174	198,100
Buildings and systems	855,549,256	6,024,502
Furniture, fixtures and equipment	21,901,486	2,273,006
Motor vehicles	18,291,088	1,597,493
Audio visual materials	9,572,602	106,707
Total assets	\$ 1,558,798,376	\$ 35,828,696
<b>LIABILITIES</b>		
Accounts payable	\$ 20,254,694	\$ 2,951,541
Construction retainage payable	3,336,568	-
Salaries and wages payable	21,566,404	1,217,264
Accrued payroll taxes and withholdings	6,132,564	-
Accrued interest	5,050,933	-
Due to other governmental agencies	22,495,717	-
Sales Tax payable	6,260	-
Unearned revenue	3,120,388	140,600
Noncurrent liabilities:		
Due within one year	47,613,784	263,676
Due in more than one year	528,070,969	5,896,784
Total liabilities	657,648,281	10,469,865
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	741,500,501	6,091,003
Restricted for:		
Categorical carryover programs	4,919,245	-
Debt service	948,289	24,967
Capital outlay	121,551,973	86,483
Other purposes	8,715,883	1,674,012
Unrestricted	23,514,204	17,482,366
Total net assets	901,150,095	25,358,831
Total liabilities and net assets	\$ 1,558,798,376	\$ 35,828,696



THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Activities  
For the Fiscal Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government:</b>				
Governmental activities:				
Instructional services	\$ 523,680,523	\$ 1,907,488	\$ -	\$ -
Instructional support services	85,524,065	-	-	-
Pupil transportation services	34,429,585	463,363	-	-
Operation and maintenance of plant	76,631,892	-	-	1,965,577
Non capitalizable facilities acquisition and constructic	7,217,630	-	-	7,278,259
School administration	42,784,695	-	-	-
General administration	36,650,520	-	-	-
Food services	45,300,094	9,598,876	33,546,885	-
Community services and other	3,044,569	-	-	-
Interest on long-term debt	22,488,324	-	-	2,863,427
Unallocated depreciation expense	532,768	-	-	-
Total governmental activities and primary government	<u>\$ 878,284,665</u>	<u>\$ 11,969,727</u>	<u>\$ 33,546,885</u>	<u>\$ 12,107,263</u>
<b>Component units:</b>				
Foundation and charter schools	\$ 74,976,551	\$ 1,467,719	\$ 6,241,827	\$ 246,777
Total component units	<u>\$ 74,976,551</u>	<u>\$ 1,467,719</u>	<u>\$ 6,241,827</u>	<u>\$ 246,777</u>

General Revenues:  
Property taxes, levied for operational 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-restated  
Net assets - ending

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Primary Governmental Governmental Activities</b>	<b>Component Units</b>
\$ (521,773,035)	\$ -
(85,524,065)	-
(33,966,222)	-
(74,666,315)	-
60,629	-
(42,784,695)	-
(36,650,520)	-
(2,154,333)	-
(3,044,569)	-
(19,624,897)	-
(532,768)	-
<u>\$ (820,660,790)</u>	<u>\$ -</u>
-	(67,020,228)
-	<u>(67,020,228)</u>
195,838,603	-
48,373,128	-
29,510,227	-
551,962,285	70,806,754
4,206,929	47,961
13,406,027	748,971
<u>843,297,199</u>	<u>71,603,686</u>
22,636,409	4,583,458
878,513,686	20,775,373
<u>\$ 901,150,095</u>	<u>\$ 25,358,831</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
 Balance Sheet  
 Governmental Funds  
 June 30, 2010

	General	ARRA Economic Stimulus Funds	Other Debt Service	Local Capital Improvement
<b>ASSETS</b>				
Cash	\$ 40,015,310	\$ 4,311,944	\$ 471,486	\$ 20,166,836
Investments	67,660,861	-	5,239,022	31,220,645
Accounts and interest receivable	1,287,118	12	6,816	28,706
Due from other governmental agencies	1,806,883	-	-	87,111
Due from other funds	-	-	-	-
Inventories	5,698,652	-	-	-
Prepaid Items	1,968,111	148,605	-	-
Total assets	<u>\$ 118,436,935</u>	<u>\$ 4,460,561</u>	<u>\$ 5,717,324</u>	<u>\$ 51,503,298</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts and contracts payable	\$ 7,486,586	\$ 112,940	\$ 265,231	\$ 574,029
Salaries and wages payable	17,185,660	3,030,333	-	-
Payroll deductions and withholdings	5,576,742	89,475	-	-
Due to other funds	-	-	-	-
Due to other governmental agencies	19,363,047	1,218,666	-	-
Sales tax payable	5,869	-	-	-
Deferred revenue	1,000	9,147	-	-
Matured interest payable	-	-	2,211,155	-
Total liabilities	<u>49,618,904</u>	<u>4,460,561</u>	<u>2,476,386</u>	<u>574,029</u>
Fund balances				
Reserved for:				
State categorical carry-over programs	4,919,245	-	-	-
Encumbrances	1,239,042	-	-	378,578
Inventories	5,698,652	-	-	-
Debt service	-	-	3,240,938	-
Unreserved, reported in:				
General fund	56,961,092	-	-	-
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	50,550,691
Total fund balances	<u>68,818,031</u>	<u>-</u>	<u>3,240,938</u>	<u>50,929,269</u>
Total liabilities and fund balances	<u>\$ 118,436,935</u>	<u>\$ 4,460,561</u>	<u>\$ 5,717,324</u>	<u>\$ 51,503,298</u>

Other Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 103,799,204	\$ 15,194,240	\$ 183,959,020
52,951,168	2,421,080	159,492,776
521,626	138,069	1,982,347
13,978,298	18,651,076	34,523,368
2,964,561	-	2,964,561
-	1,242,218	6,940,870
81,564	35,856	2,234,136
<u>\$ 174,296,421</u>	<u>\$ 37,682,539</u>	<u>\$ 392,097,078</u>

\$ 5,525,940	\$ 2,885,689	\$ 16,850,415
-	1,350,411	21,566,404
-	466,348	6,132,565
2,964,561	-	2,964,561
-	1,914,004	22,495,717
-	-	5,869
-	3,110,241	3,120,388
-	-	2,211,155
<u>8,490,501</u>	<u>9,726,693</u>	<u>75,347,074</u>

-	-	4,919,245
63,312,904	15,561,536	80,492,060
-	1,242,218	6,940,870
-	547,129	3,788,067
-	-	56,961,092
-	7,279,295	7,279,295
102,493,016	3,325,668	156,369,375
<u>165,805,920</u>	<u>27,955,846</u>	<u>316,750,004</u>
<u>\$ 174,296,421</u>	<u>\$ 37,682,539</u>	<u>\$ 392,097,078</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Assets  
 For the Fiscal Year Ended June 30, 2010

<b>Total Fund Balances - Governmental Funds</b>	\$	316,750,004
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 funds.		1,081,117,692
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		4,689,885
Deferred outflow of resources are reported as a result of changes in fair value of hedging derivative instruments in the statement of net assets.		17,890,466
Internal service funds are used by management to charge the costs of certain activities such as insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		26,251,344
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(542,709,518)
Accrued interest on long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds.		(2,839,778)
<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b>901,150,095</b>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2010

	General	ARRA Economic Stimulus Funds	Other Debt Service	Local Capital Improvement
<b>REVENUES</b>				
Local sources:				
Ad valorem taxes	\$ 195,838,603	\$ -	\$ -	\$ 48,373,128
Local sales tax	-	-	-	-
Food services	-	-	-	-
Interest income	1,235,948	-	100,305	281,919
Other	11,788,463	-	-	159,909
Total local sources	<u>208,863,014</u>	<u>-</u>	<u>100,305</u>	<u>48,814,956</u>
State sources:				
Florida education finance program	303,485,598	-	-	-
Public education capital outlay	-	-	-	-
Categorical programs	107,393,544	-	-	-
Workforce development	10,338,261	-	-	-
Food services	-	-	-	-
Other	1,327,958	-	-	-
Total state sources	<u>422,545,361</u>	<u>-</u>	<u>-</u>	<u>-</u>
Federal sources:				
Food services	-	-	-	-
Federal grants direct	829,745	197,038	-	-
Federal grants through state and local	1,663,842	57,063,893	-	-
Total federal sources	<u>2,493,587</u>	<u>57,260,931</u>	<u>-</u>	<u>-</u>
Total revenues	<u>633,901,962</u>	<u>57,260,931</u>	<u>100,305</u>	<u>48,814,956</u>
<b>EXPENDITURES</b>				
Current:				
Instructional Services	441,449,896	14,685,020	-	2,537,097
Pupil personnel services	11,105,118	18,703,929	-	-
Instructional media services	4,560,887	6,430,368	-	-
Instruction and curriculum development services	4,191,730	301,724	-	-
Instructional staff training services	934,088	4,983,108	-	-
Instructional related technology	6,156,711	-	-	-
Board of education	2,468,780	-	-	-
General administration	3,511,025	1,788,823	-	-
School administration	39,260,071	969,765	-	1,018
Facilities acquisition and construction	5,263,229	-	-	35,257
Fiscal services	2,845,678	-	-	-
Food services	-	24,918	-	79,176
Central services	10,718,772	31,345	-	-
Pupil transportation services	32,075,805	-	-	-
Operation of plant	49,810,569	549	-	28,594
Maintenance of plant	22,542,381	-	-	-
Administrative technology services	4,777,979	-	-	-
Community services and other	243,096	-	-	-
Debt Service:				
Principal retirement	1,040,566	-	24,420,000	-
Interest	313,042	-	20,562,112	-
Dues, fees and other	-	-	3,064,677	-
Capital outlay				
Facilities acquisition and construction	1,082,976	-	-	5,630,752
Other capital outlay	1,736,989	9,341,382	-	1,991,052
Total expenditures	<u>646,089,388</u>	<u>57,260,931</u>	<u>48,046,789</u>	<u>10,302,946</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,187,426)</u>	<u>-</u>	<u>(47,946,484)</u>	<u>38,512,010</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Long term bonds issued	-	-	195,317	-
Premium on sale of bonds	-	-	-	-
Discount on sale of bonds	-	-	(71,374)	-
Refunding bonds issued	-	-	140,895,000	-
Payments to refunded bond escrow agent	-	-	(138,440,000)	-
Loss Recoveries	13,343	-	-	-
Transfers in	26,239,585	-	46,623,776	5,632,622
Transfers out	(7,309,427)	-	(618,700)	(40,925,351)
Total other financing sources and uses	<u>18,943,501</u>	<u>-</u>	<u>48,584,019</u>	<u>(35,292,729)</u>
Net change in fund balances	6,756,075	-	637,535	3,219,281
Fund balances - beginning	62,061,956	-	2,603,403	47,709,988
Fund balances - ending	<u>\$ 68,818,031</u>	<u>\$ -</u>	<u>\$ 3,240,938</u>	<u>\$ 50,929,269</u>

Other Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 244,211,731
29,510,227	-	29,510,227
-	9,598,877	9,598,877
996,284	69,350	2,683,806
4,283,656	(27,317)	16,204,711
<u>34,790,167</u>	<u>9,640,910</u>	<u>302,209,352</u>
-	-	303,485,598
-	10,548,337	10,548,337
-	-	107,393,544
-	-	10,338,261
-	735,699	735,699
1,797,660	1,688,069	4,813,687
<u>1,797,660</u>	<u>12,972,105</u>	<u>437,315,126</u>
-	32,819,164	32,819,164
-	9,343,185	10,369,968
-	57,943,264	116,670,999
-	100,105,613	159,860,131
<u>36,587,827</u>	<u>122,718,628</u>	<u>899,384,609</u>
-	35,565,540	494,237,553
-	4,005,167	33,814,214
-	739,640	11,730,895
-	10,140,111	14,633,565
-	8,507,169	14,424,365
-	-	6,156,711
-	-	2,468,780
-	1,840,350	7,140,198
-	22,428	40,253,282
1,941,916	264,485	7,504,887
-	99,819	2,945,497
-	42,659,707	42,763,801
2,201	1,456,337	12,208,655
-	1,659,807	33,735,612
-	125,866	49,965,578
-	61,573	22,603,954
-	-	4,777,979
-	2,365,963	2,609,059
-	1,880,000	27,340,566
-	930,358	21,805,512
-	45,451	3,110,128
50,188,716	9,417,520	66,319,964
1,944,378	1,722,289	16,736,090
<u>54,077,211</u>	<u>123,509,580</u>	<u>939,286,845</u>
<u>(17,489,384)</u>	<u>(790,952)</u>	<u>(39,902,236)</u>
20,347,683	4,220,000	24,763,000
-	177,169	177,169
-	-	(71,374)
-	655,000	141,550,000
-	(690,000)	(139,130,000)
-	-	13,343
618,700	1,676,805	80,791,488
<u>(28,289,527)</u>	<u>(2,234,834)</u>	<u>(79,377,839)</u>
<u>(7,323,144)</u>	<u>3,804,140</u>	<u>28,715,787</u>
(24,812,528)	3,013,188	(11,186,449)
190,618,448	24,942,658	327,936,453
<u>\$ 165,805,920</u>	<u>\$ 27,955,846</u>	<u>\$ 316,750,004</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds to the  
 Statement of Activities  
 For the Fiscal Year Ended June 30, 2010

**Net Change in Fund Balances - Total Governmental Funds** \$ (11,186,449)

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

Governmental funds report capital outlays 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 capital outlays (\$83,910,580) exceeds depreciation expense (\$45,440,113) during the current period. 38,470,467

The statement of activities reflects only the gain/loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net assets differs by the cost of assets sold. (288,795)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increased long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments of debt principal (\$166,470,566) exceeded proceeds (\$166,313,000) in the current year. 157,566

Premiums and discounts on debt issued, along with deferred amounts recognized on refunded debt, are reported in the governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the statement of activities. This is the amount by which the additions (\$1,603,539) exceeds amortization (\$832,299) 2,435,838

Debt issuance costs associated with long-term debt are reported in governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the statement of activities. This is the amount the net increase in deferred charges (\$39,637) exceeds the net amortization (\$291,219) (251,582)

Upfront payments associated with interest rate swaps/swaptions are reported in governmental funds in the year debt is issued, but are deferred and amortized over the term of the swap/swaption in the statement of activities. This is the amount of amortization during the current period. 228,941

Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:

Postemployment health care benefits (6,323,303)

Interest expense (including arbitrage rebate) 122,560

Compensated absences 526,162

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. (1,254,996)

**Change in Net Assets of Governmental Activities** \$ 22,636,409



THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
 General Fund  
 Statement of Revenues, Expenditures,  
 and Changes in Fund Balances -  
 Budget and Actual  
 For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Local sources:				
Ad valorem taxes	\$ 190,023,244	\$ 190,023,244	\$ 195,838,603	\$ 5,815,359
Other	9,480,137	11,022,598	13,024,411	2,001,813
Total local sources	<u>199,503,381</u>	<u>201,045,842</u>	<u>208,863,014</u>	<u>7,817,172</u>
State sources:				
Florida education finance program	271,447,413	306,001,925	303,485,598	(2,516,327)
Categorical programs	134,390,918	109,025,560	107,393,544	(1,632,016)
Workforce development	10,338,261	10,338,261	10,338,261	-
Other	900,000	959,456	1,327,958	368,502
Total state sources	<u>417,076,592</u>	<u>426,325,202</u>	<u>422,545,361</u>	<u>(3,779,841)</u>
Federal sources:				
Federal grants direct	684,000	684,000	829,745	145,745
Federal grants through state	1,250,000	1,250,000	1,663,842	413,842
Total federal sources	<u>1,934,000</u>	<u>1,934,000</u>	<u>2,493,587</u>	<u>559,587</u>
Total revenues	<u>618,513,973</u>	<u>629,305,044</u>	<u>633,901,962</u>	<u>4,596,918</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services:	454,461,130	462,564,173	441,449,896	21,114,277
Pupil Personnel Services	9,702,014	11,460,276	11,105,118	355,158
Instructional Media Services	2,994,345	4,633,681	4,560,887	72,794
Instruction and Curriculum Development Services	3,886,183	4,476,136	4,191,730	284,406
Instruction Staff Training Services	810,001	1,050,354	934,088	116,266
Instruction Related Technology	6,394,990	6,472,154	6,156,711	315,443
Board of Education	2,329,378	2,696,643	2,468,780	227,863
General Administration	2,524,180	3,540,092	3,511,025	29,067
School Administration	40,170,954	40,310,637	39,260,071	1,050,566
Facilities Acquisition and Construction	9,746,444	7,726,619	5,263,229	2,463,390
Fiscal Services	2,716,877	2,916,985	2,845,678	71,307
Central Services	13,109,305	12,425,002	10,718,772	1,706,230
Pupil Transportation	35,092,117	35,826,577	32,075,805	3,750,772
Operation of Plant	50,313,449	51,209,887	49,810,569	1,399,318
Maintenance of Plant	26,707,467	29,180,965	22,542,381	6,638,584
Administrative Technology Services	5,027,374	5,180,865	4,777,979	402,886
Community Services	32,326	501,785	243,096	258,689
Debt Service				-
Redemption of principal	1,041,000	1,041,519	1,040,566	953
Interest	313,561	313,042	313,042	-
Total debt service	<u>1,354,561</u>	<u>1,354,561</u>	<u>1,353,608</u>	<u>953</u>
Capital Outlay				
Facilities acquisition and construction	-	3,722,820	1,082,976	2,639,844
Other capital outlay	-	1,849,841	1,736,989	112,852
Total capital outlay	<u>-</u>	<u>5,572,661</u>	<u>2,819,965</u>	<u>2,752,696</u>
Total expenditures	<u>667,373,095</u>	<u>689,100,053</u>	<u>646,089,388</u>	<u>43,010,665</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(48,859,122)</u>	<u>(59,795,009)</u>	<u>(12,187,426)</u>	<u>47,607,583</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loss Recoveries	-	-	13,343	13,343
Transfers in	36,897,672	38,626,835	26,239,585	(12,387,250)
Transfers out	(1,561,000)	(7,652,260)	(7,309,427)	342,833
Total other financing sources and uses	<u>35,336,672</u>	<u>30,974,575</u>	<u>18,943,501</u>	<u>(12,031,074)</u>
Net change in fund balances	(13,522,451)	(28,820,434)	6,756,075	35,576,509
Fund balances - beginning	<u>62,378,592</u>	<u>62,061,956</u>	<u>62,061,956</u>	<u>-</u>
Fund balances - ending	<u>\$ 48,856,141</u>	<u>\$ 33,241,522</u>	<u>\$ 68,818,031</u>	<u>\$ 35,576,509</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Major Special Revenue Fund - ARRA Economic Stimulus Funds  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Budget and Actual  
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Federal sources:				
Federal grants direct	\$ -	\$ 483,588	\$ 197,038	\$ (286,550)
Federal grants through state	<u>73,779,786</u>	<u>75,888,280</u>	<u>57,063,893</u>	<u>(18,824,387)</u>
Total federal sources	<u>73,779,786</u>	<u>76,371,868</u>	<u>57,260,931</u>	<u>(19,110,937)</u>
Total revenues	<u>73,779,786</u>	<u>76,371,868</u>	<u>57,260,931</u>	<u>(19,110,937)</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services:	28,548,134	18,498,590	14,685,020	3,813,570
Pupil Personnel Services	19,923,428	24,173,450	18,703,929	5,469,521
Instructional Media Services	6,896,033	6,430,368	6,430,368	-
Instruction and Curriculum Development Services	540,495	717,210	301,724	415,486
Instruction Staff Training Services	15,412,920	13,590,050	4,983,108	8,606,942
Instruction Related Technology	64,690	-	-	-
General Administration	2,335,021	2,361,569	1,788,823	572,746
School Administration	-	969,765	969,765	-
Food Service	9,611	42,538	24,918	17,620
Central Services	49,454	81,640	31,345	50,295
Pupil Transportation	-	7,507	-	7,507
Operation of Plant	-	1,102	549	553
Capital Outlay				
Facilities acquisition and construction	-	98,000	-	98,000
Other capital outlay	-	<u>9,400,079</u>	<u>9,341,382</u>	<u>58,697</u>
Total capital outlay	<u>-</u>	<u>9,498,079</u>	<u>9,341,382</u>	<u>156,697</u>
Total expenditures	<u>73,779,786</u>	<u>76,371,868</u>	<u>57,260,931</u>	<u>19,110,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010

	<b>Total Internal Service Funds</b>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 488,178
Investments	63,354,630
Accounts receivable	2,125,009
Total assets	\$ 65,967,817
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 6,741,238
Estimated liability for claims	13,118,997
Total current liabilities	19,860,235
Noncurrent liabilities:	
Estimated liability for claims	19,856,238
Total noncurrent liabilities	19,856,238
Total liabilities	39,716,473
 <b>NET ASSETS</b>	
Unrestricted	26,251,344
Total net assets	26,251,344
Total net assets and liabilities	\$ 65,967,817

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Revenues, Expenses  
and Changes in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2010

	<b>Total Internal Service Funds</b>
<b>OPERATING REVENUES:</b>	
Premium revenue from other funds	\$ 95,027,437
Other revenue	1,868,513
Total operating revenues	96,895,950
<b>OPERATING EXPENSES:</b>	
Purchased services	7,578,405
Claims, premiums and other	91,463,745
Total operating expenses	99,042,150
Operating loss	(2,146,200)
<b>NON-OPERATING REVENUE:</b>	
Interest	1,308,883
Miscellaneous	995,970
Total non-operating revenue	2,304,853
Income before transfers	158,653
<b>TRANSFERS OUT</b>	(1,413,649)
Change in net assets	(1,254,996)
Total net assets - beginning	27,506,340
Total net assets - ending	\$ 26,251,344

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2010

	<b>Total Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from interfund services provided	\$ 95,027,438
Payment to suppliers	(8,360,147)
Payment for interfund services used	(92,440,208)
Other receipts	3,271,726
Net cash used in operating activities	<u>(2,501,191)</u>
<b>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Transfers to other funds	<u>(1,413,649)</u>
Net cash used in noncapital and related financing activities	<u>(1,413,649)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of investments	2,276,429
Interest and dividends earned on investments	<u>1,308,883</u>
Net cash provided by investing activities	<u>3,585,312</u>
Net decrease in cash and cash equivalents	(329,528)
Cash and cash equivalents - Beginning of year	<u>817,706</u>
Cash and cash equivalents - End of year	<u><u>\$ 488,178</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (2,146,200)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	407,244
(Increase) decrease in due from other governmental agencies	995,969
Increase (decrease) in accounts payable	(781,741)
Increase (decrease) in estimated liability for long-term claims	<u>(976,463)</u>
Total adjustments	<u>(354,991)</u>
Net cash used in operating activities	<u><u>\$ (2,501,191)</u></u>

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Statement of Assets and Liabilities  
Fiduciary Funds  
June 30, 2010

	<b>Agency Funds</b>
<b>ASSETS</b>	
Cash	\$ 5,946,979
Investments, at fair value	2,526,718
Accounts receivable, net	296,887
Due from other funds	201
Inventory	453,859
Total assets	9,224,644
 <b>LIABILITIES</b>	
Accounts payable	10,652
Salaries, Benefits and Payroll Taxes Payable	7,166
Payroll deductions	1,044
Due to student organizations	9,205,782
Total liabilities	\$ 9,224,644

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

The governing body of the school district is the Polk County District School Board, which is comprised of seven elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Polk County.

The accompanying basic financial statements present the District and its discretely presented component units, entities for which the District is considered financially accountable. The District's discretely presented component units are combined into a single column in the government-wide financial statements to emphasize that they are legally separate from the District.

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

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

Blended Component Unit – The Financing Corporation for the School Board of Polk County, Florida (Financing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in a subsequent note on Certificates of Participation. Due to the substantive economic relationship between the Polk County District School Board and the Financing Corporation, the financial activities of the Financing Corporation are included in the accompanying basic financial statements as provided under criteria for defining the reporting entity. Therefore, the financial activities of the Financing Corporation are reported in the District's financial statements and separate financial statements are not published.

Discretely Presented Component Units – The component unit columns in the basic financial statements include financial data for the Polk Education Foundation and Business Partnership, Inc. and the following charter schools: Discovery Academy of Lake Alfred, Inc. whose emphasis is technology based; McKeel Academy of Technology, Inc., McKeel Elementary, Inc. and South McKeel Elementary all of whose emphasis is on technology, math, computers and science; Our Children's Academy, which provides Pre-K and ESE services; Hartridge Academy, Inc. which offers a Spanish language immersion program focusing on academic excellence and technology; Ridgeview Global Studies Academy, Inc. which places emphasis on global studies; Compass Charter Middle School, Inc. which targets problem students; Babson Park Elementary, which specializes in first grade preparation; Hillcrest Elementary, which specializes in music, dance and the arts; Janie Howard Wilson Elementary, which emphasizes careers and environmental academics; Edward W. Bok Academy, which offers a Pre-International Baccalaureate curriculum; Lake Wales High School, which offers advanced placement and career learning; Lakeland Montessori, Inc. with the Montessori philosophy; Polk Avenue Elementary, which offers foreign language exposure; Berkley Accelerated Middle School, which offers standard based instruction; Berkley Elementary Charter School, Inc. which focuses on cooperative learning; and finally Life Skills Center East, which serves as a dropout retrieval program; (collectively, The Charter Schools).

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**A. Reporting Entity (continued)**

The Polk Education Foundation and Business Partnership, Inc. is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures for the benefit of the District. An audit of the organization's financial statements is conducted by independent certified public accountants and is filed in the District's administrative office.

The Charter Schools are separate, not-for-profit corporations organized pursuant to Chapter 617 Florida Statutes, the Florida Not For Profit Corporation Act, and section 1002.33, Florida Statutes. Each Charter School operates under a charter approved by its sponsor, the Polk County District School Board. An audit of each Charter School for the fiscal year ended June 30, 2010, is required and is filed at the District's administrative office.

The Achievement Academy, Inc.; Central Florida Speech & Hearing, d.b.a. The A.C.E. Charter School; Polk State Collegiate High School; and Polk State College Chain of Lakes Collegiate High School are not required to be included as Discretely Presented Component Units per GASB Statement No. 14, *The Financial Reporting Entity* as these charter schools are part of a larger entity which will continue to be in existence in the event the charters were terminated.

**B. Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function or segment. 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 meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions.

Fund Financial Statements – Governmental fund financial statements are prepared using the current financial resources measurement focus, whereas, the proprietary and fiduciary fund financial statements are prepared using the economic resources measurement focus. 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. Non-major governmental funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

General-Primary Operating Funds – accounts for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

ARRA Economic Stimulus Funds – accounts for and reports funds received by the District from the ARRA Economic Stimulus funds.

Other Debt Service – accounts for and reports on other miscellaneous funds from various sources used for debt service.



**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**B. Basis of Presentation (continued)**

Capital Projects – Capital Improvement (2 mill) – Section 1011.71(2) – accounts for and reports on funds received by the District from Tax levied for the construction, maintenance, and debt service of schools.

Other Capital Projects Fund – accounts for and reports on other miscellaneous funds from various sources used for capital outlay as follows: Proceeds from Certificates of Participation Bonds; Sales Tax Revenues; Sales Tax Bond Proceeds; Land Sale Proceeds; Impact Fee Revenue; State Class Size Reduction Funds; State Classroom First Lottery Bond Proceeds; State SIT Awards; and Charter School Capital Outlay.

Additionally, the District reports the following fund types:

Internal Service Funds – accounts for the self-insured programs for employee group health, casualty, liability, and workers' compensation coverage for the School Board.

Fiduciary (Agency) Funds – are used to account for resources held by the schools, which are collected for and used by student and school athletic, class and club activities.

**C. Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property taxes, interest and certain General Fund program grants associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenues are recognized at the time the expenditures are made.

Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized as expenditures when due; and (2) expenditures related to liabilities reported as general long-term debt are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (the "FASB") prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**C. Basis of Accounting (continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The major operating revenues of the District's internal service funds are from charges for employee health insurance premiums. The major operating expenses for the internal service funds include administrative expenses, claims and insurance premiums for excess coverage. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

The Polk Education Foundation and Business Partnership, Inc, shown as a discretely presented component unit, is presented under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

The Charter Schools, shown as discretely presented component units, are presented in accordance with governmental accounting and financial reporting standards, concurrently with the District. The Polk Education Foundation and Business Partnership, Inc. present financial statements in conformity with standards issued by FASB.

**D. Deposits and Investments**

Banks qualified as public depositories under Florida law hold cash deposits. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The exhibits presented in this Annual Financial Report (the "AFR") consider cash as those accounts used as demand deposit accounts. In addition, the statement of cash flows for proprietary funds considers as cash and cash equivalents those accounts used as demand deposit accounts, all highly liquid investments with an original maturity of three months or less and cash held by fiscal agents.

Investments include amounts placed in SBA Debt Service accounts for investment of debt service moneys reported for fair value, and amounts placed with the SBA for participation in Fund B Surplus Funds Trust Fund (Fund B) investment pool. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of .67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010 are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District entered into an investment advisory program with Stable River Capital Management, Inc. whereby District moneys are placed with a third-party custodian, SunTrust Bank, and invested by the advisor, Stable River. All moneys are invested as authorized by section 218.415 Florida Statutes and Board Policy Section 5.003 in United States Government securities or obligations either directly or through a money market fund. The U.S. Government money market funds are stated at cost, which approximates fair value, while securities owned directly by the District are reflected at fair value.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**D. Deposits and Investments (continued)**

The District also has investment management agreements with The Core Fund, UBS Global Asset Management Inc. (UBS), and MBIA Capital Management Corp. (MBIA) and their respective custodians. The Core Fund is an external pool similar to the State Board of Administration Pool. UBS purchases U.S. government securities for our portfolio, which is held by UBS Financial Services Inc. MBIA is available for use in the future. Several portfolio managers are being used to allow diversity with our investments. All such investments are reported at fair value.

Investments made locally consist of money market mutual funds, United States Treasury Securities and Collateralized Mortgage Obligations and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

**E. Interfund Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as "due to/from other funds" in the fund financial statements.

The Certificate of Participation Fund (COPS), a capital outlay fund, reimburses expenditures once a requisition has been submitted to the trustee. During this process, the two mill capital outlay fund temporarily advances funds to cover the expenditures. This process creates temporary Due To and Due From balance sheet accounts.

**F. Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. All inventories are stated on a moving-average basis. The costs of inventories are recorded as expenditures when used, rather than when purchased.

**G. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$750 or more and an estimated useful life of 1 year or more.

Such assets, except land acquired prior to 1977 and buildings and fixed equipment acquired prior to 1976, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the date of donation.

The value of land acquired prior to 1977 is reported at the assessed value recorded by the Polk County Property Appraiser as of March 10, 1977. Buildings and fixed equipment acquired prior to 1976 are reported at replacement cost at June 30, 1976, as determined for insurance purposes at that time.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during the construction phase of capital assets are not capitalized as part of the cost of construction.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**G. Capital Assets (continued)**

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets are:</u>	<u>Years</u>
Buildings	50
Building Improvements	40
Improvements Other Than Buildings	20
Motor Vehicles	10
Equipment	7
Furniture & Fixtures	5
Software	5
Computers	3
Audio Visual Materials	3

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

**H. Long-Term Liabilities**

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

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

The District enters into interest rate swap agreements to modify interest rates on outstanding debt. The fair values 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 agreements are recorded in the financial statements.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments.

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

**I. State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program (FEFP) administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**I. State Revenue Sources (continued)**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay (PECO) money, to the District School Board on an annual basis. Accordingly, the District recognizes the allocation of PECO funds as deferred revenue until such time as an encumbrance authorization is received.

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

**J. Property Taxes - Revenue Recognition**

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

Property taxes consist of ad valorem taxes on real and personal property within the District. The Polk County Property Appraiser determines property values and property taxes are collected by the Polk County Tax Collector.

The School Board adopted the 2009 tax levy on September 8, 2009. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to four percent for early payment.

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

Property tax revenue is recognized when the District receives taxes, however, revenue is accrued for taxes collected by the Polk County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

**K. Federal Revenue Sources**

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

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**L. Use of Estimates**

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**M. Impact of Recently Issued Accounting Principles**

In June 2008, the 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 Fiscal Year 2010. 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 10, Changes in Long-term Liabilities, and Note 13, Derivative Instruments. The effects of the accounting change on net assets as previously reported for fiscal year 2009 is a reduction of \$5.8 million and is adjusted as of June 30, 2009 as follows:

Net Assets, previously reported	\$ 884,357,188
Deferred Outflow of Resources	11,085,715
Derivative Interest - Interest rate swap	(11,085,715)
Borrowing-Swap upfront payment	<u>(5,843,502)</u>
Net Assets, as restated	<u><u>\$ 878,513,686</u></u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**2. DIFFERENCES BETWEEN GOVERNMENT-WIDE FINANCIAL STATEMENTS AND GOVERNMENTAL FUND STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets**

The Governmental Funds Balance Sheet includes reconciliation between Total Fund Balances-Governmental Funds and Total Net Assets-Governmental Activities reported on the Statement of Net Assets. One element of that reconciliation explains, "Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. The details of this \$547,997,665 difference are as follows:

Bonds Payable, Net of Premium	\$ (221,971,449)
Certificates of Participation, Net of Discount	(231,521,793)
Notes Payable	(6,522,055)
Compensated Absences Payable	(42,245,308)
Derivative Instrument, Net of Premium	(23,505,027)
Other Long-Term Liabilities	<u>(16,943,886)</u>
Net adjustment to reduce Total Fund Balances-Total Governmental Funds to Total Net Assets-Governmental Activities	<u>\$ (542,709,518)</u>

**B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities.**

Reconciliation between Net Changes in Fund Balances-Total Governmental Funds reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Changes in Net Assets-Governmental Activities as reported on the Government-wide Statement of Activities is provided following the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, on the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period." The details of this \$37,629,284 difference are as follows:

Capital Outlay	\$ 83,910,580
Depreciation Expense	<u>(45,440,113)</u>
Net adjustment to increase Net Change in Fund Balances-Total Governmental Funds to Change in Net Assets-Governmental Activities	<u>\$ 38,470,467</u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**3. BUDGETARY COMPLIANCE ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental funds types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each function (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund-function level. The School Board made several supplemental budgetary appropriations throughout the year. Supplemental budgetary appropriations are presented in budget and actual comparison statements by original budget and final budget amounts and discussed in the Management's Discussion and Analysis (MD&A).



**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**4. INVESTMENTS**

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

Investment	Average Maturity	Fair Value
<b>Money Market Funds</b>		
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool: LGIP (Florida PRIME)	46.0 Days	\$ 86,793,120
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool US Bank Trustee for Polk Co SB: LGIP (Florida PRIME)	46.0 Days	12,639,562
RMA Money Market Portfolio	31.0 Days	160,549
Ridgeworth U.S. Gov. Secs. Money Market Funds	48.0 Days	92,060
Ridgeworth Institutional Cash Mgt Money Market Funds	5.0 Days	<u>54,011,864</u>
Total Money Market Funds		153,697,155
<b>Other investments</b>		
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool: Fund B	8.05 Years	3,493,644
State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool US Bank: Fund B	8.05 Years	242,973
State Board of Administration- Debt Service Account	-	547,129
Trust Fund Investment US Bank FHLB Notes	Less than 6 months	2,304,001
The Core Fund – Short-Term U.S. Government Bond Fund	Less than one Year	52,496,536
United States Treasury Notes	9 Years	9,634,454
Ridgeworth U.S. Gov. Sec. Ultra Fund	2.9 Years	2,893,806
U.S. Small Business Administration Loan Pools	8 Years	<u>64,427</u>
		<u>\$ 225,374,125</u>
Investments are reflected in the financial statements: as follows (in thousands)		
Governmental Funds		\$ 159,492,777
Internal Service Funds		63,354,630
Governmental Activities		222,847,407
Fiduciary Funds		<u>2,526,718</u>
		<u>\$225,374,125</u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**4. INVESTMENTS (continued)**

Interest Rate Risk

- The District has a formal investment policy as authorized by section 218.415 Florida Statutes that limits investments to a maximum of five years, but may exceed five years when there is opportunity to achieve a greater return and /or the average life is expected to be less.
- The District has \$64,427 in United States Small Business Administration Loans which have either quarterly or monthly adjustments of interest and may have prepayments.
- The State Board of Administration Pool and The Core Fund, and the various money market funds are considered 2a7-like pools.

Custodial Credit Risk

- All securities are held in the District's name, either directly by the District or by the District's third party custodians per the Board's investment policy and Florida Statute.

Credit Risk

- As of June 30, 2010, the District's investment in the State Board of Administration Local Government Surplus Funds Trust Fund Investment pool (LGIP) known as Florida PRIME, was rated AAAM by Standard and Poor's and the Fund B investments were unrated. Ridgeworth Institutional Cost Management Funds were rated AAAM by Standard and Poor's. The Core Fund was rated AAA/S1 by Standard & Poor's.
- The District's investments in the State Board of Administration Debt Service Accounts, which are not rated, are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.

Concentration of Credit Risk

- All of the District's investments are issued or explicitly guaranteed by the United States Government or are in mutual funds, external investment pools, and other pooled investments which do not require disclosure for concentration of credit risk.

State Board of Administration – Florida Local Government Investment Pool Risk:

On November 29, 2007, the trustees of the State Board of Administration (SBA) suspended deposits and withdrawals from the Florida Local Government Investment Pool (Investment Pool). This action was taken to stop withdrawals that caused the Investment Pool's assets to fall from about \$27 billion down to \$14 billion in a month's time. Some local governments initiated withdrawals due to fears associated with securities that were downgraded below the credit quality guidelines set for initial purchase as well as some limited defaults.

On December 4, 2007, the SBA split the Investment Pool into two funds: 86% was placed in LGIP to hold high-quality money-market appropriate securities and 14% was placed in Fund B to hold higher-risk securities in default, having payment extensions or experiencing significant credit risk. In addition, the Investment Pool's entire November interest and loan loss reserve was placed in Fund B to offset some of the lost value. The goal of Fund B is to maximize the collection of Fund B's principal and interest and to allow all or as much principal as possible to be returned to participants. The District believes that its principal balance in LGIP totaling \$99,432,682 on June 30, 2010 (\$86,793,120 in the District's account plus \$12,639,562 in the US Bank Trustee account) will continue to be maintained without loss by the SBA. The maintenance of the principal balance (face value) in Fund B totaling \$5,547,798 on June 30, 2010 (\$5,187,054 in the District's account plus \$360,744 in the US Bank Trustee account) is uncertain at this time. The current market value adjustment is (\$1,811,181).

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**5. ACCOUNTS RECEIVABLE**

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

**6. CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	Balance	Increases	Decreases	Balance
<b>Capital assets, not being depreciated:</b>				
Land	\$ 94,724,617	\$ 13,569	\$ -	\$ 94,738,186
Construction in Progress	152,156,563	66,461,691	151,811,355	66,806,899
Total capital assets, not being depreciated	<u>246,881,180</u>	<u>66,475,260</u>	<u>151,811,355</u>	<u>161,545,085</u>
<b>Capital assets, being depreciated:</b>				
Improvements Other Than Buildings	41,409,851	955,591	2,152	42,363,290
Buildings and Fixed Equipment	1,089,529,997	151,148,354	46,501	1,240,631,850
Furniture, Fixtures, and Equipment	72,082,759	9,539,754	4,330,507	77,292,006
Motor Vehicles	60,669,253	164,189	229,290	60,604,152
Audio Visual Materials and Computer Software	19,714,560	7,438,787	2,380,204	24,773,143
Total capital assets, being depreciated	<u>1,283,406,420</u>	<u>169,246,675</u>	<u>6,988,654</u>	<u>1,445,664,441</u>
<b>Less accumulated depreciation for:</b>				
Improvements Other Than Buildings	26,019,297	2,086,582	762	28,105,117
Buildings and Fixed Equipment	357,956,729	27,129,849	3,986	385,082,592
Furniture, Fixtures, and Equipment	51,091,838	8,548,277	4,249,595	55,390,520
Motor Vehicles	38,750,909	3,784,898	222,743	42,313,064
Audio Visual Materials and Computer Software	13,532,807	3,890,507	2,222,773	15,200,541
Total accumulated depreciation	<u>487,351,580</u>	<u>45,440,113</u>	<u>6,699,859</u>	<u>526,091,834</u>
Total capital assets, being depreciated, net	<u>796,054,840</u>	<u>123,806,562</u>	<u>288,795</u>	<u>919,572,607</u>
Capital assets, net	<u>\$ 1,042,936,020</u>	<u>\$ 190,281,822</u>	<u>\$ 152,100,150</u>	<u>\$ 1,081,117,692</u>

Depreciation expense was charged to functions as follows:

Instructional	\$24,598,932
Student Personnel Services	1,682,585
Media Services	583,712
Curriculum Development	728,145
Instructional Training	717,686
Instructional Technology Support	306,355
Board	122,843
General Administration	355,286
School Administration	2,010,346
Facilities & Construction	332,800
Fiscal Services	146,564
Food Services	2,127,864
Central Services	5,535,769
Student Transportation	1,678,654
Operation of Plant	2,486,910
Maintenance of Plant	1,125,325
Administrative Technology Support	237,745
Community Services	129,823
Unallocated	532,768
Total Depreciation Expense	\$45,440,113

A detailed schedule of construction in progress is presented in a subsequent note.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**7. NOTES PAYABLE**

Notes Payable are comprised of the following:

	Balance at 06-30-10
<u>Suntrust</u>	
\$2,542,500, Borrowed 7/15/2008, Under Provisions of Section 1013.23 Florida Statutes. Repayment is in 7 annual payments through 11/01/2014 ranging from \$250,086 to \$426,162. Interest Rate of 4.157 percent. Proceeds used to refinance loans for Upgrade of Lighting Systems by Johnson Controls.	\$ 1,811,910
<u>Capital One</u>	
\$1,621,100, Borrowed 7/15/2008, Under Provisions of Section 1013.23 Florida Statutes. Repayment is in 14 semi-annual payments through 06/30/2015 ranging from \$83,997 to \$217,900. Interest rate of 4.267 percent. Proceeds used to refinance loans for Retrofit lighting countywide by Johnson Controls.	1,276,083
<u>Suntrust</u>	
\$2,592,900, Borrowed 07/15/2008, Under Provisions of Section 1013.23 Florida Statutes. Repayment is in 15 semi-annual payments through 1/15/2016 ranging from \$133,300 to \$215,300. Interest rate of 4.267 percent. Proceeds used to refinance loans for Retrofit lighting countywide by Johnson Controls.	2,172,900
<u>Capital One</u>	
\$1,743,300, Borrowed 07/15/2008, Under Provisions of Section 1013.23 Florida Statutes. Repayment is in 13 semi-annual payments through 12/01/2014 ranging from \$117,291 to \$150,397. Interest rate of 4.267 percent. Proceeds used to refinance loans for Retrofit lighting countywide by Johnson Controls.	1,261,161
Total Notes Payable	\$ 6,522,055

Notes payable are as follows:

Fiscal Year Ended <u>June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$1,377,768	\$1,109,284	\$268,484
2012	1,402,590	1,181,605	220,985
2013	1,427,929	1,257,529	170,400
2014	1,437,026	1,320,454	116,572
2015	1,280,966	1,222,583	58,383
2016	<u>444,380</u>	<u>430,600</u>	<u>13,780</u>
Total	<u>\$7,370,659</u>	<u>\$6,522,055</u>	<u>\$848,604</u>

The collateral for these notes payable consists of various electrical and water conservation equipment and fixtures installed throughout the District.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION**

The certificates of participation are instruments issued to finance lease purchase agreements in accordance with Section 235.056, Florida Statutes. US Bank is the trustee for the certificates and makes all interest, principal, and fee payments, invests idle funds, and complies with the requirements of the issue documents. The certificates mature serially and the debt service is funded by transfers from Capital Improvement Fund (Section 236.25). The following is a description of the Certificates of Participation:

**Series 2001A**

The District entered into a financing arrangement on March 21, 2001, which arrangement was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing for 10 various educational facilities. The financing was accomplished through the issuance of Certificates of Participation, Series 2001A, totaling \$54,615,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the 2001A financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on March 21, 2001, and ending on the earlier of: (a) the date on which the Series 2001 Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2026 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include lands on which the Series 2001 projects are located. The following 10 schools are in this arrangement: Elementary Schools E & F (N.E. Roberts Elementary and R. Bruce Wagner Elementary), Auditorium Lake Gibson High School, Homer K Addair Academy (formerly known as the Lake Alfred Career Development Academy), Classroom Wing Jewett Elementary, Agri Science Center/Gym Auburndale Senior High, New Cafeteria/Remodel Bartow Senior & Haines City High Schools, Administration Building, Kathleen Elementary, Quad Classroom Lewis Elementary.

The lease payments are payable by the District, semiannually, on the fifteenth (15<sup>th</sup>) day preceding each January 1 and July 1 at interest 3.25 to 5.0 percent.

**Series 2002**

The District entered into a refunding arrangement on November 13, 2002, to advance refund the Certificates of Participation, Series 1993, issued on behalf of the District by the Financing Corporation for the School Board of Polk County, Florida. The Series 1993 was issued to advance refund the Certificates of Participation, Series 1990 and Series 1991, issued on behalf of the District by the Florida School Boards Association, Inc. This refunding was accomplished through the issuance of Certificates of Participation, Series 2002, totaling \$30,270,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement associated with the Series 2002 Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. By a master lease-purchase agreement, the properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. The initial term of the lease is 1 year commencing on November 1, 2002 and ending on the earlier of (a) the date on which the Series 2002 certificate has been paid or provision for such payment has been made pursuant to the Trust Agreement or (b) July 1, 2013.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION (continued)**

If the District fails to renew the master lease-purchase agreement and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement, together with improvements thereon, to the Trustee for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 30 years from the date of inception of the arrangement.

The District properties included in the 2002 ground lease under this arrangement include the lands on which the Series 1990 and 1991 Projects are located and which came from the Series 1993 refunding of 1990 and 1991. The Series 1990 Projects included the construction of Valleyview Elementary, Socrum Elementary, Watson Elementary, portions of Loughman Oaks Elementary and George W. Jenkins Senior High schools. The Series 1991 Project included the construction of George W. Jenkins Senior High School.

Net proceeds of the Series 2002 Certificates were placed in an irrevocable trust to provide for the future debt service payments on the Series 1993 Certificates. Accordingly, the trust account assets and the liability for the Series 1993 Certificates are not included in the Board's financial statements.

The Series 2002 Certificates include serial certificates maturing from 2003 through 2013 and term certificates maturing in 2013. The lease payments on the Series 2002 Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2.0 to 4.0 percent.

**Series 2003B**

The District entered into a refunding arrangement on July 30, 2003, to advance refund the Certificates of Participation, Series 1994, issued on behalf of the District by the Financing Corporation for the School Board of Polk County, Florida. The financing was accomplished through the issuance of Certificates of Participation, Series 2003B, totaling \$19,700,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement associated with the Series 2003B Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. By a master lease-purchase agreement, the property covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. The initial term of the lease is 1 year commencing on July 30, 2003 and ending on the earlier of (a) the date on which the Series 2003B certificate has been paid or provision for such payment has been made pursuant to the Trust Agreement or (b) January 1, 2018.

If the District fails to renew the master lease-purchase agreement and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement, together with improvements thereon, to the Trustee for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District property included in the 2003B ground lease under this arrangement includes the land on which the Series 1994 project is located. The Series 1994 Project was for the construction of Lake Region Senior High School.

Net proceeds of the Series 2003B Certificates were placed in an irrevocable trust to provide for the future debt service payments on the Series 1994 Certificates. Accordingly, the trust account assets and the liability for the Series 1994 Certificates are not included in the Board's financial statements.

The Series 2003B Certificates include serial certificates maturing from 2004 through 2018 and term certificates maturing in 2018. The lease payments on the Series 2003B Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2.0 to 4.0 percent.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION (continued)**

**Series 2004-QZAB/COPS**

The District entered into a financing arrangement on June 8, 2004, characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Polk County, Florida, whereby the District secured financing through Qualified Zone Academy Bonds (QZABs) for technology improvements. The financing was accomplished through the issuance of Qualified Zone Academy Bonds-Certificates of Participation, Series 2004, totaling \$3,561,000, to be repaid from the proceeds of rents paid by the District.

As a condition of this 2004 financing arrangement, the District will give title to the equipment to the Financing Corporation for the School Board of Polk County, Florida. The initial term of the lease is for the period commencing on June 8, 2004, and ending on the earlier of: (a) the date on which the Series 2004 QZAB/Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) June 7, 2020 (both dates inclusive). The technology equipment covered by the ground lease are leased back to the District.

If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the equipment included under the Ground Lease Agreement for the benefit of the securers of the QZAB/Certificates for a period of time specified by the arrangement which may be up to approximately 16 years from the date of inception of the arrangement.

The District technology equipment included in the ground lease under this arrangement includes approximately 5,442 computers and monitors.

The Series 2004-QZAB/COPS mature on June 7, 2020 and required the District to make annual payments into an escrow account annually from 2005 through 2009 at \$403,617 per year. The total amount paid into escrow in the form of a sinking fund (\$2,018,084) with interest earnings should be sufficient to pay off the principal due on term certificates maturing in 2020, considering the subsidy. The escrow/sinking fund is included in Investments. The QZABs are financial instruments that provide a different kind of subsidy in the form of a tax credit to a bank, in this case, Wachovia Bank, N.A., that holds the QZABs. The District was eligible for this program since the schools which participated had at least 35 percent or more of their students eligible for free or reduced lunch under the National school Lunch Act, and the District had established a partnership with a business, Gateway, who provided the 10 percent matching in Online Training classes for teachers and students.

**Series 2009A**

The District entered into a refunding arrangement on July 24, 2009, to advance refund the Certificates of Participation, Series 2003A. The refunding was accomplished through the issuance of Certificates of Participation, Series 2009A, totaling \$46,755,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the 2009 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on July 24, 2009, and ending on the earlier of: (a) the date on which the Series 2009A Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2028 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION (continued)**

The District properties included in the ground lease under this arrangement include lands on which the original Series 2003A projects are located. The following 5 schools are in this arrangement: Chain of Lakes Elementary, Ridge Community High School, Sandhill Elementary Classroom Addition, Ridgeview Elementary Classroom Addition, and Haines City High School Administrative Suite/Media Center.

The Net proceeds of the Series 2009A Certificates were used to currently refund the Series 2003A Certificates.

The Series 2009A Certificates include serial certificates maturing from 2010 through 2028 and term certificates maturing in 2028. The lease payments on the Series 2009A Certificates are payable by the District, semiannually, on July 1 and Jan. 1. The lease payments are payable by the District, monthly, at an interest rate of 3.865 percent.

Please refer to Floating-to Fixed Cancelable Interest Rate Swap note below for information regarding outstanding swap associated with Series 2009A (originally Series 2003A).

**Series 2009B**

The District entered into a refunding arrangement on July 24, 2009, to advance refund the Certificates of Participation, Series 2008A (formerly Series 1998). The refunding was accomplished through the issuance of Certificates of Participation, Series 2009B, totaling \$36,985,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement associated with the Series 2009B Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. By a master lease-purchase agreement, the property covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. The initial term of the lease is for the period commencing on July 24, 2009, and ending on the earlier of: (a) the date on which the Series 2009B Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2023 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the master lease-purchase agreement and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement, together with improvements thereon, to the Trustee for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District property included in the 2009B ground lease under this arrangement includes the land on which the Series 1998 project is located. The Series 1998 Project was for the construction of Sleepy Hill Middle School and Dundee Ridge Middle School.

The net proceeds of the Series 2009B Certificates were used to currently refund the Series 2008A Certificates.

The Series 2009B Certificates include serial certificates maturing from 2010 through 2023, and term certificates maturing in 2023. The lease payments on the Series 2009B Certificates are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from approximately from 3.457 to 4.48 percent.

Please refer to Floating-to Fixed Cancelable Interest Rate Swap note below for information regarding outstanding swaps associated with Series 2009B (originally Series 2008A).



**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION (continued)**

**Series 2009C-QSCB/COPS**

The District entered into a financing arrangement on December 30, 2009, which arrangement was characterized as a lease-purchase agreement in the form of Qualified School Construction Bonds, with the Financing Corporation for the School Board of Polk County, Florida. The financing was accomplished through the issuance of Certificates of Participation, Series 2009C, totaling \$20,543,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the 2009 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on December 30, 2009, and ending on the earlier of: (a) the date on which the Series 2009C Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) December 15, 2024 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include lands on which the Series 2009C project is located. The Series 2009C project was for the reconstruction of Mulberry Middle School.

The lease payments are payable by the District into a sinking fund on an annual basis, and interest at a rate of 1.95% is paid quarterly. Sinking fund proceeds are invested and accumulate over the life of the bonds, ending in a lump sum repayment to the bondholders at bond maturity. The interest earnings of the sinking fund are estimated. Therefore, the final principal payment will be adjusted as required based upon final interest earned. Bondholders earn federal tax credits in lieu of interest.

The following is a schedule of required sinking fund deposits and estimated earnings to accumulate through maturity in the sinking fund:

Payment Due Date (FY)	Principal	Interest Earned Sinking Fund	Estimated Sinking Fund Balance
2011	\$ 1,104,527	\$ -	\$ 1,104,527
2012	1,104,527	33,136	2,242,190
2013	1,104,527	67,266	3,413,982
2014	1,104,527	102,420	4,620,928
2015	1,104,527	138,628	5,864,083
2016	1,104,527	175,923	7,144,533
2017	1,104,527	214,336	8,463,395
2018	1,104,527	253,902	9,821,824
2019	1,104,527	294,655	11,221,006
2020	1,104,527	336,630	12,662,163
2021	1,104,527	379,865	14,146,554
2022	1,104,527	424,397	15,675,478
2023	1,104,527	470,264	17,250,269
2024	1,104,526	517,507	18,872,304
2025	1,104,526	566,168	20,543,000
	<u>\$ 16,567,903</u>	<u>\$ 3,975,097</u>	<u>\$ 20,543,000</u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**8. CERTIFICATES OF PARTICIPATION (continued)**

**Series 2010A**

The District entered into a financing arrangement on March 9, 2010, to advance refund the Certificates of Participation, Series 1999A. The refunding was accomplished through the issuance of Certificates of Participation, Series 2010A, totaling \$51,315,000, to be repaid by the proceeds of rents paid by the District.

As a condition of the financing arrangement associated with the Series 2010A Certificates, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. By a master lease-purchase agreement, the property covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. The initial term of the lease is for the period commencing on March 9, 2010, and ending on the earlier of: (a) the date on which the Series 2010A Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2024 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the master lease-purchase agreement and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement, together with improvements thereon, to the Trustee for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

The District property included in the 2010A ground lease under this arrangement includes the land on which the Series 1999A projects are located. The Series 1999A Project was for the construction of Sandhill Elementary, Pinewood Elementary, Berkley Elementary and Ridgeview Elementary Schools, and an addition to Lakeland Senior High School.

The net proceeds of the Series 2010A Certificates were used to currently refund the Series 1999A Certificates.

The lease payment are payable by the District, semiannually, on the fifteenth day preceding each January 1<sup>st</sup> and July 1<sup>st</sup>, at interest rates ranging from 3.00 to 4.25 percent.

**Series 2010B**

The District entered into a refunding arrangement on March 9, 2010, to advance refund the COPs Series 1999B. The refunding was accomplished through the issuance of Certificates of Participation, Series 2010B, totaling \$5,840,000, to be repaid by the proceeds of rents paid by the District.

As a condition of the 1999 financing arrangement, the District has given a ground lease on District property to the Financing Corporation for the School Board of Polk County, Florida, with a rental fee of \$10 per year. The initial term of the lease is for the period commencing on March 11, 1999 and ending on the earlier of: (a) the date on which the Series 2010B Certificates and all other amounts due in respect of the Trust Agreement or the Lease Agreement have been paid in full or (b) January 1, 2015 (both dates inclusive). The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District.

If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to approximately 25 years from the date of inception of the arrangement.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
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**8. CERTIFICATES OF PARTICIPATION (continued)**

The District properties included in the 2010B ground lease under this arrangement include lands on which the Series 1995 projects are located along with a new project for Series 1999B. The Series 1995 Projects were for the construction of an auditorium at Auburndale Senior High School, and new schools Blake Elementary (now Blake Academy) and Lake Alfred middle School (now Discovery Academy Charter School). The Series 1999B project consisted of the construction of an auditorium at Mulberry Senior High School.

The net proceeds of the 2010B Certificates were used to currently refund the Series 1999B Certificates.

The lease payment are payable by the District, semiannually, on the fifteenth day preceding each January 1<sup>st</sup> and July 1<sup>st</sup>, at an interest rate of 3.00 percent.

The following is a summary of certificates of participation payable:

	<u>Balance at 6/30/10</u>
Series 2001A, \$54,615,000, Issued 3/21/01.	\$47,465,000
Series 2002, \$30,270,000, Issued 11/13/02.	9,910,000
Series 2003B, \$19,700,000, Issued 7/30/03.	12,055,000
Series 2004-QZAB/COPS, \$3,561,000, Issued 6/08/04.	3,561,000
Series 2009A (Refinances 2003A), \$46,755,000, Issued 07/30/2009.	46,010,000
Series 2009B (Refinances 2008A), \$36,985,000., Issued 07/30/2009.	36,945,000
Series 2009C QSCB, \$20,543,000, Issued 12/30/2009.	20,543,000
Series 2010A (Refinances 1999A), \$51,315,000, Issued 03/23/2010.	51,315,000
Series 2010B (Refinances 1999B), \$5,840,000, Issued 03/23/2010.	<u>5,840,000</u>
 Total Certificates of Participation	 <u>\$233,644,000</u>

The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30, 2010:

Fiscal Year Ended <u>June 30</u>	Certificates of Participation		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$16,921,979	\$7,910,000	\$9,011,979
2012	16,970,345	8,250,000	8,720,345
2013	16,968,315	8,560,000	8,408,315
2014	16,975,028	8,880,000	8,095,028
2015	16,971,175	9,190,000	7,781,175
2016-2020	88,841,888	55,816,000	33,025,888
2021-2025	106,590,830	86,558,000	20,032,830
2026-2028	<u>51,443,780</u>	<u>48,480,000</u>	<u>2,963,780</u>
Grand Totals	<u>\$331,683,340</u>	<u>\$233,644,000</u>	<u>\$98,039,340</u>
 Total COPS		 \$233,644,000	
Less: Unamortized Premium/Discount		(529,733)	
Deferred Amount on Refunding		<u>(1,592,474)</u>	
 Total COPS Payable		 <u>\$231,521,793</u>	

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**9. BONDS PAYABLE**

The following is a description of debt issues:

State School Bonds

The State Board of Education on behalf of the District issues these bonds. The bonds mature serially and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax and the State's full faith and credit. The State Board of Education and State Board of Administration administer principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements.

The following is a summary of bonds payable at June 30, 2010:

State School Bonds:	Balance at 6/30/2010
Series 2001-A, \$675,000, Issued 5/22/01, Matures Serially to 1/1/21, Interest Rates Ranging from 4.1 to 5.25 Percent. Payable in Future Annual Installments Ranging from \$25,000 to \$55,000, Semiannual Interest Payments Range from \$1,375 to \$15,748.	\$ 435,000
Series 2002-B, \$910,000, Issued 7/15/02, Matures Serially to 1/15/15, Interest Rates Ranging from 3.375 to 5.75 Percent. Payable in Future Annual Installments Ranging from \$20,000 to \$120,000, Semiannual Interest Payments Range from \$6,450 to \$42,975.	440,000
Series 2003-A, \$495,000, Issued 6/15/2003, Matures Serially to 1/1/23, Interest Rates Ranging from 3.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$20,000 to \$35,000, Semiannual Interest Payments Range from \$1,487 to \$18,210.	320,000
Series 2004-A, \$415,000, Issued 8/25/2004, Matures Serially to 1/1/24, Interest Rates Ranging from 3.0 to 4.625 Percent, Payable in Future Annual Installments Ranging from \$15,000 to \$35,000, Semiannual Interest Payments Range from \$809.34 to \$8,021.	325,000
Series 2005-A, \$1,185,000, Issued 6/1/2005, Matures Serially to 7/1/25, Interest Rates Ranging from 3.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$20,000 to \$90,000, Semiannual Interest Payments Range from \$1,912.50 to \$35,421.	995,000
Series 2005-A (Q), \$14,020,000, Issued 05/1/2005. This refunded 1996-A, Matures Serially to 01/01/2016, Interest Rates Ranging from 3.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$825,000 to \$1,900,000, Semiannual Interest Payment Range from \$47,500 to \$467,343.	9,675,000
Series 2005-B (R), \$2,595,000, Issued 07/1/2005. This partially refunded 1998-A, Matures Serially To 01/01/2018, Interest Rates Ranging from 3.5 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$15,000 to \$355,000, Semiannual Interest Payment Range from \$8,875 to \$64,500.	2,110,000
Series 2006-A, \$1,035,000, Issued 06/15/2006, Matures Serially to 01/01/2026, Interest Rates Ranging From 4.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$30,000 to \$95,000, Semi-Annual Interest Payments Range from \$2,197 to \$24,917.	915,000
Series 2009-A (Refunding Portion), \$655,000, Issued 08/15/2009. This refunded 1999-A, Matures Serially 01/01/2019, Interest Rates Ranging from 2.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$55,000 to \$80,000, Semiannual Interest Payment Range from \$2,000 to \$13,575.	590,000
Series 2009-A (New Money Portion), \$4,220,000, Issued 08/15/2009, Matures Serially to 1/01/2029, Interest Rates Ranging from 2.0 to 5.0 Percent, Payable in Future Annual Installments Ranging from \$85,000 to \$460,000, Semiannual Interest Payment Range from \$9,775 to \$87,025.	4,130,000
Total State School Bonds	\$ 19,935,000

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**9. BONDS PAYABLE (continued)**

Sales Tax Bonds:

These bonds are authorized by the Constitution and Laws of the State of Florida, including, particularly Chapter 1010, Florida Statutes, Chapter 212, Part I, Florida Statutes and other applicable provisions of law. The bonds are secured by a pledge of the proceeds received pursuant to a Local Option Half Cent Sales Tax passed by Polk County voters which commenced January 1, 2004 for a period not to exceed fifteen (15) years. Sales tax received for the current year was \$29,510,227. For the fiscal year, the amount of principal and interest on Sales Tax Bonds was \$26,495,353.

Series 2004, \$54,240,000, Issued 5/20/04, Matures Serially to 10/1/19, Interest Rates Ranging From 2.0 to 5.25 percent, Payable in Future Annual Installments Ranging from \$2,920,000 To \$4,825,000, Semiannual Interest Payments Range from \$126,656 to \$1,030,656.	\$ 35,820,000
Series 2005, \$92,245,000, Issued 07/26/2005, Matures Serially to 10/01/19, Interest Rates Ranging From 3.0 to 5.0 percent, Payable in Future Annual Installments Ranging from \$5,265,000 To \$8,495,000, Semiannual Interest Payments Range from \$210,925 to \$1,767,868.	63,910,000
Series 2007, \$109,445,000, Issued 11/30/2007, Matures Serially to 10/01/2018, Interest Rates Ranging from 3.3375 to 5.0 percent, Payable in Future Annual Installments Ranging from \$7,815,000 to \$12,535,000, Semiannual Interest Payments Range from \$300,850 to \$2,588,892.	<u>93,495,000</u>
Total Sales Tax Bonds	<u>\$ 193,225,000</u>
Total Bonds Payable	<u><u>\$ 213,160,000</u></u>

The various bonds were issued to finance capital outlay projects of the District.

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

State School Bonds

Fiscal Year Ended <u>June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$2,908,541	\$1,965,000	\$943,541
2012	2,919,120	2,070,000	849,120
2013	2,929,207	2,180,000	749,208
2014	2,927,314	2,285,000	642,314
2015	2,908,641	2,380,000	528,641
2016-2020	6,326,781	4,980,000	1,346,781
2021-2025	3,031,801	2,380,000	651,801
2026-2029	1,875,144	1,695,000	180,144
Total	<u>\$25,826,550</u>	<u>\$19,935,000</u>	<u>\$5,891,550</u>

Sales Tax Bonds

Fiscal Year Ended <u>June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$26,493,009	\$17,765,000	\$8,728,009
2012	26,494,711	18,525,000	7,969,711
2013	26,491,366	19,340,000	7,151,366
2014	26,491,790	20,235,000	6,256,790
2015	26,491,900	21,220,000	5,271,900
2016-2019	105,969,096	96,140,000	9,829,095
Totals	<u>\$238,431,871</u>	<u>\$193,225,000</u>	<u>\$45,206,871</u>

State School Bonds	\$19,935,000
Sales Tax Bonds	<u>193,225,000</u>
Sub Total Bonds	\$213,160,000
Plus Unamortized Bond Premium/Discount	8,811,449
Total Bonds Payable	<u><u>\$221,971,449</u></u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
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**10. CHANGES IN LONG-TERM LIABILITIES**

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

Description	RESTATED BALANCE 7/1/09	ADDITIONS	DEDUCTIONS	BALANCE 6/30/10	DUE WITHIN ONE YEAR
Notes Payable	\$ 7,562,621	\$ -	\$ 1,040,566	\$ 6,522,055	\$ 1,109,284
Certificates of Participation (COP)	217,951,000	161,438,000	145,745,000	233,644,000	7,910,000
COP-Prem/Discount	(505,099)	(71,374)	(46,740)	(529,733)	(41,642)
COP – Deferred Amt on Refunding	-	(1,709,334)	(116,860)	(1,592,474)	(116,860)
Bonds Payable	227,970,000	4,875,000	19,685,000	213,160,000	19,730,000
Bonds Payable-Prem/Discount	9,630,178	177,169	995,899	8,811,448	995,899
Derivative Instruments – Hedging	11,085,715	6,804,751	-	17,890,466	-
Borrowing – Swap Upfront Payment	5,843,502	-	228,941	5,614,561	292,084
Compensated Absences Payable	42,771,470	4,272,140	4,798,302	42,245,308	4,616,022
Estimated Liability for Claims	33,951,696	32,975,234	33,951,695	32,975,235	13,118,997
Other Post-Employment Benefits	10,620,584	6,323,303	-	16,943,887	-
<b>Total</b>	<b>\$566,881,667</b>	<b>\$215,084,889</b>	<b>\$206,281,803</b>	<b>\$575,684,753</b>	<b>\$ 47,613,784</b>

**11. DEFEASED DEBT**

On July 24, 2009, the District entered into a refunding arrangement with Citigroup to currently refund the 2003A Certificates of Participation, \$46,360,000, with the 2009A series Certificates of Participation, \$46,755,000. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. Please refer to Floating-to Fixed Cancelable Interest Rate Swap note for further information regarding outstanding swaps associated with Series 2009A (originally Series 2003A). As a result of this refunding, the District will see an approximate increase in Debt Service payments and fees in the amount of \$8,666,778, which resulting in an estimated economic loss (difference between the present value of debt service payment on the old and new debt) of \$5,689,908. The District expects to renegotiate the terms of the liquidity instrument during the 2010-2011 fiscal year, which will reduce the District's cost for this transaction.

On July 24, 2009, the District entered into a refunding arrangement with Citigroup to currently refund the 2008A Certificates of Participation, \$36,625,000, with the 2009B series Certificates of Participation, \$36,985,000. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. Please refer to Floating-to Fixed Cancelable Interest Rate Swap note for further information regarding outstanding swaps associated with Series 2009B (originally Series 2008A). As a result of this refunding, the District will see an approximate increase in Debt Service payments and fees in the amount of \$6,132,268, which resulted in an estimated economic loss (difference between the present value of debt service payment on the old and new debt) of \$3,169,665. The District expects to renegotiate the terms of the liquidity instrument during the 2010-2011 fiscal year, which will reduce the District's cost for this transaction.

On March 9, 2010 the District entered into a refunding arrangement with Citigroup to currently refund the 1999A Certificates of Participation, \$49,630,000, with the 2010A series Certificates of Participation, \$51,315,000. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. As a result of this refunding, the District will see an approximate decrease in Debt Service payments and fees in the amount of \$2,864,629, which resulted in an estimated economic gain (difference between the present value of debt service payment on the old and new debt) of \$2,999,168.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. DEFEASED DEBT (continued)**

On March 9, 2010 the District entered into a refunding arrangement with Citigroup to currently refund the 1999B Certificates of Participation, \$5,825,000, with the 2010B series Certificates of Participation, \$5,840,000. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the District's financial statements. As a result of this refunding, the district will see an approximate decrease in Debt Service payments and fees in the amount of \$339,886, which resulted in an estimated economic gain (difference between the present value of debt service payment on the old and new debt) of \$282,249.

On August 15, 2009, a portion of the bond proceeds received for the issuance of the State Board of Education (SBE) Capital Outlay Bonds, 2009 Series A, \$655,000, refunded certain callable portions of the SBE Capital Outlay Bonds, 1999 Series A. Accordingly, Series 1999 Series A, \$690,000 are considered defeased. As a result of this refunding, the District will see a decrease in Debt Service payments and fees in the amount of \$119,562.

**12. ESTIMATED ARBITRAGE REBATE**

The amount of \$618,700 reported as estimated arbitrage rebate payable for Fiscal Year 2009 was paid in Fiscal Year 2010. In addition to the arbitrage paid, \$309,350 was paid as a penalty and \$372,270 was paid in interest. As per regulations section 1.148-3(h), the penalty equals 50 percent of the rebate amount not paid when required to be paid, plus interest. The interest was a calculation from 05/11/04-03/10/10. The calculation date was started on 05/11/04 because payment is due 60 days from the five year period end date (03/11/2004). The total of this payment to the United States Treasury was \$1,300,320. The \$618,700 was the arbitrage earnings from the investment of proceeds from the \$63,760,000 Series 1999A/B Certificates of Participation for the period of March 11, 1999, through March 11, 2004. The estimated liability was calculated by the CPA firm of Price, Waterhouse Coopers, LLP under regulations issued by the United States Treasury Department in 2005.

The District is not aware of any further arbitrage at June 30, 2010.

**13. DERIVATIVE INSTRUMENTS**

**Floating-to-Fixed Cancelable Interest Rate Swap:**

In connection with the issuance on July 30, 2003, of the \$50,355,000 variable-rate Certificates of Participation Series 2003A, the District entered into a floating-to-fixed cancelable interest rate swap with Citibank, N.A., New York ("Citibank"), effective through January 1, 2028, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into 25 year synthetic fixed rate debt obligations with a fixed rate of 3.87 percent. In exchange for an upfront premium payment of \$3,440,000 received by the District, the swap counterparty has the right to cancel the swap on any date on or after August 1, 2008, without making a termination payment. In exchange for an additional reduction in the fixed rate paid by the District on the swap, the counterparty has the right to pay a lower Alternate Floating Rate equal to 69.5 percent one month London Interbank Offer Rate (LIBOR) rather than the Securities Industry and Financial Markets Association ("SIFMA"). The counterparty currently pays this lower Alternate Rate. In the event the swap is terminated, the District will be exposed to potentially higher interest rate payments on the Certificates which would equal prevailing interest rates. Also, if the District terminates the swap and the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value. The District expects that the rate on the swap in the Alternate Rate in which the District receives 69.5 percent of LIBOR and the rate on the Series 2003A Certificates will be substantially the same throughout the term of the swap. The counterparty is a major municipal swap dealer and as of June 30, 2010 was rated AA- by Fitch Rating, AA by Standard & Poors, and Aa1 by Moody's Investors Service. As of June 30, 2010, the swap associated with Series 2003A, with a notional amount of \$45,615,000 in which the District pays 3.87% and receives 69.5% of one-month LIBOR, had a fair value of \$(7,108,079).

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**13. DERIVATIVE INSTRUMENTS (continued)**

**Floating-to-Fixed Interest Rate Swap**

One swap associated with the Series 2008A issue, with a notional amount of \$31,790,000 in which the District pays 4.48% and receives the SIFMA Municipal Swap index minus 0.02%, had, as of June 30, 2010, a fair value of \$(4,270,800). The other swap associated with the Series 2008A issue, with a notional amount of \$4,795,000 in which the District pays 3.457% and receives the SIFMA Municipal Swap Index less 0.02%, had, as of June 30, 2010, a fair value of \$(398,453). All fair values are calculated by the counterparty, and are flat mark-to-market, and all negative marks represent a liability to the District.

**Interest Rate Swaption Agreement:**

On October 5, 2005, the District entered into an interest rate swaption with Citibank, whereby Citibank has (or had) the right to enter into an interest rate swap agreement associated with the Series 2001A Certificates of Participation. As an alternative to advance refunding the prior certificates, the Board approved the future current refunding of all or a portion of the outstanding prior certificates and the execution of the swaption agreement for an upfront premium associated with each prior certificate. The District entered into the swaption primarily to modify its risk of interest rate changes with respect to the refunding certificates, and to lock in and receive on a current basis an amount equal to or greater than the present value savings achievable if the prior certificates were refunded.

Upon exercise by Citibank of the swaption on any swaption exercise date under the terms of the swap agreement, the District will make semiannual payments to Citibank based on the notional amount and a fixed rate equal to each corresponding issue as specified in the table above. Citibank will make semi-annual payments to the District based on an amortized notional amount and a variable rate equal to the SIFMA Municipal Swap Index, less 0.02%. At June 30, 2010, the SIFMA Municipal Swap Index was 0.35%. The underlying swap, if entered into, will be for the entire duration of the refunding certificates, subject to certain events of default or termination events. The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the agreement. If the District terminates the swap and the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value. The 2001A swaption had a (\$6,113,134) fair value as of June 30, 2010.

**Borrowings of Hybrid Derivative Investment:**

The District received upfront payments of \$2,041,000 and \$1,417,500 for the 2001A and 2008A swaptions. In addition, the District received an upfront payment of \$3,440,000 for an option on its 2003 Interest Rate Swap. The upfront payments were composed of intrinsic and time value of option components resulting in a hybrid derivative. The borrowings on the swaptions accreted interest between the inception date and the exercise date. The hybrids are composed of the intrinsic value, the time value and the at market swap. The intrinsic portion valued at unamortized cost of \$2,716,513 at June 30, 2010. The time value portion is considered deferred revenue and is carried at \$2,898,048 for a total liability for upfront payments of \$5,614,561.



**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**13. DERIVATIVE INSTRUMENTS (continued)**

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:

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities					
Hedging Derivatives:					
2003 Interest Rate Swap (2009) COPS	Deferred Outflow of resources	\$ (2,018,922)	Debt	\$ (7,108,079)	\$ 45,615,000
2008A Interest Rate Swap (2009B COPS)	Deferred Outflow of resources	\$ (195,444)	Debt	\$ (398,453)	\$ 4,814,000
2001A - Swaption	Deferred Outflow of resources	\$ (2,878,196)	Debt	\$ (6,113,134)	\$ 44,120,000
2008A - Swaption (2009B COPS)	Deferred Outflow of resources	\$ 1,712,189	Debt	\$ (4,270,800)	\$ 31,855,000
Derivative Instruments				\$ (17,890,466)	

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap.

**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:

	Objective	Notional	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Rating
Governmental Activities								
Hedging Derivatives:								
2003 Interest Rate Swap	Hedge changes in cash flows on the 2003 Certificates (2009A)	\$ 50,535,000	7/30/2003	1/1/2028	\$ 3,440,000	Pay 3.865%; receive 69.5% 1 mo LIBOR	Citibank NA, New York	A1,A+,A+
2008A Interest Rate Swap	Hedge changes in cash flows on the 2008A Certificates (2009B)	\$ 4,835,000	6/24/2008	1/1/2018	N/A	Pay 3.457%; receives SIFMA 0.02%	Citibank NA, New York	A1,A+,A+
2001A - Swaption	Hedge against future increase in interest rates	\$ 44,120,000	1/1/2011	1/1/2026	\$ 2,041,000	Pay 4.72%; receives SIFMA 0.02%	Citibank NA, New York	A1,A+,A+
2008A - Swaption	Hedge against future increase in interest rates (2009B)	\$ 31,855,000	7/1/2008	1/1/2023	\$ 1,417,500	Pay 4.48%; receives SIFMA 0.02%	Citibank NA, New York	A1,A+,A+

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**13. DERIVATIVE INSTRUMENTS (continued)**

As of June 30, 2010 aggregate debt service requirements of the District's debt and receipts and disbursements on associated derivative instruments are as follows, assuming current interest rates on debt and current reference rates on hedging instruments will remain the same.

Period Ending	Bond Principal	Bond Interest Expense Projected at SIFMA (0.41%)	Swap Payment Fixed at 3.865%	Swap Receipt Projected at SIFMA minus 0.02% (0.39%)	Total
7/7/2011	\$ 810,000	\$ 338,473	\$ 3,337,374	\$ 319,018	\$ 4,804,865
7/7/2012	890,000	334,990	3,304,287	315,705	4,844,982
7/7/2013	920,000	331,270	3,268,944	312,166	4,832,380
7/7/2014	1,725,000	325,857	3,219,606	307,017	5,577,480
7/7/2015	1,790,000	318,652	3,155,447	300,163	5,564,263
7/7/2016	3,215,000	308,481	3,053,907	290,489	6,867,877
7/7/2017	3,425,000	294,837	2,909,363	277,510	6,906,711
7/7/2018	3,555,000	280,491	2,771,190	263,864	6,870,545
7/7/2019	5,530,000	261,889	2,586,577	246,169	8,624,635
7/7/2020	5,780,000	238,706	2,337,906	224,118	8,580,730
7/7/2021	6,065,000	214,565	2,079,694	201,221	8,560,481
7/7/2022	6,425,000	188,900	1,807,783	177,119	8,598,802
7/7/2023	6,830,000	161,601	1,521,964	151,787	8,665,352
7/7/2024	910,000	145,724	1,358,452	137,075	2,551,252
7/7/2025	945,000	141,922	1,322,608	133,459	2,542,988
7/7/2026	985,000	137,966	1,285,315	129,695	2,537,976
7/7/2027	16,110,000	103,460	961,557	97,026	17,272,044
7/7/2028	17,045,000	34,942	323,307	32,624	17,435,873
	<u>\$ 82,955,000</u>	<u>\$ 4,162,728</u>	<u>\$ 40,605,281</u>	<u>\$ 3,916,226</u>	<u>\$ 131,639,236</u>

**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 the 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 Services. 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. There were no derivatives in asset positions.

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.

**Interest Rate Risk.** The District is exposed to interest rate risk on its pay-fixed 2002B 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.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**13. DERIVATIVE INSTRUMENTS (continued)**

**Termination Risk.** The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract including if either parties credit rating fall below designated levels. In addition, the District is exposed to termination risk on its 2003 interest rate swap should a termination event occur and the counterparty elects to terminate the swap. 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.

**14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Fund	Interfund	
	Transfers In	Transfers Out
Major:		
Capital Projects:		
Sales Tax Receipts	\$ 2,964,561	\$ -
Certificates of Participation	-	2,964,561
Total	<u>\$ 2,964,561</u>	<u>\$ 2,964,561</u>

The Interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 26,239,585	\$ 7,309,427
Debt Service - Other	46,623,776	618,700
Capital Projects:		
Local Capital Improvement	5,632,622	40,925,350
Other	618,700	28,289,527
Nonmajor Governmental	1,676,805	2,234,835
Internal Service	-	1,413,649
Total	<u>\$ 80,791,488</u>	<u>\$ 80,791,488</u>

The transfers out of the capital projects funds were primarily to provide debt service principal and interest payments, to fund property casualty premiums and assist in funding repairs and maintenance. The remaining transfers between funds were operational in nature.

**15. RESERVE FOR ENCUMBRANCES**

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010 -11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**16. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2009 tax roll for fiscal year 2009-2010:

	<u>MILLAGES</u>		<u>TAXES</u>	
	Maximum Authorized	Levied	Levied (100%)	Collected
<u>GENERAL FUND</u>				
Nonvoted School Tax:				
Required Local Effort	5.088	5.088	\$167,223,871	\$162,096,936
Discretionary Local Effort	.748	.748	24,584,013	23,830,289
Supplemental Discretionary Local Effort (Critical Needs Operating Millage)	.250	.250	8,216,582	7,964,669
Prior Years				1,946,701
<u>CAPITAL PROJECTS FUNDS</u>				
Nonvoted Tax:				
Local Capital Improvements	1.50	1.50	49,299,491	47,785,274
Prior Years				587,854
 Total	 <u>7.586</u>	 <u>7.586</u>	 <u>\$249,323,957</u>	 <u>\$244,211,723</u>

Actual current-year property taxes collected totaled 96.93 percent of taxes levied. The Polk County Tax Collector is not required by law to make an accounting to the Board of the differences between taxes levied and taxes collected. However, because discounts are allowed for early payment of taxes and because of other reasons for non-collection, the Board budget estimates a 5 percent shortfall between taxes levied and taxes collected.

**17. STATE RETIREMENT PROGRAMS**

**Plan Description.** All regular employees of the District are covered by the Florida Retirement System, a State administered cost-sharing multiple-employer defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest at specified numbers of years of service depending upon the employee's classification. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees, to cover social security benefits lost by virtue of retirement system membership. The Plan's financial statements and other supplemental information are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the Florida State Comptroller's Office in Tallahassee, Florida. Also, an annual report on the Plan which includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the Department of Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**17. STATE RETIREMENT PROGRAMS (continued)**

**Funding Policy.** The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2009-10 fiscal year, employer contribution rates were as follows:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>
Florida Retirement System, Regular	9.85
Florida Retirement System, County Elected Officers	16.53
Senior Management, Superintendent	13.12
Florida Retirement System, Reemployed Retiree	9.85
DROP from Florida Retirement System	10.91
DROP from State and County Officers Retirement System Plan B	10.91
DROP from Teachers Retirement System All Plans	10.91

Notes: Employer rates include the post-employment health insurance supplement (HIS), of 1.11 percent.

The District's liability for participation in the Plan 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 to the Plan (including employee contributions) for the fiscal years ending June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$43,953,548, 42,804,746 and \$42,893,747 respectively, which were equal to the annual required contributions for each fiscal year.

**18. DEFERRED COMPENSATION PLAN**

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue code, Section 457. Effective January 1997, Internal Revenue Code, Section 457, was amended to (1) provide that assets in such plans be held for the exclusive benefit of the plan participants and (2) eliminate provisions that the plan assets were property of the District (employer). Under the amended provisions of the Internal Revenue Code, Section 457, the assets of the District's deferred compensation plan are not held in a fiduciary capacity by the District and, accordingly, are not reported in the District's basic financial statements.

**19. CONSTRUCTION CONTRACT COMMITMENTS**

<u>Description</u>	<u>Contract Amount</u>	<u>Completed Amount</u>	<u>Committed Amount</u>
Harrison Center for the Performing Arts	\$1,027,265	\$961,259	\$66,006
Boone Middle	14,481,814	5,948,870	8,532,944
Winter Haven Sr High	15,905,860	2,227,108	13,678,752
Jewett School of the Arts	153,693	112,150	41,543
Auburndale Senior High	8,458,723	2,743,595	5,715,128
Caldwell Elementary	516,968	409,209	107,759
Mulberry Middle	2,372,896	352,321	2,020,576
Kathleen Senior High	15,293,959	6,289,612	9,004,347
Crystal Lake Middle	161,894	117,070	44,824
Davenport SOTA Rebuild 0401	21,296,401	8,823,783	12,472,617
Laurel Elementary	3,676,602	2,654,451	1,022,151
Lake Wales Senior High (CONV)	4,889,664	1,457,643	3,432,021
	<u>\$88,235,739</u>	<u>\$32,097,071</u>	<u>\$56,138,668</u>

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**20. SCHEDULE OF STATE REVENUE SOURCES**

The District's principal source of revenues is the State, which provided approximately 35.00 percent of Revenues in the 2009-10 fiscal year. The following is a schedule of State revenue sources and amounts:

<u>Sources</u>	<u>Amount</u>
Florida Education Finance Program	\$ 414,237,95
Workforce Development	10,082,994
Gross Tax Receipts (PECO)	8,750,677
Charter School Capital Outlay	1,797,66
Capital Outlay & Debt Service	39,49
State Miscellaneous - HRS Inspection	7,742
Florida State License Tax	897,104
Food Service Supplement	735,699
Health Care Services	255,267
Fuel Tax Paving	276,570
Miscellaneous	<u>233,958</u>
<b>TOTAL STATE REVENUE SOURCES</b>	<b>\$ <u>437,315,126</u></b>

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

**21. NON-FEDERAL SHARE FOR HEAD START PROGRAM**

Non-Federal Share is a statutory requirement of the Head Start Act (Head Start Act Section 640(b)). As stated in the Act, the grantee agency must provide 20 percent of the total costs, or 25% of the total federal expenditures of the Head Start program, using non-federal funds and donated goods and services, unless a waiver has been granted. No waiver was requested for the 2009 and 2010 grant years.

Local funds expended were for facilities, custodial, student accident insurance, software licenses and utilities. VPK funds along with donated goods and services provided by the community were used for the benefit of the program.

During this fiscal year, for Head Start grant number 04CH4623/02 with a period ending December 31, 2009, the required amount of non-federal share is \$702,696. This amount includes \$37,198 from the District's delegate agency, Agricultural and Labor Programs, Inc. The required amount of non-federal share for Head Start grant number 04CH4623/03 during the period January 1, 2010 through June 30, 2010 is \$1,081,276. This amount includes \$47,840 from the District's delegate agency, Agricultural and Labor Programs, Inc.

**22. ALTERNATIVE RETIREMENT PLAN**

Effective August 1, 1995, the District established an Alternative to Social Security Plan for all part-time temporary employees. This plan is authorized under Internal Revenue Code Section 3121(b)(7)(c) as an alternative plan to Social Security for all employees not eligible for state retirement coverage under this plan, which is administered under IRC Section 403(a). Neither the School Board nor the employees contribute the 6.2% FICA Tax to Social Security. Instead, the employees contribute 7.5%, on a pre-tax basis, into the alternative plan, where it is available to the employees at retirement or termination, in accordance with the provisions of IRC Section 403(a). The plan is marketed and coordinated by Mid-America Governmental Group, Inc. and is administered by William M. Mercer, Inc., with the funds invested through Life Insurance Company of the Southwest. Employee contributions to the plan during the 2009-2010 fiscal year totaled \$576,111, and the related 6.2% FICA tax savings to the Board was \$476,252.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**23. OPERATING LEASES**

Expenditures for operating leases during 2009-2010 totaled \$5,190,913. These leases are generally for a one-year period, but for the most part are automatically renewable unless notice is given to the contrary. The leases cover copy machines, computer software, land, data-processing equipment, facility rentals, and other miscellaneous items. While the approximate cost of operating leases for 2010-2011 is \$5,480,000 the amount for later years is indeterminate because of plans to replace rental portables with permanent facilities.

**24. POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description.* The Postemployment Healthcare Benefits Plan (PHBP) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District, and eligible dependents, may continue to participate in the District's self-insured health and hospitalization plan for medical/prescription coverage. The District subsidizes these premium rates paid by retirees by allowing them to participate in the PHBP at the blended group (implicitly subsidized) premium rates for both active and retired employees. Retirees and their dependents, which are Medicare-eligible, are not required to enroll for Parts A and B under Medicare; however, the PHBP pays as secondary for claims otherwise covered under Parts A and B for those who are eligible regardless of their status. The PHBP 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.* For the PHBP, contribution requirements of the plan members and the District are established and may be amended by the Board. Effective January 1, 2010, the District offered three plans for retirees and dependents under the age of 65, and four plans for retirees and dependents eligible of Medicare. PHBP members receiving benefits contribute the following per month:

	<u>3160/3161 Plan</u>	<u>3566 Plan</u>	<u>704 Plan</u>	
Retirees Only Under 65	\$440	\$480	\$541	
Retirees + Spouse Under 65	\$808	\$888	\$1,005	
	<u>3160/3161 Plan</u>	<u>3566 Plan</u>	<u>704 Plan</u>	<u>Blue Medicare PPO</u>
Retirees Only Over 65	\$340	\$380	\$441	\$218
Retirees + Spouse Over 65	\$680	\$760	\$882	\$436

Regarding the District's annual Other Post Employment Benefit (OPEB) costs and the net OPEB obligation, the District has not advanced funded or established a funding methodology for these items. For fiscal year ended June 30, 2010, 2,281 retirees received postemployment healthcare benefits. The District provided required contributions of \$2,391,530 toward the annual OPEB cost, comprised of \$12,304,428 in incurred claims and other costs paid by the District for coverage of retirees and their dependents, net of retiree contributions totaling \$9,912,898.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**24. POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)**

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual OPEB cost (expense) is calculated based on the annual required contribution, an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for postemployment healthcare benefits:

Description	Amount
Normal Cost (service cost for one year)	\$ 5,091,661
Amortization of Unfunded Actuarial Accrued Liability	3,657,985
Interest on Normal Cost and Amortization	130,275
Annual Required Contribution	8,879,921
Interest on Net OPEB Obligation	318,618
Adjustment to Annual Required Contribution	(483,706)
Annual OPEB Cost (Expense)	8,714,833
Contribution Toward the OPEB Cost	(2,391,530)
Increase in Net OPEB Obligation	6,323,303
Net OPEB Obligation, Beginning of Year	10,620,584
Net OPEB Obligation, End of Year	\$ 16,943,887

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$8,396,667	37.2%	\$ 5,274,819
June 30, 2009	\$8,739,757	38.8%	\$10,620,584
June 30, 2010	\$8,714,833	27.4%	\$16,943,887

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

Actuarial Accrued Liability (AAL)	\$79,138,933
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$79,138,933
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.00%
Covered Payroll (Active Plan Members)	\$409,866,36
UAAL as a Percentage of Covered Payroll	19.3%

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



**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**24. POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)**

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

In the January 1, 2009, initial OPEB actuarial valuation, the results of which were applicable for the fiscal year ended June 30, 2010, the entry age normal actuarial cost method was used to estimate the unfunded actuarial accrued liability and the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an annual healthcare cost trend rate of 9.5 percent for calendar year 2009, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a 20-year period. The remaining amortization period at June 30, 2010, was 20 years.

**25. RISK MANAGEMENT PROGRAMS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has established an individual self-insurance program for various traditional liability coverage and group medical coverage. The Board established self-insurance programs for workers' compensation, comprehensive general liability, fleet liability, professional (errors and omissions) liability, boiler and machinery liability and group health insurance coverage. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis for both Workers' Compensation and Group Health Insurance. The District has contracted with insurance administrators to administer the self-insurance programs, including the processing, investigating, and payment of claims. Settled claims resulting from the risks described above have not exceeded commercial insurance coverage for the past three years.

Premiums for the various coverage are calculated based on estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for catastrophic losses. The total liabilities and net assets at June 30, 2010 were \$59,226,577 made up of net assets of \$26,251,344 and the estimated liability for unpaid claims. This estimated liability for unpaid claims (not covered by excess insurance) in the amount of \$32,975,233 at June 30, 2010 is based on estimates provided by qualified loss reserve specialists.

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

	Beginning-of-Fiscal-Year Claims Liability	Current-Year Claims and Changes in Estimates	Claim Payments	End-of-Fiscal- Year Claims Liability
2008-2009	\$ 33,317,300	\$ 103,269,197	\$ (102,634,801)	\$ 33,951,696
2009-2010	\$ 33,951,696	\$ 99,042,150	\$ (100,018,611)	\$ 32,975,235

Additionally, the Board purchases \$20,000 of term life insurance for each employee and makes available supplemental life insurance on a non-contributory basis. As required by state statute, the Board purchased commercial insurance for building and contents coverage.

Settled claims have not exceeded any insurance coverage in any of the past three fiscal years.

**SCHOOL DISTRICT OF POLK COUNTY, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**26. SUBSEQUENT EVENTS**

**LONG-TERM DEBT:**

On November 18, 2010 the District issued \$21.2 million in 2010 Qualified School Construction Bond funding to build freshman academies at Winter Haven Senior High School and Kathleen Senior High School, and further demolition and rebuilding of old buildings (Phase II Master Plan) on the Winter Haven Senior High campus.

**27. CONTINGENT LIABILITIES**

**GRANTS:**

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

**SELF-INSURANCE: WORKERS' COMPENSATION:**

The Workers' Compensation program renewal for the 2009-2010 fiscal year required that a letter of credit be issued in the amount of \$2,330,000.00. The School Board authorized SunTrust Bank to extend this letter of credit for the benefit of United States Fidelity and Guaranty Company c/o Discovery Managers, Ltd. on behalf of the School Board. The letter of credit shall be automatically renewable until it is either replaced or no longer needed by the Workers' Compensation program. The letter of credit obligation will only be used if the School Board cannot fund its claims responsibility for the Workers' Compensation program, which is and has been funded from premiums. The letter of credit is not expected to be used or to impact the district's financial position.

**UNFAIR LABOR PRACTICE:**

The District is involved in a law suit with the Polk Education Association (PEA) and the American Federation of State, County and Municipal Employees (AFSCME) regarding the District's health care plan. A hearing was held before the state Public Employee Relations Commission who agreed with a hearing officer's ruling that found the Polk County School District violated state law by refusing to bargain with PEA and AFSCME when it changed its health care plan. The District is currently under negotiations with PEA and is looking at options to appeal the ruling.

**LAWSUITS:**

The School Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School Board's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the School Board.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
 Post Employment Health Care Benefits  
 Required Supplementary Information  
 Schedule of Funding Progress  
 June 30, 2010  
 (Unaudited)

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age (1)	Unfunded Actuarial Accrued Liability (3)	Funded Ratio (2)	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered <u>Payroll</u>
10/1/2006	-	\$97,100,525	\$97,100,525	0%	\$337,031,939	28.81%
1/1/2009	-	\$79,138,933	\$79,138,933	0%	\$409,866,356	19.31%

- Notes: (1) The Entry Age Actuarial Cost Method is used to determine the Plan's funding requirements.  
 (2) The percentage funded is derived by dividing the actuarial value of plan assets by the actuarial accrued liability.  
 (3) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.

Unaudited – see accompanying independent auditors' report.

THE SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
Post Employment Health Care Benefits  
Required Supplementary Information  
Schedule of Employer Contributions  
June 30, 2010  
(Unaudited)

Schedule of Employer Contributions:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage Contributed
2008	\$8,396,667	37.18%
2009	8,779,757	38.83%
2010	8,714,833	27.44%

Unaudited – see accompanying independent auditors' report.

SCHOOL DISTRICT OF POLK COUNTY, FLORIDA  
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	Total Actual 2010 Amount of Expenditures	Sub-Recipients
<b>United States Department of Agriculture</b>				
<b>Direct:</b>				
Secondary and Two-Year Postsecondary Agriculture Challenge Grants	10.226	N/A	\$ 10,766	
<b>Indirect:</b>				
Florida Department of Agriculture and Consumer Services				
Food Donation	10.550	None	\$ 2,087,233	
Florida Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	\$ 6,303,601	
National School Lunch Program	10.555	300	23,749,982	
Summer Food Service Program for Children	10.559	323,324,325	670,370	
ARRA - Child Nutrition Recovery Program: Equipment	10.579	433	7,978	
Total Child Nutrition Cluster			\$ 30,731,931	
<b>Total United States Department of Agriculture</b>			<b>\$ 32,829,930</b>	
<b>United States Department of Labor</b>				
<b>Indirect:</b>				
Florida Department of Education				
National Farmworker Jobs Program	17.264	406	\$ 281,155	
<b>Total United States Department of Labor</b>			<b>\$ 281,155</b>	
<b>United States Department of Education</b>				
<b>Direct:</b>				
Federal Pell Grant Program	84.063	N/A	\$ 2,225,312	
<b>Indirect:</b>				
Florida Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	212	\$ 24,247,038	\$ 1,042,814
ARRA - Title I Grants to Local Educational Agencies	84.389(A)	432	7,553,601	343,978
Total Florida Department of Education Title I, Part A Cluster			\$ 31,800,639	\$ 1,386,792
Special Education Cluster				
Special Education - Grants to States	84.027	261,262,263	\$ 20,642,732	\$ 1,252,786
Special Education - Preschool Grants	84.173	264,266,267	302,914	-
ARRA - Special Education - Grants to States (IDEA, Part B)	84.391(A)	432	15,715,477	984,179
ARRA - Special Education - Preschool Grants (IDEA Preschool)	84.392	432	75,689	-
Total Florida Department of Education Special Education Cluster			\$ 36,736,812	\$ 2,236,965
Educational Technology State Grants Cluster				
Education Technology State Grants	84.318(X)	121,122	\$ 236,230	-
ARRA - Education Technology State Grants	84.386	432	444,363	-
Total Florida Department of Education Educational Technology State Grants Cluster			\$ 680,593	-
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund - Government Services	84.394	431	\$ 30,590,564	\$ 3,254,753
ARRA - State Fiscal Stabilization Fund - Education State Grants, (Ed. Stab. Fund)	84.397	431	2,616,405	274,452
Total Florida Department of Education State Fiscal Stabilization Fund Cluster			\$ 33,206,969	\$ 3,529,205
Education of Homeless Children and Youth Cluster				
Education for Homeless Children and Youth	84.196A	127	\$ 122,263	-
ARRA - Education for Homeless Children and Youth	84.387A	432	59,816	-
Total Florida Department of Education Education of Homeless Children and Youth Cluster			\$ 182,079	-
<b>Other</b>				
Adult Education Act - State Grant Program	84.002	191,192,193,194	\$ 847,203	-
Migrant Education - Basic State Grant Program	84.011	217,218	976,341	-
Vocational Education - Basic Grants to State	84.048	151,152,153	1,335,874	15,461
Safe and Drug-Free Schools & Communities - National Program	84.184(C)(D)(E)	107	484,026	-
Safe and Drug-Free Schools & Communities - State Grant	84.186A	103	467,731	-
Funds for the Improvement of Education	84.215(X)(L)	143	240,384	98
Charter Schools, Title V, Part B, Subpart 1, NCLB	84.282(A)	298	97,777	97,777
Twenty-first Century Community Learning Centers	84.287C	243,244	185	-
Advanced Placement Incentive Program	84.330	160	403,641	472
Reading First State Grant	84.357(A)	211	130,360	18,314
Voluntary Public School Choice Program-Title V, Part B, Subpart 3, NCLB	84.361	299	444,559	-
English Language Acquisition Enhancement & Achievement	84.365A	102	1,331,261	-
Improving Teacher Quality State Grants	84.367A	224,225	5,189,343	147,475
School Improvement Grants	84.377A	TBD	7,296	7,018
Total Florida Department of Education Other			\$ 11,955,981	\$ 286,615
<b>Total United States Department of Education</b>			<b>\$ 116,788,385</b>	<b>\$ 7,439,577</b>

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

**ASSISTANCE PROGRAM EXPENDITURES**  
 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	Total Actual 2010 Amount of Expenditures	Sub-Recipients
<b>United States Department of Health &amp; Human Services:</b>				
<b>Direct:</b>				
Head Start Program	93.600	TBD	\$ 6,668,187	\$ 397,705
ARRA-Early Head Start	93.708	433	197,038	-
			<u>\$ 6,865,225</u>	<u>\$ 397,705</u>
<b>Indirect:</b>				
Florida Department of Health CDC Assistance Programs for Disease Prevention and Control	93.283	FAH60	\$ 75,000	
<b>Total United States Department of Health &amp; Human Services</b>			<u>\$ 6,940,225</u>	<u>\$ 397,705</u>
<b>Corporation for National and Community Service</b>				
<b>Indirect:</b>				
Learn and Serve America- School and Community Based Programs	94.004	233,234	\$ 46,148	
<b>Total Corporation for National and Community Service</b>			<u>\$ 46,148</u>	
<b>United States Department of Defense</b>				
<b>Direct:</b>				
Army Junior Reserve Officers Training Corps	None		\$ 663,739	\$ 53,363
Marine Corps Junior Reserve Officers Training Corps	None		60,443	-
Air Force Junior Reserve Officers Training Corps	None		48,001	-
Navy Junior Reserve Officers Training Corps	None		57,562	-
<b>Total United States Department of Defense</b>			<u>\$ 829,745</u>	<u>\$ 53,363</u>
<b>United States Department of Homeland Security</b>				
<b>Indirect:</b>				
Florida Department of Community Affairs Disaster Grants-Public Assistance Homeland Security Grant Program	97.036 97.067	None	\$ -	
<b>Total United States Department of Homeland Security</b>			<u>\$ -</u>	
<b>Total Expenditures of Federal Awards</b>			<u>\$ 157,715,588</u>	<u>\$ 7,890,645</u>

**1. Summary of Significant Accounting Policies**

**General**

The schedule of expenditures of federal awards has been prepared using the modified accrual basis of accounting. See Note 1C in the Notes to the Financial Statements.

**2. Program Clusters**

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. The School Breakfast Program, National School Lunch Program, After School

**3. Contingency**

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would

**4. Noncash Assistance**

The Food Donation expenditure amount represents the amount of donated food commodities used during 2009-2010. Commodities are valued at fair value at the time of donation.



**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Honorable Members of the  
Polk County District School Board  
Bartow, Florida

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 School District of Polk County, Florida (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 9, 2011. We did not audit the financial statements of the school internal funds or the aggregate discretely presented component units; those financial statements were audited by 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.

**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 opinion 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 significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 the 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. The significant deficiency is described in the accompanying schedule of findings and questioned costs as item 2010-A. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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, 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 herein under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 9, 2011.

This report is intended solely for the information and use of the District School Board, applicable management, applicable federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Behant & Holland, L.L.P.*

Orlando, Florida  
February 9, 2011





**Independent Auditors' 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**

The Honorable Members of the  
Polk County District School Board  
Bartow, Florida

**Compliance**

We have audited Polk County District School Board's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of audit results section of the accompanying 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, we did become aware of known questioned costs which are reported in the accompanying schedule of findings and questioned costs as item 2010-B.

### **Internal Control over Compliance**

The Management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the District's School Board, applicable management, applicable federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Orlando, Florida  
February 9, 2011

**POLK COUNTY DISTRICT SCHOOL BOARD**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

**Part I - Summary of Audit Results**

1. The auditors' report on the financial statements expresses an unqualified opinion.
2. A significant deficiency relating to the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This significant deficiency was not deemed a material weakness.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. The programs tested as major programs were:

Name of Program	CFDA #
Title I, Part A Cluster	84.010, 84.389A
Special Education Cluster (IDEA)	84.027, 84.173, 84.391A, 84.392A
State Fiscal Stabilization Fund Cluster	84.394, 84.397
Head Start Cluster	93.600, 93.708
Child Nutrition Cluster	10.553, 10.555, 10.559, 10.579
Improving Teacher Quality State Grants (Title II, Part A)	84.367A

7. The threshold for distinguishing Types A and B programs was \$3,000,000
8. The District did not qualify as a low risk auditee.

**POLK COUNTY DISTRICT SCHOOL BOARD**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

**Part II – Financial Statements Findings Section**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

*Significant Deficiency*

*Statement of Condition 2010-A:* The prior year audit report included a material weakness in relation to financial reporting. More specifically, the recommendation was that the District needed to improve its financial reporting process to ensure the accuracy and completeness of its financial statements and the timely submission of the annual financial report (AFR) to the Florida Department of Education (FDOE).

In FY 2010, the District submitted its AFR to the FDOE in a timely manner. The implementation of GASB 53 was omitted from the report which was disclosed on the AFR so financial statement users were aware of the omission. The District made significant improvements in the financial reporting process however, we noted other financial statement presentation and disclosure issues, including, but not limited to, the following:

- Deferred asset and liability for derivatives and related disclosures
- Adjustments to GASB 34 reconciling items
- Debt refunding and other debt transactions
- Adjustments to components of net assets
- Additional OPEB disclosures and required supplementary information
- Appropriate contract commitment note disclosure

*Criteria:* Financial statements and related disclosures should be in accordance with generally accepted accounting principles (GAAP).

*Effect of Condition:* There is an increased risk that financial statement users could make misinformed decisions based on the inaccuracies reported in the District's AFR and omitted disclosures.

*Cause of Condition:* The inaccuracies and omissions from the AFR were not detected since the District did not consider all GAAP requirements.

*Recommendation:* We recommend a comprehensive review of GAAP requirements be incorporated into the reporting process.

*Management Response:* The District will utilize the School District Preparer Checklist provided by the Government Finance Officers Association ("GFOA") in the preparation of the Annual Financial Report ("AFR") and the Comprehensive Annual Financial Report ("CAFR"). The checklist is a valuable resource as it covers all Governmental Accounting Standards Board ("GASB") pronouncements that have been issued.

**POLK COUNTY DISTRICT SCHOOL BOARD**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

**Part III – Federal Award Finding and Questioned Costs Section**

**Department of Education – CFDA # 84.367A – Improving Teacher Quality State Grants (Title II, Part A)**

*Statement of Condition 2010-B:* During the testing of payroll expenditures charged to the Improving Teacher Quality grant, we discovered one of the employee's salaries selected for testing should have been locally funded, instead of funded with grant proceeds. The employee's salary was changed to a different funding source to be locally funded in August 2009 as part of the staffing plan. The employee no longer worked on the grant program. The staffing plan changed the employee's salary funding source from 40.6% funded from Title II to 100 percent locally funded. However, the change made in the staffing plan was not entered into the SAP accounting system. This resulted in a questioned cost of \$21,891.

*Criteria:* Only allowable costs should be funded with grant proceeds.

*Effect of Condition:* During fiscal year 2010, 40.6% of the individual's salary was improperly charged to Title II, or \$21,891.

*Cause of Condition:* An employee not devoting time and effort to the grant was charged to the grant, since the appropriate verification by District staff was not in place.

*Recommendation:* We recommend the District strengthen procedures associated with changes in the accounting system when the staffing plan is modified.

*Management Response:* During budget preparation, the staffing plan change summary shall be reviewed and modifications to staff expenditure coding shall be made in the ERP system effective the first day of the fiscal year. In addition, further training and reports are being provided to grant managers to assist them in monitoring their grants for compliance. The questioned cost of \$21,891 has been fully repaid to the Title II grant from local funds.

**DISTRICT SCHOOL BOARD OF POLK COUNTY, FLORIDA**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2010**

<b>Audit Report No. and Financial Statement Finding No.</b>	<b>Program/Area</b>	<b>Brief Description</b>	<b>Status</b>	<b>Comments</b>
June 30, 2009 Finding No. 1	Financial Reporting	The District should enhance procedures to ensure the accuracy and completeness of its financial statements, and the timely submission the annual financial report to FDOE.	Incomplete	Refer to item 2010-A in the schedule of findings and questioned costs for description of finding for fiscal year 2010.
June 30, 2009 Federal Awards Finding No. 1	Child Nutrition Cluster	Improvements are needed to comply with program income requirements and demonstrate that the income from an exclusive beverage contract is properly calculated and allocated to the food service program.	Complete	Program income was properly calculated and allocated to food service program.
June 30, 2009 Federal Awards Finding No. 2	Head Start	The District had not established procedures to perform an annual self-assessment required by the Head Start Program.	Complete	The District established procedures to perform a self-assessment.



## Independent Auditors' Management Letter

The Honorable Members of the  
Polk County District School Board  
Bartow, Florida

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 Polk County District School Board (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 9, 2011. These financial statements, are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds or the aggregate discretely presented component units; those financial statements were audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' 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, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 9, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General, which governs the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule.

Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. We have reviewed the corrective actions taken to address the findings and recommendations made in the preceding annual financial audit. The findings and recommendations that remain uncorrected are included in the attached schedule labeled Appendix A – Management Letter Comments.

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit of the financial statements of the District, the results of our tests did not indicate that the District met any of the conditions of a financial emergency contained in Section 218.503(1), Florida Statutes. However, our audit does not provide a legal determination on the District's compliance with this requirement.

Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit of the financial statements of the District we noted the District did not fully comply with the investment reporting requirement to the Board. This is included in Attachment A as Observation 2010-01. However, our audit was not directed toward obtaining knowledge regarding the District's compliance with this requirement.

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendation to improve financial management. Our recommendations for 2010 are in the attached schedule labeled Appendix A – Management Letter Comments. We did not audit the District's responses to these matters, which are also provided in Appendix A, and, accordingly, we express no opinion on them.

Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any findings other than those reported in the Schedule of Findings and Questioned Costs.

Section 10.804(1)(f)6., Rules of the Auditor General provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. Our recommendations for 2010 are in the attached schedule labeled Appendix A – Management Letter Comments. We did not audit the District's responses to these matters, which are also provided in Appendix A, and, accordingly, we express no opinion on them.

Pursuant to Sections 10.804(1)(f)7.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by them.

Pursuant to Chapter 119, Florida Statutes, this management letter 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 letter is intended solely for the information and use of the District School Board, applicable management, applicable federal and state agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Behavitt & Holland, U.P.*

Orlando, Florida  
February 9, 2011



**POLK COUNTY DISTRICT SCHOOL BOARD**  
**Appendix A - Management Letter Comments**  
**Year Ended June 30, 2010**

**NOTE: Observation 2010-01 is a repeated comment from the prior year.**

**Investment Policy**

Observation 2010-01: School Board Policy 6Gx53-5.003, *Cash and Investment Management*, provides that the school board shall be responsible for establishing and maintaining internal controls to ensure that the assets of the school board are protected from loss, theft, or misuse. The policy further provides that such controls shall include an investment review and the Superintendent shall provide the District with semi-annual investment reports. The semi-annual report shall include the following: a listing of individual securities, percentage of available monies represented by each investment type, coupon/discount/earning rate, average life or duration and final maturity of all investments, par value, and the market value. The most recent investment report submitted to the school board was for the 2008-2009 fiscal year, which was submitted at the December 8, 2009 meeting. Subsequent to year end, in August 2010, the District's Internal Audit Department released a report on compliance with the District's investment policy and noted certain control deficiencies related to their review of the 2008-2009 fiscal year report, including the following:

- The report did not contain all of the required elements. Specifically, the report did not include the average life or duration, final maturities of all investments or par value.
- Account authorization documentation for several investment accounts is not on file to document the current employee names, levels of authority and transfer of funds procedures.
- There is no written documentation of internal control procedures for the investment function handled by the Finance department.
- The original Small Business Administration (SBA) bonds are maintained in the safe in the Finance department vault room. Investment Policy section XVIII states "Securities, with the exception of certificates of deposits, shall 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 small SBA bonds should be placed with a third party custodian for safekeeping.

No additional reports were submitted after December 8, 2009. The failure to review performance and controls associated with investments limits the Board's assurance that investment-related activity met investment objectives and parameters set forth by the Board. In addition, the failure to timely report the status of investments limits the Board's ability to make well-informed decisions and to understand the District's financial strength or lack thereof. Similar findings were noted in prior audits of the District.

Recommendation: We recommend the District improve reporting of investments to include all required elements in accordance with Board policy and strengthen controls associated with safekeeping of assets.

Management Response: The District is in the process of completing an agreement with an investment advisory firm to assist in managing the District's investments including quarterly reporting of the performance of all of the District's investments.

**POLK COUNTY DISTRICT SCHOOL BOARD**  
**Appendix A - Management Letter Comments**  
**Year Ended June 30, 2010**

**NOTE: Observations 2010-02 and 2010-03 are new comments for fiscal year 2010.**

**Board Agenda Process**

Observation 2010-02: The school board agenda process related to major projects, with a substantial commitment of money, does not appear to go through Finance or Accounting department to see if funds are available. As such, there may be no financial impact consideration prior to Board approval. As a result, some projects may get approved without having the sufficient fund levels for the cost centers.

Recommendation: We recommend the District consider financial implications of projects prior to placing the project on the board agenda by reviewing sufficiency of funds in the Finance and Accounting department. Those implications should be reported in the agenda as well.

Management Response: The Finance department is working with Facilities and the Superintendent's office to adjust the EAgenda process to include Finance as part of the agenda item approvals.

**Capital Assets**

Observation 2010-03: The Harrison School for the Performing Arts project was completed in October 2009, but remained in construction in progress as of June 30, 2010 and was not appropriately moved to completed capital assets. This resulted in a misclassification on the balance sheet between construction in progress and capital assets. In addition, depreciation was not reflected in the financial statements for this project for October 2009 through June 2010, which resulted in an immaterial understatement of expenditures. In this case the misstatement was not material, but such errors in the future could lead to material misstatements.

Recommendation: We recommend the District improve its communication process between the construction and accounting departments, in order to ensure completed projects are transferred to capital assets at the appropriate time and depreciated accordingly. At a minimum, periodic reviews of items included in the construction in progress account should be performed to ensure all completed or abandoned projects are transferred out.

Management Response: The Finance department will begin reviewing the Construction in Process account at least quarterly to identify any projects where the facility has been placed in service. Finance will then work with Facilities staff to close out the project and capitalize the asset within the next closing period.