REPORT NO. 2012-150
MARCH 2012

PINELLAS COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	District No.
Janet R. Clark, Chair to 11-15-10	1
Nina Hayden to 11-15-10	2
Terry Krassner from 11-16-10	2
Peggy L. O'Shea	3
Robin L. Wikle, Vice Chair from 11-16-10	4
Carol J. Cook, Vice Chair to 11-15-10, Chair from 11-16-10	5
Linda S. Lerner	6
Mary L. Tyus Brown to 11-15-10	7
Lewis Williams from 11-16-10	7

Dr. Julie M. Janssen, Superintendent

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

The audit team leader was Elba Marquez Guzik, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Kathy B. Sellers, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

PINELLAS COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, as summarized below. However, the significant deficiencies are not considered to be material weaknesses.

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

SIGNIFICANT DEFICIENCIES

Finding No. 1: Improvements were needed in internal controls over the investment program to strengthen accountability.

Finding No. 2: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 3: The District needed to enhance procedures over bank account reconciliations.

Finding No. 4: Controls over electronic funds transfers could be improved.

Finding No. 5: Enhancements were needed in controls over centralized cash collections.

Finding No. 6: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 7: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 8: The District did not timely obtain required background rescreenings for certain District employees.

Finding No. 9: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes.

Finding No. 10: The District's subsidiary capital asset records could be improved.

Finding No. 11: Enhancements could be made in the administration of guaranteed maximum price construction contracts.

Finding No. 12: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 13: Improvements were needed in controls over maintenance, warehouse, and transportation inventories.

Finding No. 14: The District assigned $10,637,224 of unrestricted resources in a capital projects fund; however, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended use of the funds.

Finding No. 15: Enhancements were needed in monitoring required insurance coverage of the District's charter schools.

Finding No. 16: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education (FDOE).

Finding No. 17: The District transferred $6,157,936 of student fees from the workforce development program to an unrestricted account during the 2004-05 through 2007-08 fiscal years, contrary to guidance from FDOE, and District records did not evidence resolution of the unauthorized transfers as of January 2012.

Finding No. 18: During the 2004-05 fiscal year, the District transferred $3,033,923 more from the workforce development program to the General Fund for reimbursement of indirect costs than was allowable by law. As of January 2012, the District still had not returned these moneys to the workforce development program account.

Finding No. 19: The District did not have written policies and procedures for reviewing information technology (IT) access privileges and some inappropriate access privileges were allowed to the finance and human resource applications.

Finding No. 20: The District's IT security controls related to user authentication needed improvement.

Finding No. 21: The District had not developed a written IT security incident response plan.

Finding No. 22: The District had not completed a written, comprehensive IT risk assessment.

Finding No. 23: The District had not implemented a comprehensive IT security awareness training program.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Federal Pell Grant; Educational Technology State Grants Cluster; State Fiscal Stabilization Fund Cluster; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Educational Technology State Grants Cluster program. We noted noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: District procedures did not adequately ensure that private schools were provided the opportunity to participate in Federally-funded programs, resulting in $550,880 of questioned costs.

Federal Awards Finding No. 2: The District did not adequately document charges to Special Education programs for coordinated early intervention services, resulting in $1,200,753 of questioned costs.

Federal Awards Finding No. 3: The District incorrectly charged Early Retirement/Resignation Program payments to Federal programs, resulting in $58,132 of questioned costs.

Federal Awards Finding No. 4: The District needed to enhance its procedures for monitoring and reporting Federal expenditures for grants received through FDOE.

Federal Awards Finding No. 5: The District had not established adequate controls over the Federal Pell Program.

Federal Awards Finding No. 6: There were 171 teachers assigned to Title I schoolwide program schools who did not meet the qualification requirements, contrary to Federal regulations.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;

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

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pinellas County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Pinellas County District School Board as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN**, and **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,

David W. Martin, CPA
March 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Pinellas County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2011. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- In total, net assets decreased $5.4 million, which represents a .27 percent decrease from the 2009-10 fiscal year.
- General revenues total $1 billion or 94.74 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $55.8 million or 5.26 percent of all revenues.
- Expenses total $1.1 billion. Only $55.8 million of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the fiscal year, the fund balance of the General Fund totals $92.7 million, or 12.14 percent of total General Fund revenues. This fund balance includes $8.8 million of nonspendable funds, $18.4 million of restricted funds, $40.7 million of assigned funds, and $24.9 million of unassigned funds.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to financial statements.

The major features of the District's financial statements, including the portion of the activities reported and the type of information contained, is shown in the following table:

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire District (except fiduciary funds).	The activities of the District that are not proprietary or fiduciary.	Activities the District provides to other funds. The District's self-insurance program is the only proprietary operation.	Assets held by the District in a trustee or grant capacity such as the internal acounts of the schools.
Required financial statements	Statement of net assets, and statement of activities.	Balance sheet, and statement of revenues, expenditures and changes in fund balance.	Statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows.	Statement of fiduciary assets and liabilities - fiduciary funds.
Basis of accounting and measurement focus	Accrual accounting. Economic resources focus.	Modified accrual acounting. Current financial resources focus.	Accrual accounting. Economic resources focus.	Accrual accounting. Economic resources focus.
Type of asset and liability information	All assets and liabilities, both financial and capital; short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital; short-term and long-term.	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can.
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related lliability are due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received and paid.

Government-wide Financial Statements

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

The government-wide statements present the District's activities in the following categories:

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

- Component units – The District presents 12 separate legal entities that operate as charter schools as discussed in the notes to financial statements. Although these are legally separate organizations, the component units' activities are included in the financial statements since they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

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

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains an internal service fund to account for its self-insurance programs, including workers' compensation, general liability, and automobile liability coverage. The District's internal service fund is included within governmental activities in the government-wide financial statements because the services predominantly benefit the District's governmental activities.

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

Net Assets, End of Year

	Governmental Activities		Increase	Percentage
	6-30-11	6-30-10	(Decrease)	Change
Current and Other Assets	$ 428,382,531	$ 418,436,068	$ 9,946,463	
Capital Assets	1,846,939,540	1,866,515,900	(19,576,360)	
Total Assets	2,275,322,071	2,284,951,968	(9,629,897)	-0.42%
Long-Term Liabilities	167,785,242	148,249,414	19,535,828	
Other Liabilities	74,553,212	98,311,920	(23,758,708)	
Total Liabilities	242,338,454	246,561,334	(4,222,880)	-1.71%
Net Assets:				
Invested in Capital Assets - Net of Related Debt	1,802,357,684	1,820,894,728	(18,537,044)	
Restricted	245,660,875	242,814,589	2,846,286	
Unrestricted (Deficit)	(15,034,942)	(25,318,683)	10,283,741	
Total Net Assets	$ 2,032,983,617	$ 2,038,390,634	$ (5,407,017)	-0.27%

The largest portion of the District's net assets (88.66 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets, ($245.7 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets ($91.4 million after exclusion of $98.2 million in compensated absences payable and $8.3 million in other postemployment benefits obligations) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended

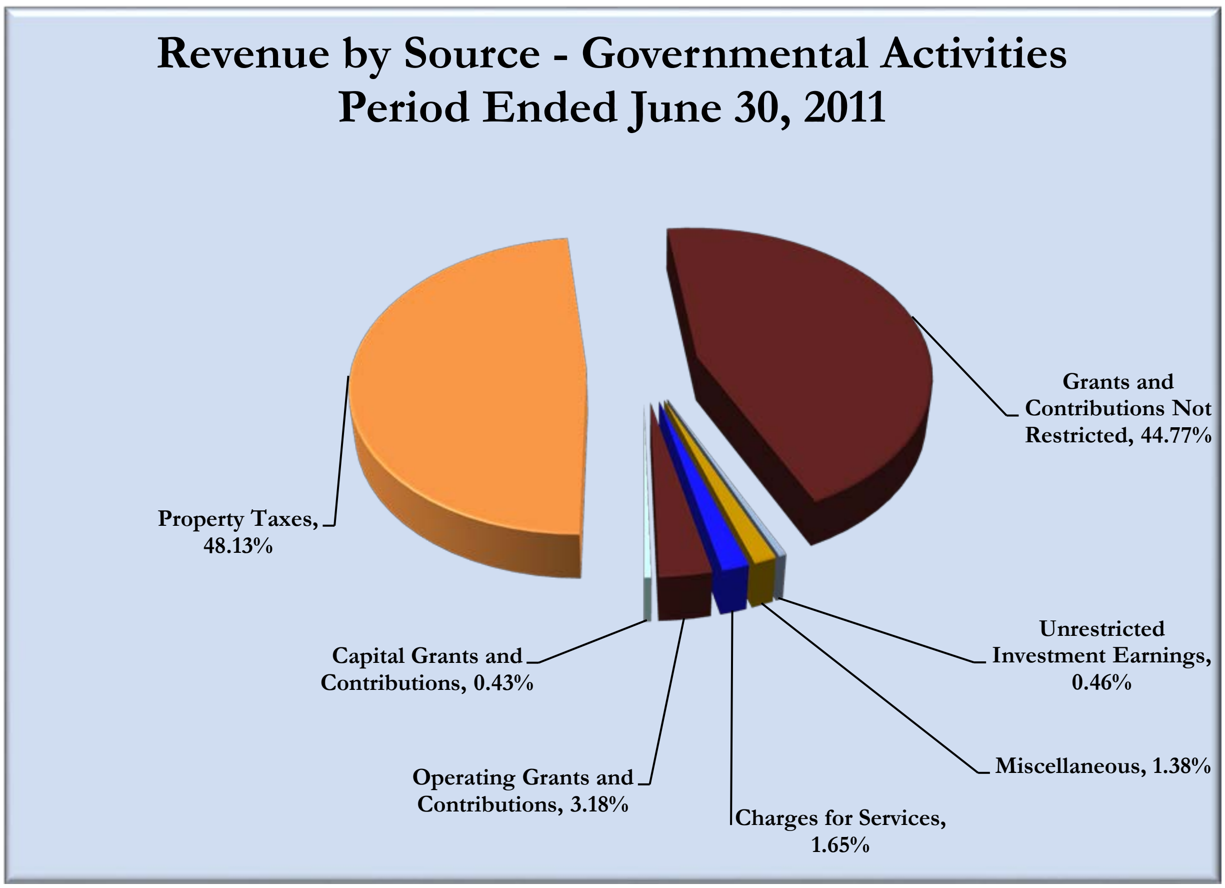
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	$ 17,501,841	$ 28,051,560
Operating Grants and Contributions	33,792,576	25,489,857
Capital Grants and Contributions	4,553,906	7,689,507
General Revenues:		
Property Taxes, Levied for Operational Purposes	418,817,668	461,723,454
Property Taxes, Levied for Capital Projects	91,845,449	101,202,506
Grants and Contributions Not Restricted to Specific Programs	475,080,118	420,499,852
Unrestricted Investment Earnings	4,861,667	9,060,453
Miscellaneous	14,681,311	12,248,309
Total Revenues	1,061,134,536	1,065,965,498
Functions/Program Expenses:		
Instruction	586,094,009	570,565,135
Pupil Personnel Services	44,134,861	43,321,534
Instructional Media Services	11,756,105	12,141,949
Instruction and Curriculum Development Services	21,353,254	19,332,910
Instructional Staff Training Services	15,339,149	18,067,136
Instruction Related Technology	11,560,971	8,169,353
School Board	2,270,164	10,930,429
General Administration	5,415,390	5,479,689
School Administration	54,610,749	53,861,407
Facilities Acquisition and Construction	20,982,923	11,768,611
Fiscal Services	4,576,159	4,901,633
Food Services	37,753,811	36,203,313
Central Services	13,169,215	13,539,351
Pupil Transportation Services	33,632,292	34,429,985
Operation of Plant	81,308,828	83,226,247
Maintenance of Plant	23,132,616	22,777,697
Administrative Technology Services	5,656,252	5,508,353
Community Services	4,596,998	4,156,390
Unallocated Interest on Long-Term Debt	2,553,563	3,249,634
Unallocated Depreciation Expense	53,327,097	46,476,667
Loss on Disposal of Capital Assets	33,317,147	7,921,109
Total Functions/Program Expenses	1,066,541,553	1,016,028,532
Increase (Decrease) in Net Assets	(5,407,017)	49,936,966
Net Assets, Beginning	2,038,390,634	1,988,453,668
Net Assets, Ending	$ 2,032,983,617	$ 2,038,390,634

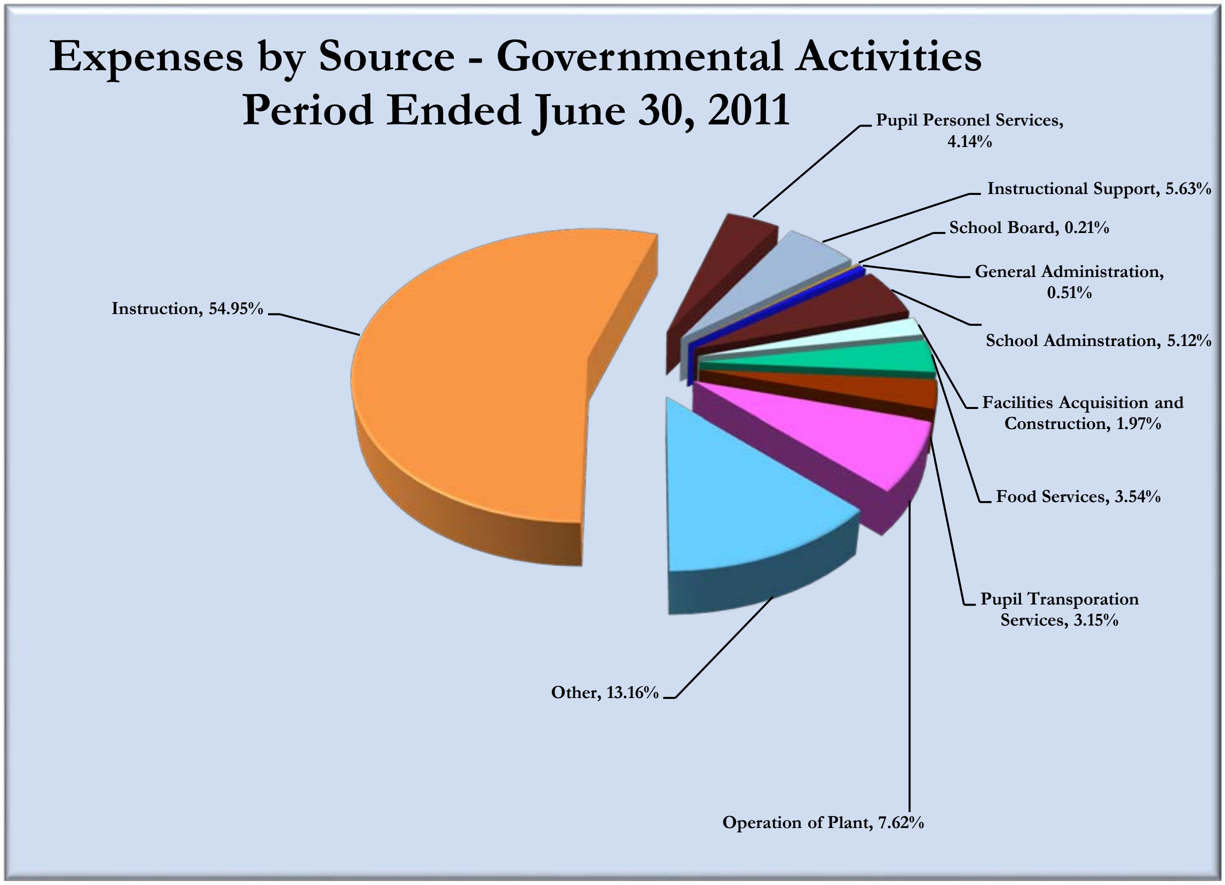
Revenues totaled $1.1 billion for the 2010-11 fiscal year, a decrease from the prior fiscal year of $4.8 million. The largest source of revenue was property taxes, which totaled $510.7 million. State revenue totaled $334 million, or 31.47 percent of total revenue. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by $54.6 million, or 12.98 percent, primarily due to an increase in FEFP funding of $28.2 million and funding of $21.7 million from Education Jobs Fund.

Property tax revenues decreased by $52.3 million, or 9.28 percent, as a result of decreases in taxable assessed values.

Government-wide expenses increased by $50.5 million, or 4.97 percent, over the 2009-10 fiscal year and totaled $1.1 billion. Classroom instruction and instructional support expenditures represent 64.72 percent of these expenditures and total $690.2 million, an increase of $18.6 million, or approximately 2.78 percent, over the prior fiscal year. This increase was due to hiring teachers and teacher support personnel to meet the requirements of the class size reduction amendment. The majority of the increase in expenses was loss on disposal of assets of $25.4 million due to the razing and remodeling and renovation of buildings at several sites.





FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $24.9 million, while the total fund balance is $92.7 million. It should be noted that $8.2 million of fund balance has been encumbered for specific projects. Total fund balance increased by $9.7 million during the fiscal year primarily due to cost containment measures by the District.

The Special Revenue – Other Fund accounts for the financial resources of certain Federal grant programs and revenues and expenditures totaled $69 million each. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate fund balance.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $79.2 million each, representing increases of $18.2 million each, and the funding was mainly used for instruction. The increases were due to new funding from the Education Jobs Fund program. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate fund balance.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $200.8 million, which is restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balance $52.1 million has been encumbered for specific projects. The fund balance decreased by $7.9 million in the current year mainly for reduced revenues from decreased taxable property values.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2010-11 fiscal year, the District amended its General Fund budget several times, which resulted in increases in total budgeted revenues and expenditures amounting to $6.5 and $13.9 million or 0.85 and 1.81 percent, respectively. Budget revisions were due primarily to changes in estimated State funding levels, property taxes, and transfers in from the Capital Projects – Local Capital Improvement Fund and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are $775.5 million, or 1.05 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $8.2 million.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to $1.8 billion (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital leases; construction in progress; and audio visual materials and computer software. The following summarizes changes in capital assets:

Capital Assets

	6-30-11	6-30-10
Land	$ 96,590,478	$ 96,571,016
Land Improvements - Nondepreciable	22,717,599	22,717,599
Construction in Progress	35,493,894	38,227,934
Improvements Other Than Building	8,228,031	7,686,186
Buildings and Fixed Equipment	2,134,320,974	2,129,516,136
Furniture, Fixtures, and Equipment	147,866,070	145,362,859
Motor Vehicles	53,918,410	58,231,720
Property Under Capital Leases	48,387,482	45,125,784
Audio Visual Materials and Computer Software	14,305,910	15,282,097
Total Assets	2,561,828,848	2,558,721,331
Accumulated Depreciation	(714,889,308)	(692,205,431)
Total Net Capital Assets	$ 1,846,939,540	$ 1,866,515,900

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

- New construction, remodeling and renovations of $64.6 million was completed at numerous school sites.
- The District disposed of $89.5 million in assets, including $59.8 million for buildings and fixed equipment. This was primarily due to the razing and remodeling of buildings at several sites and represents an adjustment of numerous years of activity that were corrected in the current fiscal year.
- Construction in progress of $35.5 million primarily includes new construction, and remodeling and renovations at three high schools and one elementary school.

- The District acquired technology assets through capital leases totaling $14.4 million.

Additional information on the District's capital assets can be found in Notes 4 and 16, respectively, to the financial statements.

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of $44.6 million. During the current fiscal year, the District retired $2.7 million of bonds payable and $12.9 million of capital leases. In addition, the District incurred new capital leases totaling $14.4 million for data processing equipment.

Outstanding Long-Term Obligations

	6-30-11	6-30-10	Percentage Change
Bonds Payable	$ 27,400,000	$ 29,955,000	-8.53%
Obligations Under Capital Leases	17,181,856	15,666,172	9.67%
Total Governmental Activities	$ 44,581,856	$ 45,621,172	-2.28%

Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Due to continued shortfalls in anticipated State tax revenues resulting from recent declines in tourism, the expiration of the American Reinvestment and Recovery Act (ARRA) fiscal stabilization, Education Jobs Fund, and 0.25 mill critical needs funding, the District faced a total revenue shortfall of 12.68 percent, or approximately $104.2 million in the General Fund for the 2011-12 fiscal year. Plans have been developed to contend with the revenue shortfall, including reducing the budget contingency reserve $2.3 million, reducing administrators, support, and operational staff positions, modifying the student transportation plan, reducing department discretionary budgets, restricting out of county travel, slowing down the staff hiring process, and initiating an energy savings plan.

The District began receiving one-time appropriations under the ARRA and Education Jobs Fund. The intent of these funds is to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only two to three years.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Director of Accounting, Pinellas County District School Board, 301 Fourth St. SW, Largo, FL 33770.

BASIC FINANCIAL STATEMENTS

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 30,658,519	$ 3,167,515
Cash with Fiscal Agent	271,317	
Investments	366,565,968	
Accounts Receivable	4,604,889	712,131
Deposits Receivable		28,414
Interest Receivable	898,138	
Due from Other Agencies	15,466,294	240,627
Prepaid Items	5,025,832	180,760
Inventories	4,891,574	
Loan Receivable		215,000
Other Non-current Assets		60,833
Capital Assets:		
Nondepreciable Capital Assets	154,801,971	2,411,545
Depreciable Capital Assets, Net	1,692,137,569	6,081,103
TOTAL ASSETS	$ 2,275,322,071	$ 13,097,928
LIABILITIES		
Salaries and Benefits Payable	$ 9,129,071	$ 531,562
Payroll Deductions and Withholdings	37,813,459	
Accounts Payable	6,866,756	1,090,754
Construction Contracts Payable	5,571,242	
Construction Contracts Payable - Retainage	3,899,566	
Due to Other Agencies	10,244,655	739,556
Deferred Revenue	1,028,463	124,104
Long-Term Liabilities:		
Portion Due Within One Year	26,787,633	7,794,528
Portion Due After One Year	140,997,609	971,962
Total Liabilities	242,338,454	11,252,466
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,802,357,684	31,550
Restricted for:		
State Required Carryover Programs	2,142,459	
Workforce Development	11,886,186	
Debt Service	971,709	
Capital Projects	210,233,621	28,703
Food Service	15,927,941	
Endowments - Nonexpendable	152,029	
Other Purposes	4,346,930	11,636
Unrestricted	(15,034,942)	1,773,573
Total Net Assets	2,032,983,617	1,845,462
TOTAL LIABILITIES AND NET ASSETS	$ 2,275,322,071	$ 13,097,928

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

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PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 586,094,009	$ 3,549,942	$	$
Pupil Personnel Services	44,134,861			
Instructional Media Services	11,756,105			
Instruction and Curriculum Development Services	21,353,254			
Instructional Staff Training Services	15,339,149			
Instruction Related Technology	11,560,971			
School Board	2,270,164			
General Administration	5,415,390			
School Administration	54,610,749			
Facilities Acquisition and Construction	20,982,923		6,216,692	590,089
Fiscal Services	4,576,159			
Food Services	37,753,811	11,839,717	27,575,884	
Central Services	13,169,215	1,247,561		
Pupil Transportation Services	33,632,292	864,621		
Operation of Plant	81,308,828			
Maintenance of Plant	23,132,616			
Administrative Technology Services	5,656,252			
Community Services	4,596,998			
Unallocated Interest on Long-Term Debt	2,553,563			3,963,817
Unallocated Depreciation Expense*	53,327,097			
Loss on Disposal of Capital Assets	33,317,147			
Total Primary Government	$ 1,066,541,553	$ 17,501,841	$ 33,792,576	$ 4,553,906
Component Units				
Charter Schools	$ 20,274,841	$ 294,209	$ 1,665,275	$ 385,421

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous
Special Items:
Expenses Paid to Management Company on Behalf of Charter School

Total General Revenues and Special Items

Change in Net Assets

Net Assets - Beginning
Adjustment to Beginning Net Assets

Net Assets, Beginning of Year, as Restated

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Units
$ (582,544,067)	$
(44,134,861)	
(11,756,105)	
(21,353,254)	
(15,339,149)	
(11,560,971)	
(2,270,164)	
(5,415,390)	
(54,610,749)	
(14,176,142)	
(4,576,159)	
1,661,790	
(11,921,654)	
(32,767,671)	
(81,308,828)	
(23,132,616)	
(5,656,252)	
(4,596,998)	
1,410,254	
(53,327,097)	
(33,317,147)	
(1,010,693,230)	
	(17,929,936)
418,817,668	
91,845,449	
475,080,118	16,964,916
4,861,667	14,218
14,681,311	475,458
	411,161
1,005,286,213	17,865,753
(5,407,017)	(64,183)
2,038,390,634	2,105,786
	(196,141)
2,038,390,634	1,909,645
$ 2,032,983,617	$ 1,845,462

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash	$ 24,425,794	$ 1,122,252	$ 8,686
Cash with Fiscal Agent	271,317		
Investments	99,842,408	4,609,720	6,364,735
Accounts Receivable	526,132	1,356	
Interest Receivable			
Due from Other Funds	4,182,418		
Due from Other Agencies	4,087,176	683,619	3,623,600
Prepaid Items	5,025,832		
Inventories	3,799,721		
TOTAL ASSETS	$ 142,160,798	$ 6,416,947	$ 9,997,021
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 9,128,598	$	$
Payroll Deductions and Withholdings	30,488,513	2,826,086	4,462,541
Accounts Payable	1,353,486	1,928,333	933,437
Construction Contracts Payable			
Construction Contracts Payable - Retainage	621		
Due to Other Funds	148,397	186,027	3,426,906
Due to Other Agencies	8,295,681	680,523	1,173,036
Deferred Revenue	324	795,978	1,101
Total Liabilities	49,415,620	6,416,947	9,997,021
Fund Balances:			
Nonspendable:			
Inventory	3,799,721		
Prepaid Amounts	5,025,832		
Permanent Fund			
Total Nonspendable Fund Balance	8,825,553		
Restricted for:			
State Required Carryover Programs	2,142,459		
Tax Levy	4,346,930		
Workforce Development	11,886,186		
Food Service			
Debt Service			
Capital Projects			
Total Restricted Fund Balance	18,375,575		
Assigned to:			
General Fund	40,683,132		
Capital Projects			
Total Assigned Fund Balance	40,683,132		
Unassigned Fund Balance	24,860,918		
Total Fund Balances	92,745,178		
TOTAL LIABILITIES AND FUND BALANCES	$ 142,160,798	$ 6,416,947	$ 9,997,021

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$ 5,011,320	$ 15,444	$ 30,583,496
		271,317
204,434,465	28,610,325	343,861,653
476,560	2,484,243	3,488,291
735,236	83,306	818,542
143,976		4,326,394
52,193	7,019,706	15,466,294
		5,025,832
	1,091,853	4,891,574
$ 210,853,750	$ 39,304,877	$ 408,733,393
$	$ 473	$ 9,129,071
	36,319	37,813,459
1,320,113	1,082,374	6,617,743
5,359,921	211,321	5,571,242
3,393,966	504,979	3,899,566
	162	3,761,492
	95,415	10,244,655
	231,060	1,028,463
10,074,000	2,162,103	78,065,691
	1,091,853	4,891,574
		5,025,832
	152,029	152,029
	1,243,882	10,069,435
		2,142,459
		4,346,930
		11,886,186
	14,836,088	14,836,088
	971,709	971,709
200,779,750	9,453,871	210,233,621
200,779,750	25,261,668	244,416,993
		40,683,132
	10,637,224	10,637,224
	10,637,224	51,320,356
		24,860,918
200,779,750	37,142,774	330,667,702
$ 210,853,750	$ 39,304,877	$ 408,733,393

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		$ 330,667,702
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,846,939,540
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.		6,414,481
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Obligations Under Capital Leases	$ 17,181,856	
Bonds Payable	27,400,000	
Other Postemployment Benefits Payable	8,293,017	
Compensated Absences Payable	98,163,233	(151,038,106)
Total Net Assets - Governmental Activities		$ 2,032,983,617

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

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PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 367,522	$ 4,625,153	$
Federal Through State and Local	3,732,838	64,554,818	79,153,962
State	321,747,630	141,791	
Local:			
Property Taxes	418,817,668		
Charges for Services - Food Service			
Miscellaneous	19,495,093		
Total Revenues	764,160,751	69,321,762	79,153,962
Expenditures			
Current - Education:			
Instruction	486,796,226	30,364,820	67,965,079
Pupil Personnel Services	33,503,648	9,470,407	1,386,631
Instructional Media Services	11,289,569	354,398	78,711
Instruction and Curriculum Development Services	10,296,764	10,533,564	542,004
Instructional Staff Training Services	4,770,231	9,877,627	753,466
Instruction Related Technology	2,409,004	166,450	5,681
School Board	2,268,971	13,500	
General Administration	3,181,803	1,599,077	599,031
School Administration	54,625,131	78,658	210,725
Facilities Acquisition and Construction	570,256		
Fiscal Services	4,495,618	44,890	
Food Services	155,109	3,555	
Central Services	12,889,770	469,632	113,733
Pupil Transportation Services	33,183,479	382,471	19,202
Operation of Plant	81,643,832	122,501	3,987
Maintenance of Plant	23,199,139		
Administrative Technology Services	5,425,515	167,089	48,316
Community Services	985,875	3,610,207	24,253
Fixed Capital Outlay:			
Facilities Acquisition and Construction	242,703		
Other Capital Outlay	3,127,148	1,687,916	7,403,143
Debt Service:			
Principal	181,343		
Interest and Fiscal Charges	242,781		
Total Expenditures	775,483,915	68,946,762	79,153,962
Excess (Deficiency) of Revenues Over Expenditures	(11,323,164)	375,000	
Other Financing Sources (Uses)			
Transfers In	20,444,571		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Refunded Bond Escrow Agent			
Obligations under Capital Leases			
Proceeds from Sale of Land	365,000		
Loss Recoveries	176,685		
Transfers Out			
Total Other Financing Sources (Uses)	20,986,256		
Net Change in Fund Balances	9,663,092	375,000	
Fund Balances, Beginning	83,082,086	(375,000)	
Fund Balances, Ending	$ 92,745,178	$ 0.00	$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 4,992,675
	27,053,243	174,494,861
	12,049,643	333,939,064
91,845,449		510,663,117
	11,839,717	11,839,717
2,387,343	2,557,179	24,439,615
94,232,792	53,499,782	1,060,369,049
	1,498	585,127,623
		44,360,686
		11,722,678
		21,372,332
		15,401,324
		2,581,135
		2,282,471
		5,379,911
		54,914,514
759,320	152,774	1,482,350
		4,540,508
	37,502,412	37,661,076
		13,473,135
		33,585,152
		81,770,320
		23,199,139
		5,640,920
		4,620,335
83,259,296	6,176,461	89,678,460
	780,028	12,998,235
11,788,197	2,530,000	14,499,540
834,492	1,500,572	2,577,845
96,641,305	48,643,745	1,068,869,689
(2,408,513)	4,856,037	(8,500,640)
		20,444,571
	165,000	165,000
	22,768	22,768
	(188,486)	(188,486)
14,366,845		14,366,845
		365,000
		176,685
(19,870,309)	(574,262)	(20,444,571)
(5,503,464)	(574,980)	14,907,812
(7,911,977)	4,281,057	6,407,172
208,691,727	32,861,717	324,260,530
$ 200,779,750	$ 37,142,774	$ 330,667,702

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds		$ 6,407,172
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense and depreciation adjustments in the current fiscal year.		13,740,787
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(33,317,147)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current fiscal year.		
Inception of Capital Lease	$ (14,366,845)	
Issuance of Bonds	(165,000)	
Capital Lease Principal Payments	12,851,161	
Bond Principal Payments	2,720,000	1,039,316
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.		6,709,608
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(496,875)
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.		510,122
Change in Net Assets - Governmental Activities		$ (5,407,017)

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

PINELLAS COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS - PROPRIETARY FUND June 30, 2011

		Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash	$	75,023
Investments		22,704,315
Accounts Receivable		361,086
Interest Receivable		79,596
TOTAL ASSETS	$	23,220,020
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	58,403
Estimated Insurance Claims Payable		4,367,510
Total Current Liabilities		4,425,913
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		12,379,626
Total Liabilities		16,805,539
NET ASSETS		
Unrestricted		6,414,481
TOTAL LIABILITIES AND NET ASSETS	$	23,220,020

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

PINELLAS COUNTY DISTRICT SCHOOL BOARD STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues	$ 4,450,412
OPERATING EXPENSES	
Insurance Claims	4,058,471
Other Expenses	105,621
Total Operating Expenses	4,164,092
Operating Income	286,320
NONOPERATING REVENUES	
Interest Revenue	223,802
Change in Net Assets	510,122
Total Net Assets - Beginning	5,904,359
Total Net Assets - Ending	$ 6,414,481

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

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds	$ 8,252,247
Cash Payments for Insurance Claims and Fees	(5,764,015)
Net Cash Provided by Operating Activities	2,488,232
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(6,807,336)
Proceeds from Sales and Maturity of Investments	4,182,312
Interest Income	175,271
Net Cash Used by Investing Activities	(2,449,753)
Net Increase in Cash	38,479
Cash, Beginning	36,544
Cash, Ending	$ 75,023

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	$ 286,320
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(172,098)
Decrease in Due From Other Funds	4,008,512
Increase in Accounts Payable	58,403
Decrease in Due To Other Funds	(34,579)
Decrease in Estimated Insurance Claims Payable	(1,658,326)
Total Adjustments	2,201,912
Net Cash Provided by Operating Activities	$ 2,488,232

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

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2011

		Agency Funds
ASSETS		
Cash	$	7,240,584
Investments		75,600
Accounts Receivable		772,769
Due from Other Funds		190,610
TOTAL ASSETS	$	8,279,563
LIABILITIES		
Accounts Payable	$	52,885
Deposits Payable		2,500
Due to Other Funds		755,512
Due to Other Agencies		73,115
Internal Accounts Payable		7,395,551
TOTAL LIABILITIES	$	8,279,563

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

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

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

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

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

- Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's component units.

  The Academie Da Vinci Charter School, Inc.; Adlerian School Association, Inc., dba Alfred Adler Elementary School; The Athenian Academy, Inc., dba The Athenian Academy; Imagine Pinellas County, LLC, dba Imagine School at St. Petersburg and Imagine Middle School at St. Petersburg; Life Force Arts and Technology Academy, Inc.; Pinellas Education Organization, Inc., formerly known as Life Skills Center - North Pinellas, Inc.; New Alternative Education High School of Pinellas County, Inc., dba Mavericks High of Pinellas County; Pinellas Preparatory Academy, Inc.; Plato Academy Non-Profit, Inc., dba Plato Academy Charter School; Plato Academy North Pinellas County K-8, Inc., dba Plato Academy North K-8 Charter School; and Plato Academy South Pinellas County K-8, Inc., dba Plato Academy South K-8 Charter School are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes except that Imagine Pinellas County, LLC, is organized as a limited liability company pursuant to Chapter 608, Florida Statutes, the Florida Limited Liability Company Act, and Section 1002.23, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Pinellas County District School Board. The charter schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2011. The audit reports are filed in the District's administrative offices.

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

As a result of the District not renewing the charter for Life Skills Center Pinellas County, Inc., which ended June 30, 2010, District's management has excluded this charter school, which was reported as a component unit during prior fiscal years. In addition, the Life Force Arts and Technology Academy, Inc., reported an adjustment to beginning net assets to correct an overstatement for Federal grant expenses in the 2009-10 fiscal year. As a result of these changes, the net assets of the component units as a whole have been adjusted as follows:

	Asset Balances
Net Assets - Beginning of year, as previously reported	$ 2,105,786
Adjustment for Effect of Change in Reporting Entity	(229,290)
Adjustment for Correction of Prior Year Error	33,149
Net Assets - Beginning of year, restated	$ 1,909,645

- **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District and its component units.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense, which can be associated with a specific program or activity, is allocated to the related function, while remaining depreciation expense is reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used..

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation, and remodeling projects.

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

- Internal Service Fund – to account for the District's individual self-insurance programs.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➢ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 21 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services. The principal operating revenues of the District's internal service funds are charges for workers' compensation, general liability, and auto liability insurance premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

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

- **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in the State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, 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's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. 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 Florida PRIME, 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 Florida PRIME.

Investments made locally consist of obligations of United States Government instrumentalities, domestic bonds and notes, commercial paper, bond mutual funds, and money market mutual funds and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Inventories**

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

- **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest cost incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

Description	Estimated Lives
Improvements Other than Buildings	15 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	4 - 20 years
Motor Vehicles	7 - 15 years
Audio Visual Materials and Computer Software	5 - 15 years
Property Under Capital Leases	4 - 12 years

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

- **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets.

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

- **State Revenue Sources**

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

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

- **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 14, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **Federal Revenue Sources**

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

PINELLAS COUNTY DISTRICT SCHOOL BOARD NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

Investment	Fair Value	Six Months or Less	Six Months to Two Years	Two Years to Four Years	Four Years to Six Years	Greater than Six Years
State Board of Administration (SBA):						
Florida PRIME	$ 98,628	$ 98,628	$	$	$	$
Fund B Surplus Funds Trust Fund (Fund B)	1,052,622					1,052,622
Debt Service Accounts	971,709	971,709				
Money Market Funds:						
Federated Municipal Obligations	10,960,113	10,960,113				
Fidelity Institutional Prime Money Market	10,959,681	10,959,681				
First American Prime Obligations	299,559	299,559				
Morgan Stanley Prime Portfolio Institutional Class	14,494,386	14,494,386				
Morgan Stanley Government Portfolio Institutional Class	808,916	808,916				
Morgan Stanley Government Secruities Institutional Class	808,717	808,717				
The Core Fund Short-Term United States Government Bond Fund	36,592,607	36,592,607				
Commercial Paper	39,998,200	39,998,200				
Obligations of United States Government Instrumentalities:						
Collateralized Mortgage Obligations (1)	96,308,931	3,565,134	55,643,791	37,100,006		
Collateralized Mortgage Obligations - Floating Rates (2)	94,378,733		59,682,832	11,512,010		23,183,891
Domestic Bonds and Notes:						
Nongovernment Asset Backed (3)	23,665,715	19,509,107			4,156,608	
Nongovernment Asset Backed - Floating Rates (4)	3,664,894		3,664,894			
Nongovernment Mortgage Backed (5)	11,060,925	10,281,499	779,426			
Nongovernment Mortgage Backed - Floating Rates (6)	20,517,232		20,517,232			
Total Investments, Primary Government	$ 366,641,568	$ 149,348,256	$ 140,288,175	$ 48,612,016	$ 4,156,608	$ 24,236,513

Notes: (1) The District used the modified duration method to determine maturities for investments totaling $96,045,652. The actual maturity date was used for one investment totaling $263,279.
(2) The District used the spread duration method to determine maturities for these investments.
(3) The District used the modified duration method to determine maturities for $13,010,727 of these investments; weighted average life was used to determine maturities for $4,156,608 of these investments; and acutal maturity dates were used to determine maturities for $6,498,380 for these investments.
(4) The District used the average life method to determine maturity for this investment.
(5) The District used the modified duration method to determine maturities for these investments.
(6) The District used the spread duration method to determine maturity for investments totaling $12,014,120 and modified duration for investments totaling $8,503,112.

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy states that the weighted average duration of the investment portfolio shall not exceed five years.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

- The District has $190,687,664 in obligations of United States Government instrumentalities and $58,908,766 in obligations of nongovernment asset-backed securities that include embedded options consisting of the option at the discretion of the issuers or debtors to call their obligations. These securities have various call dates, and mature between July 2011 and December 2018 (modified duration maturity dates).

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. District investment policies allow for investments in:

- Obligations of Federal agencies, government sponsored enterprises, and instrumentalities. As of June 30, 2011, the District's investment portfolio included these types of securities with a total fair market value of $190,687,664. At June 30, 2011, these collateralized mortgage obligations were unrated.
- Asset-backed securities when either the underlying asset is guaranteed by the issuer or the security carries the highest quality rating by a nationally recognized rating agency. As of June 30, 2011, the District's investment portfolio included asset-backed securities with a total fair market value of $58,908,766. Securities totaling $42,333,158 were rated AAA by Standard & Poor's. Two securities totaling $12,418,999 were rated AAA by Fitch, and one security totaling $4,156,609 was rated Aaa by Moody's Investors Service.
- Short-term obligations commonly referred to as "money market instruments", including but not limited to commercial paper, provided such obligations carry the highest credit rating from a nationally recognized rating agency. Investments in commercial paper at June 30, 2011, with a fair value of $39,998,200 were rated A+ and A-1 by Standard & Poor's long and short-term, respectively. District policy allows securities to be purchased that do not meet the above criteria provided the security does not exceed 5 percent of the total value of investments on the settlement date of the investment.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. At June 30, 2011, the District had investments in the US Bank First American Prime Obligations Fund with a fair value of $299,559; US Bank Federated Municipal Obligations Fund with a fair value of $10,960,113; US Bank Fidelity Institutional Prime Money Market Fund with a fair value of $10,959,681; Morgan Stanley Prime Portfolio Institutional Class with a fair value of $14,494,386; Morgan Stanley Government Portfolio Institutional Class with a fair value of $808,916; and Morgan Stanley Government Securities Institutional Class with a fair value of $808,717. All funds were rated AAAm by Standard & Poor's.

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- Securities in open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940. The District had investments with a fair value of $36,592,607 in the Core Fund at June 30, 2011. The Core Fund is a short-term United States Government bond fund. This fund was rated AAAf/S1 by Standard & Poor's.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

Custodial Credit Risk

- Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District investment policy addresses custodial credit risk in that all securities shall be properly designated as an asset of the School Board of Pinellas County, Florida and held in safe-keeping by a third party custodian.
- The District's investments totaling $289,594,630 in obligations of United States Government instrumentalities, commercial paper, and domestic bonds and notes are held by the District's custodial agent but not in the name of the District.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy does not limit the amount the District may invest in any one issuer. The District had investments that represent 5 percent or more of total investments (excluding obligations with the explicit guarantee of the U.S. government, investment pools, and money market funds) as of June 30, 25011, as follows:

Issuer	Fair Value	Percent of Total Investments, Primary Government
Obligations of United States Instrumentalities:		
Federal National Mortgage Association	$ 89,458,553	24.40%
Federal Home Loan Mortgage Corporation	66,609,768	18.17%
Government National Mortgage Association	34,619,343	9.44%
Commercial Paper:		
Sumitomo Trust & Banking Company	20,000,000	5.45%
Suncorp Metw ay Limited	19,998,200	5.45%
Domestic Bonds and Notes:		
Nongovernment Mortgage Backed and		
Nongovernment Mortgage Backed - Floating Rates -		
Credit Suisse Mortgage Capital	18,784,611	5.12%
	$ 249,470,475	

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Adjustments (1)	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	$ 96,571,016	$	$ 35,337	$ 15,875	$ 96,590,478
Land Improvements	22,717,599				22,717,599
Construction in Progress	38,227,934		33,670,290	36,404,330	35,493,894
Total Capital Assets Not Being Depreciated	157,516,549		33,705,627	36,420,205	154,801,971
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	7,686,186		541,845		8,228,031
Buildings and Fixed Equipment	2,129,516,136		64,626,434	59,821,596	2,134,320,974
Furniture, Fixtures, and Equipment	145,362,859		14,990,284	12,487,073	147,866,070
Motor Vehicles	58,231,720		490,671	4,803,981	53,918,410
Property Under Capital Leases	45,125,784		14,366,845	11,105,147	48,387,482
Audio Visual Materials and Computer Software	15,282,097		328,191	1,304,378	14,305,910
Total Capital Assets Being Depreciated	2,401,204,782		95,344,270	89,522,175	2,407,026,877
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	1,396,986		548,535		1,945,521
Buildings and Fixed Equipment	532,152,519		43,294,006	31,874,509	543,572,016
Furniture, Fixtures, and Equipment	94,379,508		12,318,302	10,410,990	96,286,820
Motor Vehicles	32,780,345		4,145,997	4,117,174	32,809,168
Property Under Capital Leases	18,751,100	4,190,130	13,533,609	8,497,977	27,976,862
Audio Visual Materials and Computer Software	12,744,973	(64,465)	922,791	1,304,378	12,298,921
Total Accumulated Depreciation	692,205,431	4,125,665	74,763,240	56,205,028	714,889,308
Total Capital Assets Being Depreciated, Net	1,708,999,351	(4,125,665)	20,581,030	33,317,147	1,692,137,569
Governmental Activities Capital Assets, Net	$ 1,866,515,900	$ (4,125,665)	$ 54,286,657	$ 69,737,352	$ 1,846,939,540

Note (1): Accumulated depreciation includes adjustments that correct errors in the depreciation schedule.

The classes of property under capital leases are presented in Note 6.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 4,801,143
Pupil Personnel Services	64,716
Instructional Media Services	110,205
Instruction and Curriculum Development Services	120,901
Instructional Staff Training Services	38,697
Instructional Related Technology	8,996,741
School Board	2,642
General Administration	70,715
School Administration	55,899
Facilities Acquisition and Construction	10,338,925
Fiscal Services	65,390
Food Services	339,398
Central Services	70,643
Pupil Transportation Services	267,107
Operation of Plant	74,065
Maintenance of Plant	85,420
Administrative Technology Services	52,277
Community Services	6,924
Unallocated	53,327,097
Total Depreciation Expense - Governmental Activities	$ 78,888,905

5. CHANGES IN SHORT-TERM DEBT

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	$	$ 85,000,000	$ 85,000,000	$
Total Governmental Activities	$	$ 85,000,000	$ 85,000,000	$

Proceeds from the tax anticipation note were used as a working capital reserve in the General Fund as permitted under State law.

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

6. OBLIGATIONS UNDER CAPITAL LEASES

The classes and amounts of property being acquired under capital leases are as follows:

	Asset Balances
Data Processing Equipment	$ 45,274,632
Buses	3,112,850
Total	$ 48,387,482

Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 9,269,087	$ 8,394,508	$ 874,579
2013	4,931,516	4,529,595	401,921
2014	3,651,636	3,454,599	197,037
2015	840,208	803,154	37,054
Total Minimum Lease Payments	$ 18,692,447	$ 17,181,856	$ 1,510,591

The imputed interest rates are 3.43 percent on the bus leases and range from 4.93 to 7.57 percent on the data processing equipment.

7. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 27,235,000	5.0	2020
Series 2010A	165,000	4.0 - 5.0	2021
Total Bonds Payable	$ 27,400,000		

The various bonds were issued by the State Board of Education on behalf of the District to finance capital outlay projects of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as

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security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 4,009,600	$ 2,640,000	$ 1,369,600
2013	4,012,850	2,775,000	1,237,850
2014	4,009,100	2,910,000	1,099,100
2015	3,988,600	3,035,000	953,600
2016	4,001,850	3,200,000	801,850
2017-2021	14,405,800	12,840,000	1,565,800
Total	$ 34,427,800	$ 27,400,000	$ 7,027,800

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	$ 18,452,450	$ 4,058,701	$ 5,764,015	$ 16,747,136	$ 4,367,510
Obligations Under Capital Leases	15,666,172	14,366,845	12,851,161	17,181,856	8,394,508
Bonds Payable	29,955,000	165,000	2,720,000	27,400,000	2,640,000
Compensated Absences Payable	104,872,841	6,528,208	13,237,816	98,163,233	11,385,615
Other Postemployment Benefits Payable	7,796,142	3,521,317	3,024,442	8,293,017	
Total Governmental Activities	$ 176,742,605	$ 28,640,071	$ 37,597,434	$ 167,785,242	$ 26,787,633

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. Estimated insurance claims payable is generally liquidated with resources of the Internal Service Fund.

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 4,182,418	$ 148,397
Special Revenue:		
Other		186,027
Federal Economic Stimulus		3,426,906
Capital Projects:		
Local Capital Improvement	143,976	
Nonmajor Governmental		162
Fiduciary	190,610	755,512
Total	$ 4,517,004	$ 4,517,004

Interfund balances are a result of expenditures, such as warehouse delivery charges, central printing, and maintenance work orders, which were made by one fund to another fund, and will be repaid within 12 months, as well as reclassifications of expenditures between capital projects funds, and short-term cash flow borrowing. All balances are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 20,444,571	$
Capital Projects:		
Local Capital Improvement		19,870,309
Nonmajor Governmental		574,262
Total	$ 20,444,571	$ 20,444,571

A $12,326,500 transfer made from the Capital Projects – Local Capital Improvement Fund was to cover maintenance and capital outlay expenditures that were incurred in the General Fund. A $7,543,809 transfer made from the Capital Projects – Local Capital Improvement Fund was to cover property liability insurance expenditures that were incurred in the General Fund. The $574,262 transfer from the nonmajor governmental fund to the General Fund was to cover capital outlay disbursements of $566,262 to the charter schools and capital expenditures of $8,000 for the Data Processing Center.

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

10. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

The District reports its governmental fund balances in the following categories, as applicable:

- **Nonspendable**

  The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories, prepaid amounts, and the fund balance for the permanent fund as nonspendable.

- **Restricted**

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

- **Committed**

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

- **Assigned**

  The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent or his designee and not included in other categories.

- **Unassigned**

  The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

The following is a schedule of fund balances by category at June 30, 2011:

	Major Funds					
	General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances						
Nonspendable:						
Inventories	$ 3,799,721	$	$	$	$ 1,091,853	$ 4,891,574
Prepaid Items	5,025,832					5,025,832
Permanent Fund					152,029	152,029
Spendable:						
Restricted:						
State Required Carryover	2,142,459					2,142,459
Tax Levy	4,346,930					4,346,930
Workforce	11,886,186					11,886,186
Food Service					14,836,088	14,836,088
Debt Service					971,709	971,709
Capital Projects				200,779,750	9,453,871	210,233,621
Assigned:						
Encumbrances	8,204,547					8,204,547
Central Printing	734,349					734,349
Carryforwards	13,744,236					13,744,236
Contingency Reserve	18,000,000					18,000,000
Sale of Property					10,637,224	10,637,224
Unassigned	24,860,918					24,860,918
Total Fund Balances	$ 92,745,178	$ 0	$ 0	$ 200,779,750	$ 37,142,774	$ 330,667,702

- **Minimum Fund Balance Policy**

The District has adopted Board Policy 6210, which provides that the Board shall strive to maintain an unassigned fund balance in its operating funds equal to one (1) percent of the annual resources. To the extent resources are available, the contingency should be incrementally increased until it reaches a maximum level of three (3) percent of appropriations.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2010-11 fiscal year:

Source	Amount
Florida Education Finance Program	$ 174,002,338
Categorical Educational Program - Class Size Reduction	114,553,230
Workforce Development Program	23,232,955
Gross Receipts Tax (Public Education Capital Outlay)	6,216,692
Motor Vehicle License Tax (Capital Outlay and Debt Service)	4,553,906
School Recognition	4,284,021
Voluntary Prekindergarten	1,475,174
Excellent Teaching	772,905
Charter School Capital Outlay	593,708
Mobile Home License Tax	555,391
Adults with Disabilities	548,886
Food Service Supplement	522,641
Discretionary Lottery Funds	392,574
Miscellaneous	2,234,643
Total	$ 333,939,064

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.342	$ 336,880,553
Basic Discretionary Local Effort	0.748	47,170,839
Critical Operating Needs	0.250	15,765,654
Voted Tax:		
Local Referendum	0.500	31,531,309
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	94,593,929
Total	8.340	$ 525,942,284

13. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after

PINELLAS COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled $57,381,075, $55,875,700, and $54,070,643, respectively, which were equal to the required contributions for each fiscal year. There were 1,952 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled $6,720,640.

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

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JUNE 30, 2011

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

14. EARLY RETIREMENT PLAN

On July 27, 2010, the Pinellas County District School Board established an Early Retirement Incentive Program (ERIP), whereby employees meeting certain eligibility guidelines could retire by August 11, 2010, and receive benefits under the ERIP. This plan was offered on a one-time basis. For qualifying employees, the ERIP provided a cash incentive in the amount of $27,000 payable in three annual payments of $9,000 each, less applicable taxes and deductions.

The ERIP was offered to instructional personnel and school-based administrators who met certain conditions. Forty-two employees elected to participate in the ERIP. As of June 30, 2011, cumulative payment for the 42 employees amounted to $378,000.

15. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District and eligible dependents are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Bargaining Leadership Team and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 775 retirees received other postemployment benefits. The District provided required contributions of $3,024,442 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims and expenses, and retention costs, net of retiree contributions totaling $6,490,097, which represents 1.1 percent of covered payroll.

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

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	$ 2,117,601
Amortization of Unfunded Actuarial Accrued Liability	1,236,158
Interest on Normal Cost and Amortization	134,150
Annual Required Contribution	3,487,909
Interest on Net OPEB Obligation	311,846
Adjustment to Annual Required Contribution	(278,438)
Annual OPEB Cost (Expense)	3,521,317
Contribution Toward the OPEB Cost	(3,024,442)
Increase in Net OPEB Obligation	496,875
Net OPEB Obligation, Beginning of Year	7,796,142
Net OPEB Obligation, End of Year	$ 8,293,017

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	$ 4,585,866	$ 4,054,944	88.4%	$ 4,707,683
2009-10	4,843,008	1,754,549	36.2%	7,796,142
2010-11	3,521,317	3,024,442	85.9%	8,293,017

Funded Status and Funding Progress. As of June 30, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $30,367,852, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $30,367,852 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $579,119,812, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.2 percent.

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

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

The District's OPEB actuarial valuation as of June 30, 2011, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 10.5 percent for pre-Medicare and 7.5 percent post-Medicare initially for the 2010-11 fiscal year, reduced to an ultimate rate of 5.5 percent for the fiscal year ending June 30, 2018. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 26 years.

16. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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 following is a schedule of encumbrances at June 30, 2011:

Major Funds			
General	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 8,204,547	$ 52,119,301	$ 5,137,806	$ 65,461,654

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Construction Contracts. Encumbrances include the following construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Boca Ciega High School:			
General Contractor	$ 21,869,909	$ 12,741,721	$ 9,128,188
Clearwater High School:			
General Contractor	3,168,875	1,821,382	1,347,493
Architect	266,693	242,742	23,951
Lynch Elementary School:			
General Contractor	16,971,300	5,952,454	11,018,846
Architect	816,654	603,060	213,594
St. Petersburg High School:			
General Contractor	3,852,255	1,301,606	2,550,649
Architect	520,560	416,533	104,027
Total	$ 47,466,246	$ 23,079,498	$ 24,386,748

17. RISK MANAGEMENT PROGRAMS

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

A liability in the amount of $16,747,136 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2011.

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

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2009-10	$ 18,488,653	$ 4,008,512	$ (4,044,485)	$ 18,452,680
2010-11	18,452,680	4,058,471	(5,764,015)	16,747,136

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Property protection, boiler and machinery, errors and omissions, employment practices liabilities, employee dishonesty, and other coverages deemed necessary by the Board are provided through purchased commercial insurance with deductibles for each line of coverage. Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District's health and hospitalization, dental, life, and income protection coverages for District employees are being offered through purchased commercial insurance.

18. LOSS CONTINGENCIES

The District received financial assistance from various Federal agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims could become a liability of the General Fund or other applicable funds.

19. LITIGATION

The Board is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the Board’s legal counsel and management, should not materially affect the Board’s financial position.

20. SUBSEQUENT EVENTS

The District’s investment policy requires that investment instruments have the highest quality as rated by a nationally recognized rating agency at the time of purchase. According to the policy, if the rating of an investment should be downgraded to less than the highest quality rating, the Manager, Cash & Investments, in consultation with the Investment Oversight Committee, will decide whether the investment will be sold or retained. As of June 30, 2011, the District’s investment in the Core Fund was rated AAAf/S1 by Standard & Poor’s, which is the highest quality rating. However, due to Standard & Poor’s decision to downgrade its rating of the United States Government’s debt, the Core Fund investment advisor requested that Standard & Poor’s rating of the Core Fund be withdrawn on August 15, 2011. As of February 29, 2012, the District’s investment in the Core Fund totaled $36,536,116.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 185,000	$ 367,522	$ 367,522	$
Federal Through State and Local	2,480,836	3,732,838	3,732,838	
State	324,274,780	321,747,630	321,747,630	
Local:				
Property Taxes	414,076,835	418,817,668	418,817,668	
Miscellaneous	16,667,559	19,496,752	19,495,093	(1,659)
Total Revenues	757,685,010	764,162,410	764,160,751	(1,659)
Expenditures				
Current - Education:				
Instruction	483,552,266	491,875,278	486,796,226	5,079,052
Pupil Personnel Services	32,832,151	33,634,002	33,503,648	130,354
Instructional Media Services	10,790,193	11,531,035	11,289,569	241,466
Instruction and Curriculum Development Services	8,969,730	10,331,356	10,296,764	34,592
Instructional Staff Training Services	3,512,426	4,821,725	4,770,231	51,494
Instruction Related Technology	2,272,291	2,413,442	2,409,004	4,438
School Board	2,752,318	2,305,656	2,268,971	36,685
General Administration	2,999,479	3,218,107	3,181,803	36,304
School Administration	53,047,255	54,980,718	54,625,131	355,587
Facilities Acquisition and Construction	3,559,869	583,602	570,256	13,346
Fiscal Services	4,634,933	4,526,622	4,495,618	31,004
Food Services	60,382	155,109	155,109	
Central Services	12,777,205	13,238,863	12,889,770	349,093
Pupil Transportation Services	32,217,283	33,256,847	33,183,479	73,368
Operation of Plant	84,215,628	81,864,325	81,643,832	220,493
Maintenance of Plant	22,971,693	24,421,650	23,199,139	1,222,511
Administrative Technology Services	5,823,353	5,751,236	5,425,515	325,721
Community Services	448,423	986,411	985,875	536
Fixed Capital Outlay:				
Facilities Acquisition and Construction		242,703	242,703	
Other Capital Outlay		3,127,148	3,127,148	
Debt Service:				
Principal	2,321,880	197,683	181,343	16,340
Interest and Fiscal Charges		242,790	242,781	9
Total Expenditures	769,758,758	783,706,308	775,483,915	8,222,393
Excess (Deficiency) of Revenues Over Expenditures	(12,073,748)	(19,543,898)	(11,323,164)	8,220,734
Other Financing Sources				
Transfers In	14,000,000	20,444,571	20,444,571	
Proceeds from Sale of Land		365,000	365,000	
Loss Recoveries	500,000	176,686	176,685	(1)
Total Other Financing Sources	14,500,000	20,986,257	20,986,256	(1)
Net Change in Fund Balances	2,426,252	1,442,359	9,663,092	8,220,733
Fund Balances, Beginning	82,973,748	83,082,085	83,082,086	1
Fund Balances, Ending	$ 85,400,000	$ 84,524,444	$ 92,745,178	$ 8,220,734

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 3,234,559	$ 10,644,816	$ 4,625,153	$ (6,019,663.00)	$	$	$	$
77,722,903	93,135,869	64,554,818	(28,581,051)	64,581,688	89,566,476	79,153,962	(10,412,514)
		141,791	141,791				
80,957,462	103,780,685	69,321,762	(34,458,923)	64,581,688	89,566,476	79,153,962	(10,412,514)
36,397,671	52,011,051	30,364,820	21,646,231	62,130,516	75,175,282	67,965,079	7,210,203
9,731,713	11,164,553	9,470,407	1,694,146	231,517	1,434,521	1,386,631	47,890
43,957	362,682	354,398	8,284		78,711	78,711	
6,965,669	11,637,330	10,533,564	1,103,766	173,557	1,865,719	542,004	1,323,715
21,671,351	15,138,366	9,877,627	5,260,739	1,204,892	1,041,234	753,466	287,768
24,311	188,061	166,450	21,611	8,453	405,453	5,681	399,772
	15,000	13,500	1,500				
2,294,765	2,419,270	1,599,077	820,193	768,342	928,801	599,031	329,770
25,242	98,767	78,658	20,109		250,741	210,725	40,016
59,400	23,914		23,914				
47,806	47,806	44,890	2,916				
	29,770	3,555	26,215	8,500	6,756		6,756
382,351	1,143,252	469,632	673,620	37,500	376,158	113,733	262,425
1,353,590	2,067,549	382,471	1,685,078	2,996	48,251	19,202	29,049
41,889	176,779	122,501	54,278	6,962	80,232	3,987	76,245
87,571	799,503	167,089	632,414	8,453	54,930	48,316	6,614
1,830,176	4,769,116	3,610,207	1,158,909		416,544	24,253	392,291
	1,687,916	1,687,916			7,403,143	7,403,143	
80,957,462	103,780,685	68,946,762	34,833,923	64,581,688	89,566,476	79,153,962	10,412,514
		375,000	375,000				
		375,000	375,000				
		(375,000)	(375,000)				
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2008	$ 0	$ 70,535,701	$ 70,535,701	0.0%	$ 620,452,815	11.4%
June 30, 2009	0	43,091,189	43,091,189	0.0%	602,033,272	7.2%
June 30, 2010	0	43,156,329	43,156,329	0.0%	573,422,403	7.5%
June 30, 2011	0	30,367,852	30,367,852	0.0%	579,119,812	5.2%

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds except that no budget appropriation is made for capital leases in the year of inception.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The June 30, 2011, unfunded actuarial accrued liability of $30,367,852 was significantly lower than the June 30, 2010, liability of $43,156,329. The decrease was due to changing the future medical trend to reflect current conditions, decrements were updated to reflect current retirement and termination rates used by the Florida Retirement System, and mortality was updated to a generational table. In addition, out-of-pocket limits and co-pays were changed on the health maintenance organization and point-of-service plans and the coinsurance rate was changed in the consumer driven health plan.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 4,882,268	$
National School Lunch Program	10.555	300, 350	19,593,804	
Summer Food Service Program for Children	10.559	323	237,076	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	2,340,096	
Total Child Nutrition Cluster			27,053,244	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	8,500	
Total United States Department of Agriculture			27,061,744	
United States Department of Labor:				
Indirect:				
WorkNet Pinellas, Inc.:				
H-1B Job Training Grants	17.268	None	16,856	
United States Department of Energy:				
Indirect:				
WorkNet Pinellas, Inc.:				
Weatherization Assistance for Low-Income Persons	81.042	None	72,741	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	26,902	
Federal Pell Grant Program	84.063	N/A	3,496,925	
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	38,434	
Fund for the Improvement of Education	84.215	N/A	815,876	
Foreign Language Assistance	84.293	N/A	144,160	
Teacher Incentive Fund	84.374	N/A	79,190	
Total Direct			4,601,487	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	25,760,992	
Special Education - Preschool Grants	84.173	266, 267	987,297	100,000
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	13,740,379	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	423,680	
Total Special Education Cluster			40,912,348	100,000
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	26,183,374	231,506
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 222, 223, 226	4,623,508	
Total Title I, Part A Cluster			30,806,882	231,506
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	69,766	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	62,582	
Total Education for Homeless Children and Youth Cluster			132,348	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	35,012	
ARRA - Education Technology State Grants, Recovery Act	84.386	121, 122	804,243	
Total Educational Technology State Grants Cluster			839,255	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	296,779	
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,673,498	
Total School Improvement Grants Cluster			1,970,277	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	34,996,774	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	812,912	
Total State Fiscal Stabilization Fund Cluster			35,809,686	

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect (Continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	$ 1,286,090	$
Career and Technical Education - Basic Grants to States	84.048	161	1,608,870	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	97,500	
Even Start - State Educational Agencies	84.213	219	256,486	
Charter Schools	84.282	298	625,000	625,000
English Language Acquisition Grants	84.365	102	665,541	
Improving Teacher Quality State Grants	84.367	224	5,803,299	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	221,616	
Education Jobs Fund	84.410	541	21,713,530	
Washington County District School Board:				
Reading First State Grants	84.357(2)(B)	None	76,710	
Total Indirect			142,825,438	956,506
Total United States Department of Education			147,426,925	956,506
United States Department of Health and Human Services:				
Direct:				
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	50,568	
Indirect:				
Pinellas County Health Department:				
Centers for Disease Control and Prevention - Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	PSA32	263,245	
Florida Department of Education:				
Refugee and Entrant Assistance - Discretionary Grants	93.576	137	2,475	
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	LK794	543,137	
Total United States Department of Health and Human Services			859,425	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	7,011	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Hazard Mitigation Grant	97.039 (2)(C)	None	2,426,025	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	203,322	
Navy Junior Reserve Officers Training Corps	None	N/A	71,521	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	65,777	
Total United States Department of Defense			340,620	
Total Expenditures of Federal Awards			$ 178,211,347	$ 956,506

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

(2) Noncash Assistance.
(A) National School Lunch Program – Represents the amount of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(B) Reading First State Grants – Includes $58,335 of noncash assistance in the form of instructional materials.
(C) Hazard Mitigation Grant – Represents the Federally-paid installation costs of $2,426,025.

DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pinellas County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units, as described in our report on the Pinellas County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 and 2, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 19, 2012

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Pinellas County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Special Tests and Provisions – Private School Participation that are applicable to its Educational Technology State Grants Cluster program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 6.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 6 to be significant deficiencies.

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

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

Respectfully submitted,

David W. Martin, CPA
March 19, 2012

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Federal Pell Grant Program (CFDA No. 84.063); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	No

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 1: Investment Controls

At June 30, 2011, the District had approximately $366 million of investments, including obligations of United States Government instrumentalities, corporate debt, mutual funds, commercial paper, and shares in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pools. During the 2010-11 fiscal year, the District's investment program included 45 investment security purchases, totaling approximately $588 million, and 32 investment security sales, totaling approximately $233 million.

The Board established policies that authorize the Manager of Cash and Investments (Manager), under the supervision of the Chief Financial Officer (CFO), to make investment decisions, direct the District's third party custodian to transfer District investments based on those decisions, and for the Manager, or his substitute, to make electronic funds transfers. However, the combination of deficiencies discussed in Finding Nos. 1A through 1F below results in significant deficiencies in controls over investment balances and related activities.

Finding No. 1A: Investment Program Management

An investment function needs complete, well-documented policies and procedures to describe the scope of the function and assign related roles and responsibilities relative to such matters as asset access, transaction execution, performance reporting, security valuation, compliance monitoring, and ethics policies. Sound policies and procedures contribute to effective controls by ensuring the clear communication of management expectations and assuring that an appropriate separation of incompatible duties is maintained.

Board policies provide the directives for managing investments. These directives address authorized investments, maturity and liquidity requirements, the investment oversight committee responsibilities, certain ethical standards, various internal controls and other useful guidance for District personnel. However, given the complexities and volatility of the current investment environment, the Board's investment policies and procedures should be expanded to further address areas such as enhanced ethics policies; specific procedures for investment transaction and performance monitoring; enhanced controls over the preparation of cash flow projections; and accounting controls. These areas are discussed in more detail in the findings below. Comprehensive written policies and procedures reduce the risk that investment policies may not be followed consistently and in a manner pursuant to Board intentions.

Also, further enhancements of the Board's written policies and procedures could be made related to training activities. For example, while the policy requires the Manager to annually complete eight hours of continuing education classes related to cash management or investment practices and products, Board policies and procedures do not require that the substitute for the Manager obtain and maintain similar training should the Manager become unable to perform his work-related duties. Upon audit inquiry, it was determined that the Cash and Investments Specialist was designated as the primary substitute for the Manager; however, District records did not evidence that the Cash and Investments

Specialist had received any training on the procedures necessary to manage the Board's investment portfolio and ensure the District's liquidity needs are met. Absent a requirement for proper training of substitute personnel, or alternative procedures in the event of the loss of the Manager's services, there is an increased risk of loss of investment value, earnings, and liquidity. Additionally, while the Manager did complete eight hours of continuing education for the 2010-11 fiscal year, not all sessions attended were in subjects or courses related to cash management or investment practices and products, contrary to Board policy. A similar finding was noted in our report No. 2009-186.

Recommendation: The Board should expand its policies and procedures to provide further guidance in safeguarding District investments, including enhanced ethics policies; investment transaction and performance monitoring; preparation of cash flow projections; and accounting controls; and sufficient and adequate training of the substitute for the Manager.

Finding No. 1B: Ethics Policies

Board policies require that the Manager, under the supervision of the CFO, make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment. In addition, the policy addresses refraining from personal business activity that could conflict with proper execution of the investment program or impair the ability to make impartial investment decisions. Also, employees involved with the investment process must disclose to the Board any material financial interests in financial institutions that conduct business with the Board, and disclose any material financial or investment positions that could be related to the performance of the Board's investment program. However, the policy could be strengthened to require that employees responsible for managing the Board's investment program not use the prestige or influence of their position or District resources to obtain personal, financial or political gain or private advantage for themselves, their family, or an organization with which they are associated.

Ethical policies should clearly communicate that persons responsible for managing the District's investment portfolio are held in public trust, and obligated to honesty and integrity in fulfilling these responsibilities. Paramount in that trust is the principle that public employment may not be used for personal gain or private advantage. A similar finding was noted in report No. 2009-186.

Recommendation: The District should enhance its ethical policies and procedures to prohibit employees responsible for managing the Board's investments from using the prestige or influence of their position or District resources to obtain personal, financial, or political gain or private advantage for themselves, their family, or an organization with which they are associated.

Finding No. 1C: Investment Transaction Monitoring

Effective compliance monitoring procedures are necessary to provide assurance that the securities purchased are consistent with the approved investment strategies and in compliance with any applicable regulatory requirements. To assist with monitoring investment strategies, the District established the Investment Oversight Committee (Committee), comprised of six members, three district personnel and three financial professionals from the community. Through inquiry and review of District records, we noted that procedures over investment transaction monitoring could be enhanced, as follows:

- Board policies allow the Manager to make investment decisions under the supervision of the CFO. We tested 12 investment transactions, including purchases totaling approximately $107 million and sales totaling approximately $71 million, to determine whether District records evidenced timely review of the transactions. Our test disclosed one investment purchase totaling approximately $20 million that occurred 75 days before the CFO's documented review date. The Manager informed us that a duplicate copy of the transaction confirmation from the broker was not separately addressed to the CFO, contrary to the District's investment policy.
- Board policies require investment instruments to have the highest quality as rated by a nationally-recognized rating agency at the time of purchase. If the rating of an investment is downgraded to less than the highest quality rating, the Manager, in consultation with the Committee, is responsible for deciding whether the investment is to be sold or retained. However, the policy does not specify the timeframe in which such decisions should be made or provide proper oversight and accountability for such transactions. While our tests did not disclose any significant downgrades of investments during the 2010-11 fiscal year, effective monitoring of downgraded securities requires that determinations be made timely as to the most prudent course of action regarding retaining or selling the downgraded securities.

Further control deficiencies over electronic funds transfers of investments are discussed in Finding No. 4. Timely, independent review and approval of investment transactions, including purchases, sales, and rating downgrades, would reduce the risk that investment transactions not conforming to the District's policy may occur or escape detection. A similar finding was noted in our report No. 2009-186.

Recommendation: To ensure the appropriateness of investment activities, the District should provide for timely, independent review and approval of investment transactions, including purchases, sales, and any security rating downgrades.

Finding No. 1D: Investment Program Performance Reporting and Monitoring

The Manager prepares quarterly investment portfolio reports that contain quarter-end investment values and income statements, and comparisons of this information to similar data from the previous year; however, quarterly reports during the 2010-11 fiscal year were not presented to the Board in a timely manner, as shown below:

Investment Portfolio Reports

Quarter Ending Dates (A)	Board Approval Dates (B)	Number of Days Elapsed (B) - (A)
9/30/2010	1/25/2011	117
12/31/2010	4/26/2011	116
3/31/2011	6/14/2011	75
6/30/2011	9/13/2011	75

In addition, preparation of the quarterly investment portfolio reports by informed individuals independent of the management of the investment activity would provide additional assurances to the Board regarding the objectivity of the information provided.

We also noted that the Committee did not meet at least quarterly, contrary to Board policy. The Committee met to discuss the investment portfolio reports for the quarters ending September 30, 2010, and June 30, 2011, on January 11, 2011, and August 30, 2011, respectively. For the reports for the quarters ending December 31, 2010, and

March 31, 2011, the Committee met on May 12, 2011, to review both reports. When reports of investment activity are not timely communicated to the Board and other appropriate management, there is an increased risk that matters requiring corrective action may not be timely detected, investigated, and resolved. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should provide for timely and independent preparation and submission of investment reports to the Board. The District should also ensure that the Committee meets timely to review investment activities.

Finding No. 1E: Cash Flow Projections

The Manager prepared a cash flow worksheet that projected when cash inflows and outflows would occur for all funds except the agency funds, and investment purchases and sales were based on this worksheet. However, there was no independent review of the worksheet to determine the reasonableness of the District's projected cash needs.

The Manager indicated that an independent review was discussed by top finance staff and the Committee but since the data that is input into the cash flow worksheet is reviewed by multiple staff in a variety of ways, presenting the cash flow for review would be redundant and not useful information to anyone but the Manager. However, independent preparation, review, and approval of the reasonableness of the determination of projected cash needs would reduce the risk of inappropriate decisions regarding investment purchases and sales transactions. A similar finding was noted in our report No. 2009-186.

Recommendation: To provide for timely, independent review and approval of the projected cash flow needs, the District should place responsibility for the preparation of the cash flows worksheet with persons independent of the investment purchases and sales.

Finding No. 1F: Accounting Controls

Improvements were needed in the District's accounting procedures for journal entries and reconciliations over investment transactions, as follows:

- **Journal Entries**. The Manager prepared the journal entries to record the investment transactions, including those relating to interest revenue and fair value adjustments to the investment values. Although the Manager did not input the entries into the District's accounting system, there was no supervisory review and approval of the journal entries, except for wire transfers. Our test of seven investment transactions (i.e., interest earnings and fair value adjustments) totaling $1.1 million to determine whether revenue earnings were accounted for correctly in the District's general ledger disclosed an instance in which the amount of accrued interest earned on the security at the date of the purchase was $1,618; although accrued interest entered into the general ledger totaled $9,707. The Manager indicated that propriety software, used as the District's subsidiary ledger to track investments and calculate earnings, miscalculated the accrued interest, resulting in the error. In addition, our test disclosed an instance in which the fair market value adjustment entered into the general ledger to reflect a gain on the August 2010 sale of a security was overstated by $25,286. While this error was noted on the September 2010 reconciliation, it was not corrected in the general ledger until March 2011. The delayed correction in the general ledger occurred because of untimely reconciliations as discussed below.

  An informed independent review and approval of journal entries to adjust the value and earnings of investments would provide additional assurance of the propriety of such entries. A similar finding was noted in our report No 2009-186.

- **Reconciliations**. The Manager signed as preparer and reviewer of the reconciliations for the investment bank accounts for July through February 2011 and the CFO signed to evidence supervisory approval of the reconciliations. Reconciliations for July 2010 through December 2010 were signed and dated as prepared in February 2011, which were from 59 to 205 days after month end; and the reconciliation for February 2011 was signed and dated as prepared in April 2011, 58 days after month-end. In addition, each of these reconciliations contained unexplained differences between the subsidiary records and general ledger for investments, ranging from $100,787 to $392,242. The Manager indicated that the unexplained differences likely occurred within the software used by the District to track investments when transitioning from the 2009-10 to the 2010-11 fiscal year.

  For the months of March through May 2011, the Banking Specialist assisted the Manager in completing the reconciliations. For June 2011, the Banking Specialist began independently preparing the reconciliations and prepared revised reconciliations for the months of July 2010 through February 2011. Reconciliations prepared by the Banking Specialist were reviewed by the Cash and Investments Specialist and approved by the CFO. Reconciliations for the months of March 2011 through June 2011 were signed and dated as prepared by the Banking Specialist in September 2011, from 84 to 173 days after month-end. In addition, each of these reconciliations contained unexplained differences between the subsidiary records and general ledger for investments, ranging from $274,086 to $329,404. The unexplained differences in the revised reconciliations for the months of July 2010 through February 2011 ranged from $309,347 to $336,397. As of June 30, 2011, the unexplained difference totaled $308,573. As indicated above, the Manager believed the unexplained differences likely occurred because of the District's software.

  District personnel indicated that the Banking Specialist position was created and filled in January 2011, the employee focused on learning the bank reconciliation process, and assumed the duties of reconciling the investment accounts by the end of the fiscal year.

  Independent preparation of reconciliations and timely identification and resolution of reconciling items reduces the risk of reporting incorrect amounts of investments. A similar finding was noted in our report No. 2009-186.

Recommendation: To ensure the accuracy and completeness of investment activity records, the District should provide for timely, independent review, and approval of journal entries and reconciliations.

Finding No. 2: Financial Reporting

Our review of the District's 2010-11 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved. For example, District personnel did not properly identify and record Federal cash draws, resulting in Special Revenue Fund – Federal Economic Stimulus Program overstatements of accounts receivable and deferred revenue by $28,237,253 and $24,634,778, respectively; and understatements of due from other agencies and payroll deductions withholding payable by $3,602,748 and $273, respectively. The recording errors also caused Special Revenue Fund – Other overstatements of accounts receivable and deferred revenue by $6,092,743 and $5,421,696, respectively; and understatements of due from other agencies by $671,047. Without identifying and properly recording and reporting Federal account balances and related liabilities, available resources from grantors may be misunderstood.

We extended our audit procedures to determine the adjustments necessary to ensure the District's financial statements were properly reported, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should enhance procedures to ensure that information is properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 3: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. The District reported cash balances at June 30, 2011, totaling approximately $30.9 million.

The District maintained 12 bank accounts during the 2010-11 fiscal year, and our review of the bank reconciliations disclosed:

- For 9 bank accounts, 23 of the 108 monthly reconciliations were completed from 46 to 174 days after month-end. The untimely monthly reconciliations occurred for the months of November 2010 through March 2011. District personnel indicated this occurred, in part, because the reconciler position was vacant for some of the fiscal year. In addition, our review disclosed that the approver did not date any of the 144 reconciliations for all bank accounts.
- Reconciling corrections were not always timely posted to the cash accounts in the general ledger. For example:
  - A $4,782,945 FRS contribution correction, identified during the October 2010 reconciliation completed November 9, 2010, was not posted to the general ledger until March 17, 2011.
  - A $1,890,884 payroll entry correction, identified during the April 2011 reconciliation completed May 11, 2011, was not posted to the general ledger until June 30, 2011.
  - A $1,015,515 payroll entry correction, identified during the November 2010 reconciliation completed December 10, 2010, was not posted to the general ledger until May 12, 2011.
- A tax shelter annuity account with a June 30, 2011 balance of $27,796 was not recorded in the District's general ledger. During the 2010-11 fiscal year, the month-end balances for this account ranged from $7,505 to $88,105, and had an unreconciled balance of $7,505. Subsequent to our inquiry, the District determined that $4,980 belonged to participants, but had not identified ownership of the remaining balance of $2,525.

We extended our procedures and determined that the amounts recorded as cash in bank were materially correct and properly classified; however, our procedures cannot substitute for management's responsibility to timely reconcile cash assets with amounts recorded in the accounting records. Absent timely bank account reconciliations, errors or fraud could occur, without timely detection. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should continue its efforts to timely reconcile all bank statements and document and resolve reconciling items. In addition, the District should establish procedures to ensure bank reconciliations are dated by the approver.

Finding No. 4: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

The Board's policies provide controls and procedures for EFTs such as the reasons Board funds can be moved by EFT, personnel who can initiate and approve EFTs, and restrictions on EFTs to non-Board accounts. In addition, the Board established agreements with several banks to provide various services, including EFTs. The Superintendent and Board chair signed most agreements, the agreements identified who was authorized to perform EFTs, and the District maintained documentation evidencing the initiator and authorizer of EFTs. While the District regularly used EFTs for vendor payments, retirement benefits, Federal withholding taxes, direct deposits of employee pay, and purchases and sales of investments, controls over the EFT process could be enhanced, as follows:

- Our review of EFTs for the District's two investment accounts disclosed that one account required written instructions to identify the account(s) to which EFTs would be sent; however, through December 2010, the Manager initiated and authorized EFTs for investments and identified the account(s) to which EFTs were sent, which did not provide for an appropriate separation of duties. Effective January 2011, these duties were assumed by another employee, which provided for an appropriate separation of duties.
- Four of the District's bank agreements contained outdated information in that one agreement, dated August 2007, authorized a former superintendent, who discontinued employment with the District in June 2008, to change who could make EFTs. In addition, four agreements, dated August 2007 through July 2009, authorized former Board chairs, who vacated office from November 2007 to 2009, to change who could make EFTs. One of the investment agreements contained the signature of the former Chief Business Officer and did not include the required signature of the Superintendent and Board chair. As of January 2012, the District had not revised these bank and investment agreements.

While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should continue its efforts to ensure that the duties of initiating and authorizing EFTs are appropriately separated, and should also ensure that bank agreements contain required signatures.

Finding No. 5: Cash Collections

The majority of the District's revenue was received from State agencies and the Pinellas County Tax Collector by the use of wire transfer or direct deposits into the Board's depository accounts, and documentation supporting these collections was based on correspondence by the remitting agencies. In addition, the District reported revenues totaling approximately $43 million for other collections received at the District office and various decentralized locations in the form of currency or checks for miscellaneous revenues such as food service program reimbursements from the State, voluntary prekindergarten program revenues, and adult education program fees. The District needed to enhance its controls over these miscellaneous collections, as follows:

- At the District office, the accounting department mail opener and other departments provided collections to the central cashier, who prepared prenumbered receipts and the deposit, without the use of transfer documents or mail logs. Transfer documents fix responsibility should loss or theft of collections occur.
- Collections are not maintained in a secured location by the central cashier prior to courier pick up. Failure to keep collections in a secure location until pick up by the courier could result in loss or theft of the deposits.
- Prenumbered receipt books are not maintained in a secured location during the day, which could also result in loss or theft of collections that may not be timely detected.

While we were able to confirm the majority of the District's revenue to amounts reported by remitting agencies, our procedures cannot substitute for the District's responsibility to implement adequate controls over miscellaneous cash collections.

Recommendation: The District should enhance its controls over miscellaneous cash collections to address the above-noted deficiencies.

Finding No. 6: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),[1] required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

While the assessments of instructional personnel and school administrators generally met the requirements of Section 1012.34(3)(a), Florida Statutes (2010), District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by FDOE for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings.

[1] Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Recommendation: The District should document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

Finding No. 7: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),[2] provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel**. Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance.

  The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic coaches, band directors, and student activity and organization sponsors. Also, the salary schedule evidenced consideration of differentiated pay for school demographics and level of job performance difficulties by providing supplements at four low-performing high schools during the 2010-11 fiscal year. In addition, District personnel indicated that math, science, and reading teachers were identified as critical shortage areas and provided documentation such as advertisements to demonstrate the difficulty of hiring these personnel; however, the salary schedule or union contracts did not evidence consideration of differentiated pay based on critical shortage areas for these or other instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

[2] Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

- **<u>School-based Administrators</u>**. The school-based administrators' salary schedule evidenced consideration of differentiated pay for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for the elementary, middle, and high schools based on the type school. Also, the salary schedule evidenced consideration for differentiated pay for school demographics and level of job performance difficulties at four low-performing high schools during the 2010-11 fiscal year. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c).4, Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and that the various differentiated pay factors are consistently considered and applied.

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

Finding No. 8: Background Rescreenings

Sections 1012.56(10) and 1012.465, Florida Statutes, require that instructional personnel renewing their teaching certificates and noninstructional personnel undergo required background screenings every five years following the initial fingerprinting and screening upon employment. In a memorandum dated June 25, 2004, FDOE recommended that school districts conduct background screenings for certified instructional employees every five years, at the time of renewal of their teaching certificates, and that background rescreenings be obtained for approximately 20 percent of the noninstructional employees each year.

As of June 30, 2011, the District had identified 123 instructional and noninstructional employees who had not obtained the required background rescreenings within the past five years. District personnel informed us that this occurred because employees were not accessing their e-mail account to retrieve the notice and employees did not follow through with the request. Without timely completion of required background rescreenings, there is an increased risk that staff with unsuitable backgrounds may be allowed access to students. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should continue its efforts to timely obtain required background screenings for District employees.

Finding No. 9: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; purchase, lease-purchase, or lease of equipment, computer hardware, or certain enterprise resource software applications used to support districtwide administration or State-mandated reporting requirements; and property and casualty insurance premiums to insure educational and ancillary plants subject to certain conditions and limitations. Further, Section 200.065(10)(a), Florida Statutes, imposes requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the Board intends to spend the proceeds of such tax levy and to specify in the required notice of tax levy the projects to be funded. In the event the District needs to amend the list of capital outlay projects previously advertised and adopted, a notice of intent to amend the notice of tax must be published, pursuant to Section 200.065(10)(b), Florida Statues, and a public hearing to adopt the amended project list must be held. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2010-11 fiscal year, the District had LCI Fund expenditures totaling $96,641,305 and transfers totaling $19,870,309 to the General Fund. We tested LCI Fund expenditures and transfers totaling $19,875,204 to determine their propriety, and noted the following:

- The District transferred $7,543,809 from the LCI Fund to reimburse the General Fund for property and casualty insurance premium expenditures. However, this transfer was not initially allowable because the 2010-11 fiscal year advertised capital outlay notice did not list these insurance premiums. Subsequent to our inquiry, the District scheduled a rehearing for February 2012 to amend the advertised notice of capital outlay millage levy for the 2010-11 fiscal year, pursuant to Section 200.065(10)(b), Florida Statutes. In addition, we noted the District's transfer included $816,623 for insurance premiums other than property and casualty. Subsequent to our inquiry, the District transferred $816,623 from the General Fund to reimburse the LCI Fund.
- Several purchases for instructional software and software licenses, totaling $160,733, were not allowable uses of ad valorem tax levy proceeds. For example, purchased software and licenses included architectural software, scanning software, and various teaching software. While Section 1011.71, Florida Statutes, allows purchases of certain enterprise resource software applications used to support Districtwide administration, District records did not evidence that the use of the questioned instructional software and software licenses met the requirements set forth in statute. Subsequent to our inquiry, the District restored $160,733 to the LCI Fund.

Without adequate controls to ensure that ad valorem tax levy proceeds are expended for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used only for allowable purposes that are appropriately advertised.

Finding No. 10: Capital Assets

The District reported capital assets with costs of approximately $1.8 billion, net of accumulated depreciation, at June 30, 2011. The timely and accurate recording of subsidiary property records to support capital asset costs is essential to establish the necessary control and accountability for these assets. While such controls were generally adequate, our review of subsidiary records to support capital assets disclosed that improvements are needed. For example:

- The District maintained subsidiary records to account for its building values and capitalizable expenditures for buildings are generally recorded in the subsidiary records at the end of the fiscal year; however, because District personnel did not timely identify and record all capital outlay expenditures to the building subsidiary records, the subsidiary records understated building values by $4.6 million at June 30, 2011.
- District building and accumulated depreciation subsidiary records of 2010-11 fiscal year deleted property identified a high school with building and accumulated depreciation deletion amounts of $19.6 million and $7.6 million, respectively; however, the District had previously removed the costs of this high school from the

active subsidiary records during the 2004-05 fiscal year. In addition, District records did not evidence Board approval of the specific buildings removed or related costs for six other sites totaling \$20.1 million and \$15.9 million for buildings and accumulated depreciation, respectively. For example, the District provided calculations for deleted buildings and related accumulated depreciation totaling \$8.5 million and \$5.2 million, respectively, for several buildings at a service center. However, the only District record to support these deletions was a Board-approved supplemental education plant survey dated November 2006 that disclosed only two buildings for demolition and, as of June 30, 2011, the District continued to report the \$8.5 million of service center buildings in the active subsidiary records.

- The District reported relocatable building costs totaling \$4.8 million as furniture, fixtures, and equipment (FFE), and the subsidiary records identified approximately 100 relocatable buildings; however, the database maintained by the Maintenance Department identified approximately 400 relocatable buildings and District records did not evidence an explanation to reconcile the two records. Consequently, the District was limited in its ability to demonstrate that it had accurately accounted for all District-owned relocatable buildings, and the costs of these should be a component of building values, not FFE.
- The District lacked detailed subsidiary records to support the current value of land improvements, totaling approximately \$22.7 million. The District's subsidiary records for this capital asset category are maintained on an aggregate cost basis only, whereby current year additions are added to the prior year balance for each site. However, in the event of a sale, loss, or impairment of any of the District's land improvements, it may not be possible for the District to determine the cost of the asset for removal from the District's financial records without detailed subsidiary records.

Without appropriately maintained capital asset subsidiary records, the District's ability to properly account for these assets is limited. Similar findings were noted in previous audit reports, most recently in our report No. 2009-186.

Recommendation: The District should improve procedures to ensure the adequacy and accuracy of capital asset subsidiary records. Such procedures should ensure that appropriate records are maintained to demonstrate the proper disposition of capital assets and related accumulated depreciation expenses.

Finding No. 11: Construction Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract requires District personnel to closely monitor the award of bids to subcontractors.

Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Verification of subcontractor licenses provides the District additional assurance that subcontractors are qualified to perform the work for which they are engaged. We reviewed the District's administration of the Sutherland Elementary School GMP contract, entered in January 2010, totaling \$8.7 million with cumulative expenditures totaling approximately \$8.2 million as of June 30, 2011, and noted that District personnel inadvertently did not document that they verified the licenses of subcontractors working on the project. Subsequent to our inquiry, District personnel indicated that a statement will be added to future bid tabulation sheets requiring District confirmation of all subcontractor licenses. A similar finding was noted in previous audit reports, most recently in our report No. 2009-186.

Recommendation: The District should enhance its monitoring procedures to include the CME's verification that subcontractors are properly licensed.

Finding No. 12: Facilities Management

The facilities department is responsible for managing construction and renovation projects. During the 2010-11 fiscal year, the facilities department employed 23 full-time employees, including construction personnel, and the department's operating cost was approximately $1.8 million. Also, during this fiscal year, the District had expenditures totaling approximately $89 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 14, 2010, the District plans to spend an additional $4.4 million on these projects in the 2011-12 fiscal year. At June 30, 2011, the historical cost of the District's educational and ancillary facilities was approximately $2.2 billion and, as shown in FDOE's Florida Inventory of School Houses data, District facilities had an average age of approximately 28 years.

The maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2010-11 fiscal year, this department employed 250 employees, including grounds and maintenance personnel, and the department's operating cost was approximately $21 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establishes procedures to evaluate the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks. Such procedures could include written policies and procedures documenting processes for evaluating facilities construction methods and maintenance techniques before commitment of significant resources to the most cost effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review of facilities management procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Construction Planning**. School districts benefit from long-range facilities construction planning activities that include consideration of stakeholder input, including District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders. A committee comprised of such individuals may help the District with facility construction decisions based on actual or anticipated commercial or residential expansion efforts and population demographics.

  The District uses a committee, known as the Professional Service Advisory Committee, for selection of architectural, engineering, landscape architectural, or land surveying services, and construction managers at risk for new construction and renovation, and retrofit, projects once the projects are identified during each fiscal year. This committee includes District personnel, a Board member, and a representative from the community. The District also has a Capital Outlay Committee with the responsibility of developing long-range construction priorities including the District's five-year facilities work plan, but this committee does not include county long-range planning personnel, or other community stakeholders. Having such representation on its Capital Outlay Committee may help the District in establishing facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods.** The District typically awards construction contracts of less than $1 million to design professionals and construction contractors using traditional design-bid-build methods. A construction manager at risk within a guaranteed maximum price (GMP) method is used for projects costing over $1 million. For facilities, District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods and, while they consider alternative methods and techniques, they have not documented an evaluation of the various approaches to determine which would be most cost effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method.

- **Accountability.** The District's facilities and maintenance departments have established short-term and long-term goals; however our review disclosed that these goals did not address accountability for these departments. For example, facilities department goals were to ensure projects are designed, built, and inspected to meet Florida Building Code requirements and projects are completed on time and within budget. Maintenance department goals included customer satisfaction, quality workmanship, and proper administration and use of materials. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities and maintenance departments are operating as effectively and as cost-efficiently as possible.

Recommendation: The District should establish a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 13: Inventories – Separation of Duties

The District could enhance its internal control over the maintenance, warehouse, and transportation department inventories by adequately separating authorization of inventory purchase requisitions, asset custody, and record keeping responsibilities, and limiting access to inventory storage areas. The maintenance, warehouse, and transportation inventories totaled $2,083,070, $1,010,532, and $484,743, respectively, at June 30, 2011.

Two employees in the maintenance department, three employees in the warehouse department, and five employees in the transportation department had unrestricted physical access to the inventory and maintained the perpetual inventory records. In addition, one of the two maintenance department employees and one of the three warehouse department employees, noted above, had the authority to approve purchase requisitions. Although District procedures provide for periodic counts in the maintenance and warehouse inventories, District personnel indicated because of staffing constraints, these counts are coordinated by the same employee who maintains the perpetual inventory records. Under these conditions, there is an increased risk that errors or fraud, should they occur, would not be timely detected. Similar findings were noted in previous audit reports, most recently in our report No. 2009-186.

Recommendation: The District should provide for an adequate separation of duties associated with the maintenance, warehouse, and transportation departments' inventories to the extent practical with existing personnel or implement compensating controls such as periodic review of inventory purchases and issues by staff independent of the inventory function.

Finding No. 14: Fund Balance Reporting

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the preparation of the annual financial report (AFR) for the fiscal year ended June 30, 2011. GASB Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds, clarifies definitions for governmental fund types, and establishes criteria for classifying fund balances into specifically defined classifications. One of the classifications, assigned fund balance, represents amounts that are constrained by the intent of the governing body (Board), or a Board-authorized body or official, to be used for specific purposes. In addition, capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

On the District's 2010-11 fiscal year AFR, as presented for audit, certain unrestricted resources totaling $10,637,224 were reported as assigned fund balance in a capital projects fund. These resources consisted of proceeds from the sales of real property and surplus tangible personal property, and a settlement from a corporation, placed in the capital projects fund in previous years. However, as of January 2012, contrary to the provisions of GASB Statement No. 54, the Board had not officially designated a body or official the authority to assign fund balances and express the intent of the specific purposes for such assignments. Further, neither the District's five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which these resources were assigned. Without official action to identify those responsible for establishing assigned fund balances, and District records evidencing the specific intended uses of those balances, financial statement users may misunderstand the Board's intent regarding assigned fund balances.

Recommendation: The Board should adopt a policy that identifies and authorizes the body or employee responsible for assigning fund balances and specifying the intended uses of assigned fund balances. Also, the intended use of the unrestricted resources of $10,637,224 in the capital projects funds should be disclosed in the District's records, and if the intended use is not for capital outlay purposes, the District should transfer $10,637,224 to the General Fund.

Finding No. 15: Monitoring of Charter Schools

During the 2010-11 fiscal year, the District sponsored 12 charter schools. Each charter school must provide the District with evidence that it met certain minimum insurance requirements pursuant to charter school contracts, and the Coordinator of Partnership Schools is responsible for monitoring compliance with these provisions. Subsequent to our inquiry, the District requested evidence of insurance from the 12 charter schools, and our review of these policies disclosed the following:

- The charter school contracts for Alfred Adler Elementary Charter School and The Athenian Academy, Inc., require $1 million per claim and $2 million annual aggregate of errors and omissions coverage; however, the schools' policy only provided $1 million aggregate of errors and omissions coverage. In addition, District records did not evidence that Life Force Arts and Technology Academy (LATA), Inc., had the required errors and omission coverage for the 2010-11 fiscal year.

- Charter school contracts required workers' compensation/employers' liability insurance of $1 million per occurrence and $2 million annual aggregate. However, the insurance certificates for Academie Da Vinci Charter School, Inc., Imagine Charter School at Pinellas, Imagine Middle School at St. Petersburg, and Plato Academy only indicated an annual aggregate limit of $1 million; the insurance certificate for LATA, Inc., indicated $100,000 per occurrence and $500,000 limit; and the insurance certificate for Life Skills Center – North Pinellas, Inc., indicated $500,000 for each accident and disease. In addition, District records did not evidence that The Athenian Academy, Inc., had the required insurance from July 1, 2010, to September 9, 2010. Beginning September 10, 2010, The Athenian Academy, Inc.'s., coverage indicated $1 million for each accident and $1 million policy limit for disease.
- The charter school contract for LATA, Inc., required $1 million per occurrence and $2 million aggregate insurance for all owned, nonowned, and hired automobiles used by the school; however, District records did not evidence that the school had this coverage for the 2010-11 fiscal year.
- The insurance certificates for Plato Academy and Pinellas Preparatory Academy did not name the School Board as additionally insured for workers' compensation, contrary to the charter school contract.

In the absence of effective monitoring, there is an increased risk that coverage may not be sufficient, subjecting the charter schools and the District to potential uninsured losses. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should enhance its procedures to ensure that each charter school maintains insurance required by the charter school contract.

Finding No. 16: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures.

Procedures provided by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. These procedures also stated that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule.

For the 2010-11 fiscal year, the District reported to FDOE 3,383,541 adult general education contact hours for 16,429 students enrolled in 62 different courses. Our tests of approximately 1,650 hours reported for 10 students enrolled in 18 adult general education classes disclosed 3 students with a total of 118 hours underreported and 1 student with a total of 18 hours overreported, or 100 net underreported hours. District personnel indicated that data entry errors, such as inputting incorrect student enrollment and exit dates, caused the underreported hours. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

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

Finding No. 17: Workforce Education Postsecondary Student Fees

Section 1009.22, Florida Statutes, provides the authority and requirements for the District to charge fees to students enrolled in workforce education programs. In previous audit reports, most recently in our report No. 2009-186, we noted that the District transferred adult general education and postsecondary vocational course fees totaling $6,157,936 for the 2004-05 through 2007-08 fiscal years within the General Fund from the workforce development program account to an unrestricted account. While there were no transfers of students fees from the workforce development program account to unrestricted accounts during the 2010-11 fiscal year, as of January 2012, the District had not reimbursed the workforce development program account for $6,157,936.

Upon our inquiry of the District's authority to transfer and use these fees, the District presented an opinion from the District's attorney that stated "pursuant to Section 1001.32(2), Florida Statutes, the Board may exercise any power except as expressly prohibited by the State Constitution or general law. This Home rule power would permit the District to determine how to use workforce development fees where Legislative direction is silent. Absent Legislative direction to the contrary, the District is lawfully permitted to use such fees for non-workforce related purposes. Whether such fees should be used for non-workforce related purposes is a policy question for the Board to consider upon recommendation to the Superintendent." However, based on correspondence from FDOE of whether postsecondary workforce education program student fees may be used for programs other than postsecondary workforce education, the authority provided by Section 1009.22, Florida Statutes, to charge tuition is based on the intent to have students pay a portion of the cost of postsecondary education, and allowing tuition funds to be used to support District K-12 operations would violate that intent.

Recommendation: The District should consult with FDOE regarding reimbursement of the $6,157,936 of student fees to the workforce development program account.

Finding No. 18: Workforce Education Program Funds – Indirect Costs

Chapter 2004-268, Laws of Florida, Specific Appropriation 122B of the General Appropriations Act, provided that workforce development funds provided by this appropriation were not to be used to support K-12 programs or the District K-12 administrative indirect costs. In previous audit reports, most recently in our report No. 2009-186, we noted that the District charged certain school and District indirect costs to the workforce education postsecondary program based on the District's annual program cost report and, in determining the school and district level indirect costs to be used in the allocation process, District staff included expenditures for secondary programs (grades 6 through 12). Consequently, during the 2004-05 fiscal year, the District transferred $3,033,923 more from the workforce development program to the General Fund for reimbursement of indirect costs than was allowable by law. As of January 2012, the District still had not returned these moneys to the workforce development program account.

Recommendation: The District should consult with FDOE regarding reimbursement of the $3,033,923 of workforce development program moneys transferred to the General Fund during the 2004-05 fiscal year.

Finding No. 19: Information Technology - Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties. However, the District did not have written policies and procedures for the periodic review of user access privileges, nor had it performed periodic reviews.

Our audit test of selected access privileges to the finance and human resources (HR) applications disclosed that some employees had access privileges that permitted the employees to perform incompatible responsibilities. Specifically:

- Two employees in the Cash Management and Investment Department had update access privileges to critical transactions within the finance application, including adding and changing vendor names and addresses. This combination of access privileges was contrary to an appropriate separation of duties as each of the employees could add an unauthorized vendor to the District's finance system. In response to our inquiry, the District removed update access to vendor information for these two employees.
- One employee in the Auditing and Property Records Department and three employees in the Risk Management Department had update access privileges to critical transactions within the HR application, including making adjustments to payroll. This combination of access privileges was contrary to an appropriate separation of duties as each of the employees could make an unauthorized adjustment to payroll. In response to our inquiry, the District removed update access to payroll adjustments for these four employees.
- One HR employee had update access privileges to critical transactions within the HR application for payroll transactions, including making adjustments to errors made in a previous payroll run and allowing payment for sick and annual leave when an employee leaves. This combination of access privileges was contrary to an appropriate separation of duties as this employee could make unauthorized payroll adjustments and payments. In response to our inquiry, the District removed update access to payroll adjustments and payments for this employee.

To compensate, in part, for the effect of the above deficiencies, the District had certain controls, such as independent review and approval of vendor additions, payroll updates, and department supervisor monitoring of budget and actual expenditures. However, the existence of inappropriate access privileges indicated a need for the District to review access privileges to ensure that the privileges assigned are commensurate with employee job duties. Without a comprehensive review, inappropriate access privileges may not be timely detected and addressed by the District, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. Similar findings were noted in previous audit reports, most recently in our report No. 2009-186.

Recommendation: The District should periodically review assigned job duties and access privileges and timely remove or adjust any inappropriate or unnecessary access noted. In addition, the District should develop written policies and procedures that document management's expectations for the review of access privileges.

Finding No. 20: Information Technology - Security Controls - User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction. Similar findings were noted in previous audit reports, most recently in our report No. 2009-186.

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

Finding No. 21: Information Technology - Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification of affected parties.

Although the District had formed a security incident response team, the District had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

Finding No. 22: Information Technology - Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had contracted with a third-party vendor in January 2011 for a security audit, including penetration testing for a few of its schools, and District personnel indicated that the District had begun development of written IT risk assessments, the District had not completed a written, comprehensive IT risk assessment, including determining modifications or additions to security controls necessary to mitigate risks identified through the audit results. The absence of a comprehensive IT risk assessment may limit the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls.

Recommendation: The District should complete a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 23: Information Technology - Security Awareness Training Program

A comprehensive security awareness training program apprises new users of, and reemphasizes to current users, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although limited security awareness was provided through periodic e-mails regarding password security and Board policies related to unacceptable password or account usage, confidential information, and penalties for noncompliance, the District did not have a comprehensive security awareness training program to facilitate ongoing education and training of applicable employees on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information. In response to our inquiry, District management indicated that an online Technology Security Course is in development and, upon completion, will be posted to their learning management system for all employees' participation.

A comprehensive security awareness training program would decrease the risk that the District's IT resources could be unintentionally compromised by users while performing their assigned duties. A similar finding was noted in our report No. 2009-186.

Recommendation: The District should continue its efforts to promote security awareness through a comprehensive security awareness training program to ensure that applicable employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Major Federal Programs: Special Education – Grants to States (CFDA No. 84.027); Special Education – Grant to States, Recovery Act (CFDA No. 84.391 – ARRA); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389-ARRA); Education Technology State Grants (CFDA No. 84.318); and Education Technology State Grants, Recovery Act (CFDA No. 84.386 – ARRA); Nonmajor Federal Programs: English Language Acquisition Grants (CFDA No. 84.365) and Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Material Noncompliance and Material Weakness (CFDA Nos. 84.318 and 84.386); and Noncompliance and Significant Deficiency for Other Federal Programs Listed Above
Questioned Costs: $550,880 – CFDA Nos. 84.318 and 84.386-ARRA

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

During the 2010-11 fiscal year, the District wrote to private schools in the District to determine whether the schools desired to participate in various Federal programs; however, enhancements could be made in the information provided to those schools, as discussed below:

- The District's letters mailed to private schools who were not on the District's list to participate in Federal programs requested the school to respond to the letter if it wished to receive detailed information describing requirements that must be met and documents that must be submitted for review, prior to approval of the school's participation in applicable Federal programs. However, the letters did not specifically indicate the Federal programs in which the private schools could participate. Consequently, 41 of 87 private schools in the District were not informed of the Federal programs in which they could participate as these schools did not respond to this letter.

- For private schools approved to participate in Federal programs, the District sent notification letters; however, the Title I, Special Education, and Education Technology ARRA programs were not included in the list of Federal programs nor were the schools informed that Title I program funds were available to grades 6 through 12 for the 46 private schools that received the notification letters. Guidance issued by the ED suggests that school districts should send another invitation to participate in Title I services, and provide the opportunity for consultation regarding ARRA funds to private schools that decline services in the initial notification of Federal programs availability, assuming the initial notification did not include such notification of ARRA funding availability.

Title 34, Section 299.6, CFR, states that the services the District provides to eligible private school students and their teachers must also be equitable in comparison to the services and other benefits provided to the District's students and their teachers. During preparation of the Education Technology grant application (award period of April 8, 2010, to August 31, 2011), the District determined the grade spans and District schools that would benefit the most from the grant. The District sent letters to 35 private schools requesting that the private schools provide their percentages of economically disadvantaged and disabled by a date certain. In its request, the District instructed the private schools that the program was designed for schools that had student populations of 70 percent or higher economically disadvantaged students and 25 percent or higher students with disabilities. District records evidenced that 8 of the 35 private schools had percentages of economically disadvantaged students that ranged from 0 percent to 45 percent and percentages of students with disabilities that ranged from 0 percent to 100 percent, but because none of the private schools met both criteria, they did not participate in this grant. While the 8 private schools were excluded because they did not meet both criteria, none of the four District schools' actual percentages met both of these criteria either.

District personnel indicated that they chose 70 percent for the economically disadvantaged student threshold and 25 percent for the students with disabilities threshold based on all of the District's schools that were in differentiated accountability (i.e., the District's lowest performing schools). District personnel also indicated that only four of the District's schools submitted an application to participate in the grant and these schools met the other criteria of FDOE's request for proposal. District personnel further indicated that private schools had the opportunity to participate and that only one school had a 45 percent economically disadvantaged population, the private school only had 10 students in grades 6 through 12, and the District was unable to pair the school with another private or public school.

FDOE guidance for the Education Technology grant provides that differentiated accountability categories do not apply to private schools; and the District's applying those standards to private schools resulted in those schools being excluded from participation in the grant. As such, the District's expenditures of $550,880 from this grant for the 2010-11 fiscal year represent questioned costs subject to disallowance by the grantor (FDOE).

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding Special Tests and Provisions - Private School Participation that is applicable to its Education Technology State Grants program, our report on the District's compliance with that requirement includes a qualification to that effect.

Recommendation: The District should enhance procedures to ensure private schools are provided the opportunity to participate in Federally-funded programs. In addition, the District should document to the grantor (FDOE) the allowability of the $550,880 of questioned costs or restore this amount to the appropriate Education Technology grant program.

District Contact Person: Mary Conage, Director of Title 1 Compliance; Patricia Lusher, Director of Academic Computing; Jan Urbanski, Director of Special Projects

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: CFDA 84.027 - $394,814; CFDA No. 84.173 - $123,247; CFDA No. 84.391 – $562,071; and CFDA No. 84.392 - $120,621

Matching, Level of Effort, Earmarking – Early Intervention Services. The Individuals with Disabilities Education Act (IDEA) provides funds for services to children with disabilities, including early intervention, special education, and related services. Title 34, Section 300.226, Code of Federal Regulations (CFR), limits the District's use of the amount received under part B of the Act, in combination with other amounts, to no more than 15 percent to develop and implement early intervention services for students who are not currently identified as needing special education or related services. FDOE required the District to set aside 15 percent of its IDEA funds for coordinated early intervention services (CEIS). Expenditures for CEIS may include personnel costs, such as behavioral specialists, exceptional student education teachers, paraprofessionals, and other staff.

The District identified students as eligible for Special Education program regular instruction, such as reading, speech, behavioral, and emotional, based on individual educational plans prepared yearly that include annual goals for the students. Students identified for CEIS receive remediation through the general education setting, typically by a general education teacher or teacher aide under the guidance of a behavioral specialist or exceptional student education specialist.

FDOE awarded the District $27,981,683 for the 2010-11 fiscal year Special Education programs and $26,343,451 for the period April 20, 2009, through September 30, 2011 for the Special Education ARRA programs. The District was required to set aside $8,148,770, ($4,197,252 – Special Education and $3,951,518 – Special Education – ARRA) representing 15 percent of the total of these awards for CEIS. Although District personnel maintained detailed tracking for the Special Education and Special Education ARRA programs, District records indicated that only $3,679,191 and $3,268,826, respectively, was spent for the Special Education and Special Education ARRA programs. This resulted in questioned costs of $518,061 and $682,692, respectively, for Special Education and Special Education ARRA programs.

Recommendation: The District should establish procedures to ensure that coordinated early intervention services are provided for Special Education programs. Additionally, the District should document to the grantor (FDOE) the allowability of the $1,200,753 of questioned costs for the required coordinated early intervention services, or restore this amount to the applicable Special Education programs.

District Contact Person: Cindy Bania, Director of ESE

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Major Federal Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010), Special Education - Grants to States, Recovery Act (CFDA No. 84.391 - ARRA), State Fiscal Stabilization Fund – Education State Grants, Recovery Act (CFDA No. 84.394 - ARRA); Nonmajor Federal Program: Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: CFDA 84.010 - $9,689; CFDA No. 84.391 - $9,689; CFDA No. 84.394 - $19,377; and CFDA No. 84.367 - $19,377

Allowable Costs/Cost Principles. Title 2, Part 225, CFR, provides that severance pay for payments in addition to regular salaries made to workers whose employment is terminated is an allowable charge to a Federal award. In March 1997, FDOE issued a memorandum providing that school districts could use one of the following three cost allocation options in distributing terminal leave payments: 1) make the termination payment from the General Fund; 2) distribute the payment proportionately to the expenditure categories of the school district; or 3) use the first-in, first-out method to account for leave and when making the payment for unused leave.

On July 27, 2010, the District established an Early Retirement/Resignation Program (ERIP) for instructional personnel and school-based administrators who applied between July 28, 2010, and August 11, 2010, and met other conditions. Participants received a cash incentive of $27,000 payable in three annual payments of $9,000, with distribution occurring by September 15, 2010, September 15, 2011, and September 15, 2012. Our review disclosed that the District charged the first of the ERIP payments, plus FICA matching, for six employees directly to the employee's current assigned Federal programs (one to Title I of $9,689, one to the Special Education program of $9,689, two to the State Fiscal Stabilization Education program totaling $19,377, and two to the Improving Teacher Quality program totaling $19,377), although the employees worked on multiple programs while employed with the District. Since the District did not distribute the payments proportionately to the expenditure categories of the District, the $58,132 of ERIP charges to Federal programs represent questioned costs subject to disallowance by the grantor (FDOE). Subsequent to audit inquiry, on June 10, 2011, the District repaid all program funds.

Recommendation: The District should continue its efforts to ensure that severance payments are allocated consistent with Federal regulations and FDOE guidance.

District Contact Person: Mary Conage, Director of Title 1 Compliance; Jan Urbanski, Director of Special Projects

Federal Awards Finding No. 4:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education – Grants to States (84.027); Career and Technical Education – Basic Grants to States (CFDA No. 84.048); Special Education - Preschool Grants CFDA No. 84.173); Safe and Drug-Free Schools and Communities - State Grants (CFDA No. 84.186); Charter Schools (CFDA No. 84.282); Improving Teacher Quality State Grants (CFDA No. 84.367); School Improvement Grants (CFDA No. 84.377); ARRA – Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); ARRA – Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); ARRA - Special Education - Grants to States, Recovery Act (CFDA No. 84.391); ARRA - Special Education - Preschool Grants, Recovery Act (CFDA No. 84.392); ARRA – State Fiscal Stabilization Fund - Education State Grants, Recovery Act (CFDA No. 84.394); ARRA – State Fiscal Stabilization Fund - Government Services, Recovery Act (CFDA No. 84.397).
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Reporting. Expenditures of grant funds are reported through FDOE's On-line Disbursement Reporting Application in accordance with reporting and administrative requirements set forth in the FDOE publication titled, *Project Application and Amendment Procedures for Federal and State Programs*. Section C of this publication provides instructions for requesting advances of Federal cash, reporting expenditures of grant funds, and preparing and submitting the Cash Advance and Reporting of Disbursements System (CARDS) Reconciliation, a report used to reconcile the Federal cash balance shown on FDOE's CARDS Detail by Agency Report to the District's accounting records.

Although the District timely filed the June 30, 2011, CARDS reconciliation with FDOE, District records did not identify explanations for the following differences:

Program	CFDA Number	Amounts per: Amount per CARDS	Amounts per: District Accounting Records	Difference
Adult Education - Basic Grants to States	84.002	$ 1,275,757	$ 1,286,090	$ (10,333)
Title I Grants to Local Educational Agencies	84.010	26,271,881	26,174,951	96,930
Special Education - Grants to States	84.027	25,451,786	25,760,992	(309,206)
Career and Technical Education - Basic Grants to States	84.048	1,562,949	1,608,870	(45,921)
Special Education - Preschool Grants	84.173	973,589	987,297	(13,708)
Safe and Drug-Free Schools and Communities - State Grants	84.186	81,594	97,500	(15,906)
Charter Schools	84.282	650,000	625,000	25,000
Improving Teacher Quality State Grants	84.367	5,726,860	5,803,299	(76,439)
School Improvement Grants	84.377	234,753	296,779	(62,026)
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	51,454	62,582	(11,128)
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	3,964,829	4,623,508	(658,679)
ARRA - Special Education - Grants to States, Recovery Act	84.391	13,315,153	13,740,379	(425,226)
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	396,816	423,680	(26,864)
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	34,986,574	34,996,774	(10,200)
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397	812,912	743,461	69,451
Total		$ 115,756,907	$ 117,231,162	$ (1,474,255)

The above differences occurred mainly because District staff did not have adequate procedures in place to properly request advances of Federal cash, report expenditures of grant funds, or prepare the CARDS reconciliation. We extended our audit procedures and determined that these differences were materially corrected or resolved with FDOE prior to grant close-outs in the 2011-12 fiscal year. However, the failure to accurately reconcile the cash advance balance limits the District's ability to timely detect and correct errors in the accounting records and Federal financial reports, which could result in the disallowance of certain Federal reimbursements.

Recommendation: The District should enhance its procedures to ensure that the FDOE CARDS Report is properly reconciled to the District's accounting records prior to grant close-out.

District Contact Person: Cathy Davidson, Director of Accounting

Federal Awards Finding No. 5:
Federal Agency: United States Department of Education
Pass-Through Entity: Not Applicable
Award Numbers: P063P092749, P063P095378, P063P102749, and P063P105378
Program: Federal Pell Grant Program (CFDA No. 84.063)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Cash Management. The District has two technical education centers (TECs) in Clearwater and St. Petersburg, Florida, that award Federal Pell grants and, during the 2010-11 fiscal year, the District had expenditures totaling approximately $3.5 million from the Federal Pell Grant Program (Pell). Using the United States Department of Education (ED) e-Payments (G5) system, and upon direction from District personnel, the District's third party servicer contractor made cash draws of Pell funds based on pending awards that were deposited into the District's TEC Federal Pell bank accounts and then transferred into the District's accounts payable bank account. District personnel wrote checks from this account for net checks to students and checks for deposit into the TEC accounts for tuition, lab fees, and bookstore charges incurred by the students. We noted deficiencies over cash management of Pell funds as follows:

- Title 34, Section 668.166, CFR, defines excess cash as program funds not disbursed to students by the end of the third business day following the date the District receives the funds from ED. Also, the District must return excess cash over its cash tolerance of 1 percent of the prior year draws within three days and the balance of the excess cash within seven days. Our review of 14 cash draws totaling $3.2 million during the 2010-11 fiscal year disclosed the District held excess cash exceeding the tolerable cash limit for 8 of the cash draws ranging from 4 to 29 days after receipt.

- Good business practice dictates monthly reconciliations of the G5 system and the accounting records to confirm the District's Pell program disbursements; however, District records did not evidence any such reconciliations for the 2010-11 fiscal year until subsequent to our inquiry in December 2011. Our review of the reconciliation for the 2010-11 award year, the District's accounting records and the TEC's accounting records disclosed:

  - During the 2010-11 fiscal year for TEC St. Petersburg, the G5 report of net draws (cash draws less refunds) totaled $1,699,280, and expenditures per the District's accounting records totaled $983,080. Our tests of student Pell files and review of cash draws disclosed that all cash draws should have been expended by June 30, 2011, as all charges had been incurred by that date. According to the G5 report, the last draw made for TEC St. Petersburg during the 2010-11 fiscal year was May 27, 2011, totaling $161,013; however, TEC St. Petersburg did not send invoices totaling $558,614 for tuition, lab fees, and bookstore charges incurred by the students throughout the 2010-11 fiscal year to the District's accounting office until November 2011 and December 2011. In addition, we noted that TEC St. Petersburg didn't invoice the District accounting office for $111,218 of tuition, lab fees, and bookstore charges for the 2009-10 award year until late June 2011 through October 2011.

  - Until the District received the invoices for tuition, lab fees, and bookstore charges, expenditures for these charges were not recorded in the District's accounting records. Consequently, District records did not timely identify and accumulate the District's Federal Pell grant revenue and expenditures.

- Absent monthly reconciliations, the District has limited assurance that information in G5 agrees to its accounting records, and errors or fraud may occur without being timely detected.

Financial Reporting. The District reports all Pell disbursements and adjustments to ED through the common origination and disbursement (COD) system; however, District records did not evidence reconciliations of the COD system and the District's accounting records for the 2010-11 fiscal year. For 40 students selected for testing, we compared financial aid records to the records of the individual students as reported in the COD system for 2010-11 Pell awards, and noted:

- For 1 student, the amount disbursed to the student as reported in the COD system was $1,850 more than the amount recorded in the financial aid records. This was due to the District not reporting to the third party servicer that this disbursement had been voided due to nonattendance by the student.
- Title 34, Section 668.164, CFR, defines the disbursement date as the date the District makes a disbursement to a student's account at the District or pays a student directly. For 26 of 59 disbursements to the 40 students in our sample, the disbursement dates recorded in the COD system were 4 to 7 days prior to the actual date checks were available to the students. Because several regulatory requirements are based on that date, including when the student becomes a Federal student aid (FSA) recipient and has the rights and responsibilities of a FSA recipient, it is important to properly enter the disbursement date in the COD system. Incorrect disbursement dates recorded in the COD system increases the risk that students may not receive additional Federal program funding to which they are entitled.

Recommendation: The District should establish adequate procedures over the program to ensure that cash management of program receipts and financial reporting of disbursements are consistent with Federal requirements.

District Contact Person: Cathy Davidson, Director of Accounting; Gina Zedonek, Financial Aid Director

Federal Awards Finding No. 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Part A Cluster (CFDA Nos. 84.010, 84.389 – ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Special Tests and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, CFR, requires that school districts ensure that teachers who teach core academic subjects in a program supported with Title I funds, such as a Title I schoolwide program, be highly qualified (HQ). Title 34, Section 200.56, CFR, stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be HQ.

District records disclosed that as of May 19, 2011, 171 teachers, who taught one or more core academic subjects at schoolwide program schools, did not meet the requirements to be HQ for at least one of the core academic subjects they were teaching. Salaries and benefits paid to these teachers during this period totaled approximately $8.4 million. Upon inquiry, District personnel advised they have a critical shortage of HQ teachers in reading, math, science, and special education teachers and that they had expanded the program to include middle and high schools for the 2010-11 fiscal year so many of those teachers were not highly qualified at the time the expansion occurred. The District has identified strategies and specific activities to assist teachers in meeting highly qualified status including advisement during the hiring/credentialing process, through site visits, through presentations to administrators, training, individual phone and written communications, reimbursing teachers for subject area exams and the waving of certification application fees, and partnering with institutions of higher education to discuss the highly qualified requirements teachers need to meet at graduation.

Having highly qualified staff enhances the District's ability to properly educate Title I students and contributes toward meeting the adequately yearly progress standards set by the United States Department of Education.

Recommendation: The District should continue its efforts to ensure that all teachers working in Title I schoolwide program schools are properly qualified.

District Contact Person: Mary Conage, Director of Title 1 Compliance; Jan Urbanski, Director of Special Projects

PRIOR AUDIT FOLLOW-UP

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

PINELLAS COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Carr, Riggs, & Ingram, 2010-3	Various - Reporting	The District should enhance procedures to properly classify and report information on the Schedule of Expenditure of Federal Awards.	Corrected.	
2010-4	Various - Reporting	The District should enhance procedures for recording the receipt date of good and services in the accounting system.	Corrected.	
2010-5	Child Nutrition Cluster (CFDA Nos. 10.533, 10.555 10.556, and 10.559) - Reporting	The District did not retain a detailed record of Belleair Elementary School students who were provided free, reduced-price, and paid meals, contrary to Federal regulations.	Corrected.	

EXHIBIT A

MANAGEMENT'S RESPONSE

PINELLAS COUNTY SCHOOLS

ADMINISTRATION BUILDING
301 Fourth St. SW
P.O. Box 2942
Largo, Fl. 33779-2942
Ph. (727) 588-6000
Fax (727) 588-6202

March 9, 2012

David W. Martin, CPA
Auditor General
State of Florida
3505 E. Frontage Rd., Suite 350
Tampa, FL 33607

Dear Mr. Martin,

Attached are Pinellas County District School Board's written statements of explanation concerning all of the audit findings, including the District's actual and proposed corrective actions.

If you have any further questions, please contact Cathy Davidson, Director of Accounting, at 727-588-6178 or email her at davidsonc@pcsb.org .

Sincerely,

John A. Stewart, Ed. D.
Superintendent

Attachment

cc: Fred Matz, Chief Financial Officer
Cathy Davidson, Director of Accounting

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

PINELLAS COUNTY SCHOOLS
Annual Audit Response
2010/2011

- **FINDINGS AND CORRECTIVE ACTION TAKEN**

    - **Finding 2011-1 Investment Controls**- *The combination of deficiencies discussed in findings 1A thru 1F below results in significant deficiencies in controls over investment balances and related activities.* Improvements were needed in internal controls over the investment program to strengthen accountability.
        - Finding 1A: **Investment Program Management**
        - Finding 1B: **Ethics Policies**
        - Finding 1C: **Investment Transaction Monitoring**
        - Finding 1D: **Investment Program Performance Reporting and Monitoring**
        - Finding 1E: **Cash Flow Projections**
        - Finding 1F: **Accounting Controls**

    - **Corrective Action:**
    - **Finding #1 – Investment Controls -** There are six items under Finding No. 1 – Investment Controls. For comparison, there were seven items in the Auditor General's (AG) June 2008 audit, not including 1H Electronic Funds Transfers which was listed separately as Finding No. 4 in this year's audit. Item 1C Investment Program Performance Objectives was not repeated in this year's audit.

    Item 1A Investment Program Management- While the District has avoided putting actual procedures in policy, due to the frequency of change; there are two areas of the Investment policy noted in the AG's finding that will be updated. The first is ethics and the second is training of District Investment personnel. The other areas mentioned by the AG will be addressed when the Cash Management procedures manual is updated. These areas are: investment transactions monitoring, cash flow model projections, and accounting controls.

    Item 1B Ethics Policies- The deficiencies noted by the AG in the District's Investment ethics policy will be eliminated and the revised policy will be presented to the Board for adoption.

    Item 1C Investment Transaction Monitoring-There are two items under *Finding 1C*, the first relates to the timely review of investment transactions by the Chief Financial Officer (CFO). Any concerns noted by the CFO are addressed with the Manager, Cash & Investments (MCI), or if necessary with the Investment Oversight Committee (IOC). The CFO's review of investment transactions is determined by the receipt of a duplicate confirmation from the broker. In the specific instance noted in this Finding, when it was discovered that the broker was not providing a confirmation, the MCI directed the broker to correct the mailing instructions and re-deliver the confirmation.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The second item under *Finding 1C* relates to the timeliness of determining the disposition of an investment security whose investment rating has been downgraded. The decision to retain or sell a downgraded investment is the responsibility of the MCI. That decision should be made within a reasonable time of the MCI learning of the downgrade. In most cases a reasonable time should be a week, or five business days. The MCI will provide better documentation of this process by informing the IOC via e-mail upon learning of a security downgrade and again upon deciding the disposition of the downgraded security.

Item 1D Investment Program Performance Reporting and Monitoring- There are two items under *Finding 1D*, the first relates to timely review of quarterly investment reports to the Board. The AG's current audit shows an average of 96 days from the end of the quarter to the date the quarterly report was presented to the Board. Their finding is that this is not sufficiently timely. However, this is a significant improvement over the AG's prior audit from June 2008, which indicated an average of 133 days for the same time period. An average improvement of 37 days from June 2008 to June 2011. In addition, staff feels that a reasonable amount of time between the end of a quarter to the date of Board review is approximately 2 ½ months, or 75 days.

The approximately 75 day timeline is explained as follows:
The proper completion of the quarterly report should take approximately two weeks. Depending upon the time of year, the reasons for the delay are: 1) Accounting must close the month prior to finalizing the report on investment returns. This could range from two weeks to over a month. 2) The IOC reviews the quarterly report prior to presentation to the Board for acceptance. Coordination of a meeting between the three external members and designated District personnel can take up to a month. 3) An agenda item must be submitted to the Board at least two weeks in advance.

From July through December the timeline can be unavoidably extended. The year-end closing processes start in July; the auditors arrive during September and the amount of time it takes for District staff to interact with two sets of auditors every year complicates timing. In addition to the financial (and sometimes compliance) audits, the District has a separate firm audit the Investment Program. Both audits have become more rigorous in the past four years. All of this can add two weeks to a month to the process of getting the June and September, and sometimes the December quarterly report to the Board. The numbers represented in the AG's June 2011 audit are a best case scenario.

The second item under *Finding 1D* relates to the committee not meeting on a quarterly basis. Staff tries to schedule IOC meetings in as timely a manner as possible; however, it can, at times, be difficult to get all three external members to attend. If that is not possible, we will schedule a meeting with only two members. However, on occasion it has been necessary to push meetings far enough into the future that it's not possible to get four meetings within one year. District staff is attempting to find a fourth external member of the committee so it will be more likely to be able to schedule a meeting and have at least three external members in attendance.

Item 1E Cash Flow Projections- *Finding 1E* relates to the cash flow schedule that the MCI consults when planning investment purchases. The AG's finding is that there isn't a sufficient review of the creation of the schedule to determine reasonableness. The MCI will consult with both the Assistant Superintendent of Budget and the Chief

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Financial Officer prior to the beginning of each year to ensure that those balances are as reliable as possible. Due to the consistent nature of District expenditures and to a certain extent revenues, the day to day cash flow projections are sufficiently reliable to not need additional review. However, the figures used for total revenue and total expenditures are subject to a greater degree of variability.

Item 1F Accounting Controls- There are two items under *Finding 1F*, the first relates to review and approval of journal entries to record earnings and fair value adjustment of securities. One journal entry is prepared each month to record investment earnings and the change in market value since the end of the prior month. Since this entry is based on accrued earnings and unrealized market values, no cash movement is recorded. Therefore, MCI decided these entries would not be subject to the same review and approval process that the bank activity journal entries are subjected to. A review of the Journal entries has been implemented.

Training in the investment reconciliation process for the types of errors cited has been implemented.

The second item under *Finding 1F* relates to the timely reconciliation of District investment accounts. The investment reconciliation process has undergone numerous changes during the past five years; and it was not until the restructuring of the Cash Management Department during 2010-11 that significant improvements could be implemented. In December of 2010, the department added the position of Cash & Investments Specialist. The main responsibilities of this position are the maintenance of the District's portfolio using the SymPro software and the review of the investment reconciliations.

In February of 2011 the position of Banking Specialist (BS) was filled. The two main responsibilities of this position are the reconciliation of the banking and investment accounts. During late winter, early spring of 2011, the primary focus of this position was reconciling the bank accounts. It wasn't until later in the spring and early summer that training was started in reconciling the investment accounts. That accounted for the delay in completion of the investment reconciliations for the 2010-11 fiscal year. As the training continues and the BS gains experience in reconciling the investment accounts, the delay will decrease and the accuracy will increase.

A problem is the software that is used by the District to account for investment transactions and investment reporting requirements. The errors cited by the AG in *Finding 1F* relate either to bugs or systemic problems arising from the software itself. While input errors can be fixed, they must first be identified through the reconciliation process. They also generate accounting errors that must be reversed and corrected. There are also known bugs in the software that have been reported to the company. To the extent that they are known they can be identified and the investment accounting and reporting can be adjusted. There appear to be, as yet unidentified, errors, or bugs, in the software that are causing the unreconciled amounts cited by the AG.

District staff are currently in the process of reviewing the efficacy of the SymPro software. Staff is also looking at alternatives to the SymPro product; however, the eventual solution won't be quick or easy.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

- **Finding 2011-2: Financial Reporting-** *Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.*
- **Corrective Action:**

  Review and verification of receivable balances in the general ledger will be added to the Accounting Department's year end closing checklist.

- **Finding 2011-3: Bank Account Reconciliations-** *The District needed to enhance procedures over bank account reconciliations.*
- **Corrective Action:**

  The lack of timely bank reconciliations was due to the fact that financial reporting analyst position became vacant in December 2010. The newly established position of the banking specialist was not filled until January 2011; however the banking specialist did not assume the job duties until February 2011. As of June 30, 2011 all of the bank account reconciliations were completed and reconciled. Subsequent to June 2011, all bank accounts have been reconciled and reviewed on a timely basis. The reconciliation date and the review date along with the appropriate signatures are documented on the reconciliation itself.

  The review and reconciliation process begin as soon as the bank statements become available after the month ends. Errors are identified during the reconciliation process. Corrections needed are identified during this time period. The completion date on the bank reconciliation is contingent upon the close out of the month by the accounting department. Normally this process takes about two to three weeks after the month ends.

  A tax shelter annuity account with a June 30, 2011 balance was not recorded in the District's general ledger. There was an outstanding balance of $7,505.04.

  There has been a difference of $2,525.04 in this account since July of 2009. This unidentified balance will be written off. The remainder of the balance consists of $4,980.00 which was returned from the District's deposit on 04/14/10. The District's deposit on 04/09/10 was $691,573.14. This was the total of the TDA payroll deductions for the week. On 04/14/10, $4,980.00 of this deposit was credited back to the District's account. During this time, one of the District's TDA vendors, Legend/Waddell Reed, split into two separate vendors, Legend Group, and Waddell Reed. The $4,980.00 consists of funds that were not properly applied by the TDA vendors at that time. Risk Management has identified 10 participants involved. During the months of January and February 2012, the $4,980.00 was distributed to the participants involved. The remaining balance of $2,525.04 will be written off in March 2012.

- **Finding 2011-4: Electronic Funds Transfer-** *Controls over electronic funds transfers could be improved.*
- **Corrective Action:**

  The first of the two items in *Finding 2011-4* states that the AG found that for two of the District's investment accounts, the Manager, Cash & Investments, (MCI) initiated and authorized electronic funds transfers (EFT) for investments and identified the account to which the EFTs were sent, which did not provide for an appropriate separation of duties.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

This concern was addressed when the position of Cash & Investments Specialist (CIS) was filled in December 2010. One of the duties of this position is to prepare, with input from the MCI, and send the worksheet that instructs the custodian what investment transactions are occurring on that day and any transfers of District funds that should be executed. In middle to late January 2011, the CIS assumed those duties full time. This arrangement creates the appropriate separation of duties.

The second of the two items relate to outdated authorized signer information on some of the District's bank accounts. With the change in Superintendent and School Board Chairperson late last year, all District bank accounts are being brought up to date. In the future, the CIS will take responsibility for maintaining the authorized signers on District accounts.

- **Finding 2011-5: Cash Collections –** *Enhancements were needed in controls over centralized cash collections.*
- **Corrective Action:**

Everything that comes in to the Accounting Department addressed to the cashier is opened only by the cashier. All receipts are recorded in a timely manner and this document serves as the cash receipts log.

As a result of this AG Audit finding, collections are now maintained in a locked filing cabinet until the end of the day. The deposits are either picked up by a courier or kept in the District vault overnight.

Likewise, the pre-numbered receipt books are now maintained in a secure location during the day and transferred to the vault at the end of the day.

- **Finding 2011-6: Performance Assessments-** *District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3) Florida Statutes (2010).*
- **Corrective Action:**

During the 2010-2011 school year, the District implemented a state approved evaluation system as well as a state approved pilot evaluation system. The pilot was also part of the District's Race to the Top approved grant. Student performance data was included as one indicator within the evaluation ratings of the teacher performance review and was included as a portion of the overall rating. The pilot evaluation was conducted in 15 schools and included student performance data as at least 30% of the overall evaluation score.

The FL DOE approved the new Pinellas Evaluation System in December 2011. The new Teacher Evaluation system meets the requirements of FL statute 1012.34 F.S. and includes student performance data as 40% or 50% of the total evaluation score and overall teacher rating. The new evaluation system is being implemented District wide in the 2011-2012 school year.

- **Finding 2011-7: Compensation and Salary Schedules-** *The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida*

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Statutes (2010) and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

- **Corrective Action:**

Bargaining of the 2011-12 Instructional Salary Schedule has not been agreed to nor ratified as of date.

A performance pay based on evaluations and student data will be paid to instructional staff to four TIF Grant schools early next fall for the 2011/12 school year. Based on the Grant they will be paid a supplement.

A second Proposed Instructional Salary Schedule 2011-12 was created as of July 1, 2012, it is utilized for all new hires as of the July 1, 2011 date. Instructional personnel paid on that salary schedule are paid any advanced degree as a supplement to meet the guideline of the Student Success Act.

The Instructional Performance Salary Schedule has been developed for the 2012-13 school year, which will reflect compensation based on performance. This will also be proposed until the bargaining has been completed and ratified.

Compensation based on performance and differentiated pay for instructional personnel and school-based administrators will be indentified in the 2012-13 school year.

- **Finding 2011-8: Background Rescreenings-** The *District did not timely obtain required background rescreenings for certain District employees.*

- **Corrective Action:**

Several factors impacted the completion of the background screenings:

- Employees that had terminated their employment, mostly coaches, and the work sites had not contacted Personnel to have the job records terminated.

- Contracted Services employees that only worked on specific projects and had completed their work or only worked intermittently. Those that had completed their projects still had an active job record that had not been terminated.

- Substitute teachers that did not follow through after being contacted by Personnel. Further contact facilitated compliance.

- Countywide employees that were not contacted by the countywide supervisors because the supervisors assumed that the employee would have been contacted by their assigned work site administrator. The problem with that assumption was that these employees did not appear on their assigned work site's list, due to countywide assignment.

- Others were found to have just either forgotten, or chose not to be fingerprinted. These staff members were eventually given direct orders by their site administrator or by the OPS Department to complete the requirement or risk losing their jobs.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

During the process of working towards total compliance, a few weaknesses had been identified and communicated to the appropriate staff to reduce the delinquency rate in the future.

- **Finding 2011-9: Ad Valorem Taxation-** *District records did not always evidence that ad valorem tax levy proceeds were used for authorized purchases.*
- **Corrective Action:**

The District will amend the advertised notice of Capital Outlay Millage for the 2010-11 fiscal year and schedule a re-hearing. The District will enhance its procedures to ensure the proper advertisement and use of Local Capital Improvement (LCI) funds. The District has transferred the $816,623 of questioned costs from the general fund back to the LCI fund.

The District has enhanced its purchasing procedures to disallow non-enterprise software purchases using LCI funds. The District has transferred $160,733 in disallowed costs from the general fund back to the LCI fund.

- **Finding 2011-10: Capital Assets-** *The District's subsidiary capital asset records could be improved.*
- **Corrective Action:**

A procedure has been instituted to establish clear and firm cutoff dates for data entry. If entries need to be made after the cutoff date, the reports will be rerun with the updated information in them. This will insure that the proper balances are reflected in the capital assets.

During the 2010-11 year District personnel reviewed the subsidiary ledger for capital assets and compared it with the Replacement value report provided by the facilities department. As a result a large number of assets were adjusted to accurately reflect their current value and related accumulated depreciation. Due to the complexity of the subsidiary ledger some errors were made in the amounts taken off and the amounts revised. This process will continue in future years and increased care will be taken to avoid such future errors.

District staff met to determine how to cost the relocatables that are on the Maintenance Department's records that are not on the Property Records files. Once these are identified and reconciled the Property Records, Maintenance and Accounting Departments will work together to make the necessary entries to include the understated relocatables and accurately reflect the relocatable values.

The District has maintained two databases for tracking relocatable buildings. From this point forward we will exclusively be using the District's ELKE work order system in the Maintenance Department for tracking, maintaining costs, and relocatable building values, etc.

There has been no change in the value of land improvements since the AG audit of 2007-2008 when there was an audit comment that had the District reclassify land to land improvements.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The District will review and improve the current procedures and increase the accuracy of the records.

- **Finding 2011-11: Construction Administration-** *Enhancements could be made in the administration of guaranteed maximum price construction contracts.*
- **Corrective Action:**
  Written instructions will be issued to enhance monitoring of Construction Management Entity (CEM) verification that subcontractors are properly licensed.

- **Finding 2011-12: Facilities Management-** *Controls over facilities construction and maintenance activities could be enhanced.*
- **Corrective Action:**
  Construction Planning – The Capital Outlay Committee does not have community representatives sitting on the committee. However, members of the committee interact and gather input from:
  - 24 municipalities
  - Through membership on Local Planning Agencies
  - Metropolitan Planning Organization
  - As a liaison to other municipality, city and special interest groups.

  This input ensures that their diverse interests are represented on the Capital Outlay Committee.

  Alternative Construction Method –The District will establish an approach to determine the selection of construction delivery methods on each project. This approach will include the rationale used for the selection relative to efficiency and cost effectiveness. This information will be documented in the project folder.

  Accountability – As part of the District Strategic Plan, we are updating goals in maintenance and facilities departments. The new goals will include reference to efficiency and cost effectiveness. Action steps for each goal will include measures that will focus on accountability and measurable objectives that are compared to industry benchmarks.

- **Finding 2011-13: Inventories – Separation of Duties-** *Improvements were needed in controls over maintenance, warehouse, and transportation inventories.*
- **Corrective Action:**
  Maintenance -- The District's Business Management Department located at Walter Pownall Service Center is responsible for providing an independent review of inventory purchases, usage and cycle count adjustments on a regular basis. Although we have identified and improved these processes, it has not been successfully implemented. This is because of the high volume of inventory transactions, personnel reductions, and past and future expected operating expense reductions. Because of the aforementioned issues, we were unable to achieve a satisfactory separation of duties and appropriate internal controls although the District recognizes this need. We will continue to review options to improve whenever possible.

  Warehouse – During the fiscal year 2010/2011 the District's Business Management Department periodically provided an independent review of inventory entries. The

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

department staffing limits the flexibility of assigning separate and non-overlapping duties. The District will continue to look at options to improve these processes wherever possible.

Transportation – The District's Business Management Department is responsible for providing an independent review of inventory processes on a regular basis. Due to the five parts rooms being located across the county, the continuing high volume of repairs and servicing experienced and strong controls limiting overtime, the District must resort to overlapping duties to maintain efficient operations. The District will continue to examine options to increase separation of duties and internal controls.

- **Finding 2011-14: Fund Balance Reporting-** *The District assigned $10,637,224 of unrestricted resources in a capital projects fund; however, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended use of the funds.*
- **Corrective Action:**

The District will change policy to better comply with GASB 54. The District has made a change to Fiscal Policy 6210. Inserted in an additional paragraph is the following statement. "Assigned Fund Balance accounts represent those that are constrained by the District's intent to be used for specific purposes, but not restricted, committed, nor unspendable. Authority for making these assignments rests with the superintendent."

The intended uses of dollars in Fund 0391, Sale of Property, are for other capital projects.

- **Finding 2011-15: Monitoring of Charter Schools** - Enhancements *were needed in monitoring required insurance coverage of the District's charter schools.*
- **Corrective Action:**

PCS will enhance its procedures to ensure that the all charter school insurance documentation is reviewed and final findings are communicated in a timely manner. The process will include:

- Notification to charter schools of insurance submittal due date will occur in July.
- Charter schools submit insurance documents by September 1 of each year.
- Collected charter insurance documentation is sent to the Director of Risk Management and Insurance for review by September 15 of each year.
- Risk Management's review findings are returned to Coordinator of Partnership Schools by October 31 of each year.
- Out-of-compliance review findings are communicated to appropriate charter schools.
- Governance boards of charter schools that are out-of-compliance will meet with PCS staff to determine next steps for the school.

- **Finding 2011-16: Adult General Education Classes-** *Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education (FDOE).*
- **Corrective Action:**

We concur with the finding of net 100 underreported hours for the three students. The District's data management system, which was modified from a system built for K-12 systems, undergoes constant revision/programming to correct data reporting issues on the back end of the process. At the same time, the department has redundant processes in place to attempt to correct reporting hours as identified on the front end of the

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MANAGEMENT'S RESPONSE (CONTINUED)

process. The Department of Career Technical and Adult Education traditionally takes a very conservative reporting approach to insure there is no over-reporting of hours for adult education students. The department will examine the specifics mentioned in the findings, ascertain why the three students were underreported and take corrective action as necessary.

- **Finding 2011-17: Workforce Education Postsecondary Student Fees-** *The District transferred $6,157,936 of student fees from the workforce development program to an unrestricted account during the 2004-05 through 2007-08 fiscal years, contrary to guidance from FDOE, and District records did not evidence resolution of the unauthorized transfers as of January 2012.*
- **Corrective Action:**
  The recommendation is duly noted. The District's General Counsel continues to support his opinion.

- **Finding 2011-18: Workforce Education Program Funds – Indirect Costs-** *During the 2004-05 fiscal year, the District transferred $3,033,923 more from the workforce development program to the General Fund for reimbursement of indirect costs than was allowable by law. As of January 2012, the District still had not returned these moneys to the workforce development program account.*
- **Corrective Action:**
  The District has modified its procedures for allocating indirect cost to the workforce development fund. The District has restored $928,811.06 in funding back to the workforce fund thus far, and will continue to do so, until all funding has been restored.

- **Finding 2011-19: Information Technology – Access Privileges**- The *District did not have written policies and procedures for reviewing information technology (IT) access privileges and some inappropriate access privileges were allowed to the finance and human resource applications.*
- **Corrective Action:**
  Personnel changes, such as terminations, job changes, and site assignments are monitored by the TERMS systems administrator from reports provided via the HR system. These reports do not identify which employees have a TERMS account(s), so it is a very manual process to review. We will automate the process by associating the accounts to personnel in the HR system. Accounts will be deactivated upon termination, change of job, or change of job location and not reactivated until requested by the department supervisor through the standard form.

- **Finding 2011-20: Information Technology – Security Controls – User Authentication-** *The District's IT security controls related to user authentication needed improvement.*
- **Corrective Action:**
  In reference to the findings and recommendations, the District will improve controls related to user authentication which are cost effective and can be implemented efficiently.

- **Finding 2011-21: Information Technology – Security Incident Response Plan**- *The District had not developed a written IT security incident response plan.*

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MANAGEMENT'S RESPONSE (CONTINUED)

- **Corrective Action:**

  The District agrees with the findings and will proceed with developing written procedures for the activation, operation, and reporting of the security incidence response team.

- **Finding 2011-22: Information Technology – Risk Assessment** – *The District had not completed a written, comprehensive IT risk assessment.*
- **Corrective Action:**

  The development of a comprehensive risk assessment study and mitigation plan requires significant investment in staff time and consulting resources. As funds are made available for this purpose, the study and plan will be developed.

- **Finding 2011-23: Information Technology – Security Awareness Training Program** –*The District had not implemented a comprehensive IT security awareness training program.*
- **Corrective Action:**

  The security training program is close to completion and will be available before the end of the school year. All employees will be required to take the training prior to the start of next school year.

▪ **FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

- **Federal Awards Finding 2011-1: Special Tests Provisions- Private School Participation**- *District procedures did not adequately ensure that private schools were provided the opportunity to participate in Federally-funded programs, resulting in $550,880 of questioned costs.*
- **Corrective Action:**

  Bullet 1: The letter sent to schools (not on the approved list) to determine interest in participation in Federally funded programs included a description of the program, but did not list actual programs.

  > *Programs for participation focus on topics such as academic interventions for students from low income families, professional development for teachers and principals, technology for instruction, limited English proficient students, students with disabilities, and safe & drug-free schools.*

  The follow up letter to schools interested and the '*Intent to Participate' form* did include a list of the programs the schools may have been eligible to participate in.

  > *Title I, Part A: Improving the Academic Achievement of the Disadvantaged (Grades K-5)*
  > *Title II, Part A: Teacher and Principal Professional Development Program*
  > *Title II, Part D: Enhancing Education Through Technology Program*
  > *Title III, Limited English Proficient Program*
  > ~~*Title IV Part A: Safe and Drug Free Schools and Communities Program*~~
  > *(Funding eliminated by Congress for 2010-2011 school year)*
  > *IDEA Individuals with Disabilities Education Act*
  > ~~*Even Start Educational opportunities for low income families*~~
  > *(Funding eliminated by Congress for 2010-2011 school year)*

  The list of programs has been added to the initial letter for non-approved schools.

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MANAGEMENT'S RESPONSE (CONTINUED)

Bullet 2: The private school notification letter and '*Intent to Participate*' form pertain to federal programs the private schools may want to participate in. ARRA funding was not listed separately because the ARRA funds supported the existing programs that were listed rather than creating new programs. There were not separate Title I ARRA programs or IDEA ARRA programs. Indication to participate in a federal program included all funding sources for the program. The various funding sources were explained in the consultation meeting held by individual programs.

Since there are no longer ARRA funding for these programs, no change has been made to the letters sent to private schools.

In response to the remaining paragraphs of this finding: In April 2010 Pinellas County Schools applied for an Enhancing Education Through Technology (EETT) Grant. Based on grant criteria, targeted schools were high-needs schools with economically disadvantaged students, students with disabilities, and students with limited English proficiency. District schools with these demographics and all private schools indicating the intent to participate in Title II grants were invited to submit data about their school populations. During the application process schools were to be grouped into clusters of two schools, one middle school and one high school based on matriculation patterns. Eligible clusters were invited to submit competitive proposals detailing their vision for implementation. At the time of request for data the threshold of 70% for economically disadvantage was selected based on Tile I criteria and a figure of 30% of students with disabilities was selected as a baseline for eligibility.

None of the submitted proposals met both the 70% of economically disadvantaged and the 30% of students with disabilities criteria. Therefore, a matrix of eligibility was created that included both public and private schools. This matrix included number of students in the school, grade levels the school serves, the percentage of economically disadvantaged students, percentage of ELL students, and the percentage of disabled students. All public and private schools were ranked from highest percentages to lowest percentages on this matrix. Participating schools were chosen based on matrix ranking. Only one of the eight responding private schools had percentages of the original criteria (economically disadvantaged and 30% of students with disabilities) that were higher than the schools selected. However that school was not selected for participation because the school only served students in grades Pre-K-eighth grade. The implementation of the grant was designed to create and offer a high school Science Technology Engineering Math (STEM) course for high school credit. Because this school only served elementary and middle school students, the activities and requirements were not conducive to full implementation nor aligned with all the goals and objectives of the Pinellas project. Therefore the school was not selected to participate.

Despite not being selected as a participating school, the private school did have access to many of the components of the grant. All private schools were given access to the expertise of the Project Lead coach, digital resources posted on the project's website (e.g. instructional units and lessons), E-Mentors, technical assistance, and STEM courses developed and posted in Moodle. $208,900 of grant funds were expended on activities that benefitted all private schools participating in Title II.

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MANAGEMENT'S RESPONSE (CONTINUED)

- **Federal Awards Finding 2011-2: Matching, Level of Effort, Earmarking – Early Intervention Services**- *The District did not adequately document changes to Special Education Programs for coordinated early intervention services, resulting is $1,200,753 of questioned costs.*
- **Corrective Action:**

After careful review of expenditures for the 2010-11 school year, it was found that the following purchases were charged only to Students with Disabilities (SWD), but should have been split-funded SWD and Coordinated Early Intervening Services (CEIS). CEIS is to be used for the purpose of developing and implementing activities that support coordinated early intervening services for students in grades K-12 who have not been identified as needing special education or related services, but who need additional academic and behavior supports to succeed in the general education environment. The items listed below were purchased to support both categories of students (CEIS and SWD).

Below is a list of the purchases with the amounts calculated in the correct funding source:

ARRA Grant (Fund 0432)				
PO #	**Description**	**Total Amount**	**SWD (x130)**	**CEIS (x138)**
801621	Apple Tech-Gibbs HS	$118,290.80	$ 29,572.70	$ 88,718.10
811234	Apple Tech-Fitzgerald MS	$713,953.79	$ 178,488.45	$ 535,465.34
816057	Apple-Highland Lakes ES	$326,988.74	$ 81,747.18	$ 245,241.56
816528	Smart Board-Gibbs HS	$ 81,574.02	$ 20,393.50	$ 61,180.52
	TOTAL	**$1,240,807.35**	**$310,201.83**	**$930,605.52**
IDEA Grant (Fund 0420)				
PO #	**Description**	**Total Amount**	**SWD (y31_)**	**CEIS (y341)**
830140	SRA Reasoning/Writing	$1,572.48	$ 393.12	$1,179.36
824968	Books-parent partnership	$ 240.00	$ 96.00	$ 144.00
816899	Books- parent partnership	$ 107.84	$ 43.14	$ 64.70
824957	Books- parent partnership	$ 404.40	$ 162.00	$ 242.40
831052	Inter. Metronome	$ 107.00	$ 64.20	$ 42.80
801625	Apple-iPod	$ 288.00	$ 172.80	$ 115.20
794699	FDOE Adm Management Mtg	$ 175.00	$ 140.00	$ 35.00
829308	CPI Conference	$ 106.88	$ 53.44	$ 53.44
837940	LRP Nat'l Institute	$1,807.11	$1,626.40	$ 180.71
	TOTAL	**$4,808.71**	**$2,751.10**	**$2,057.61**

To summarize, after the review, it was discovered that an additional $930,605.52 in ARRA CEIS expenditures were charged to the incorrect account, which makes up the discrepancy of $682,692; therefore, the requirement was in fact met. However, in researching the IDEA Part B CEIS requirement, an additional $2,057.61 was found, but this does not meet the full amount, leaving a balance of $516,003.39. An overall total of $932,663.13 in CEIS expenditures was found incorrectly charged. This overall amount taken from the $1,200,753 of questioned costs for the CEIS requirement leaves a balance of $268,089.87. Documentation demonstrating that the above expenditures met the CEIS requirements will be provided to FDOE.

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MANAGEMENT'S RESPONSE (CONTINUED)

A process has been developed to monitor the required CEIS budget balance and expenditures on a monthly basis. Due to a variety of circumstances, some expected expenditures may not occur; however, with monthly monitoring, the funds will be repurposed to support other CEIS activities.

❖ **<u>Federal Awards Finding 2011-3: Allowable Costs/Cost Principles</u>**- *The District incorrectly charged Early Retirement/Resignation Program payments to Federal Programs resulting in $58,132 of questioned costs.*

❖ **<u>Corrective Action:</u>**

Regardless of funding source, terminal pay for employees is charged to the General Operating Fund. In the instances noted, employees had early retirement payments improperly charged and those charges were not detected and corrected. The accounting office will work more closely with the Payroll Department to make certain that errors in coding are detected and corrected prior to closing.

❖ **<u>Federal Awards Finding 2011-4: Reporting</u>**- *The District needed to enhance its procedures for monitoring and reporting Federal expenditures for grants received through FDOE.*

❖ **<u>Corrective Action:</u>**

The reconciliation of the Cash Advance and Reporting of Disbursements System (CARDS) that was submitted to the Comptroller's Office of the Florida Department of Education included detailed information, by project, of both the June reported expenditure totals and the final June expenditure totals. Because the on-line reporting requirement for CARDS is the 20th of each month, the portion of June expenditures that were recorded after the July 20th reporting deadline but prior to the closing of June, were reported to CARDS the following month along with the July expenditures - as is permitted by the CARDS reporting system. The worksheet used in the reconciliation process will be improved to accommodate end of the year timing issues. As noted in the AG's finding, the differences were materially corrected or resolved with FDOE prior to grant close-outs in the 2011-12 fiscal year.

Additionally, the auditor's review of the reconciliation was conducted using Catalog of Federal Domestic Assistance (CFDA) numbers as opposed to the project numbers used by the District and by the CARDS system. This made resolving the differences noted in the audit more difficult. As a corrective measure we will be adding each project's CFDA number to our CARDS worksheets so that the worksheets can be re-sorted using the CFDA data element. This modification should improve the audit review experience for both the CARDS Reconciliation report and the audit review of the SEFA.

❖ **<u>Federal Awards Finding 2011-5: Cash Management</u>**-*The District had not established adequate controls over the Federal Pell Program.*

❖ **<u>Corrective Action:</u>**

PTEC's financial aid office will notify the third party servicer of the date that checks will be available to the students and direct them not to begin the process more than 4 days prior to the disbursement date, thereby ensuring the District meets the 3 day requirement for drawdown of funds. Students will be marked for disbursement on day one, funds ordered on day two; the funds will be deposited into the District's Pell account on day three, and disbursed the following day.

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MANAGEMENT'S RESPONSE (CONTINUED)

The financial services office will perform monthly reconciliations to effect timely reporting and to detect errors as they occur. Reconciliations by the PTEC's will be combined with a separate reconciliation conducted by the District's accounting and cash management departments. The combined reconciliations will then be reconciled to the COD system.

For the one student whose voided disbursement was not reported in the COD system, the funds were returned as soon as the center became aware of the error.

- **Federal Awards Finding 2011-6:Special Tests and Provisions – Highly Qualified Teachers-** *There were 171 teachers assigned to Title I schoolwide program schools who did not meet the qualification requirements, contrary to Federal regulations.*
- **Corrective Action:**

Pinellas County Schools understands the single most important thing we can do to help students achieve is to ensure that every student in every class is instructed by a highly qualified teacher. Below please find trend data collected from FTE Surveys 2 and 3 since October 2006 that demonstrates Pinellas County Schools' success in meeting the highly qualified standard of our teachers.

Teacher's Summary	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
	Survey 2 - Oct. 2011	Survey 2 - Oct. 2010	Survey 2 - Oct. 2009	Survey 2 - Oct. 2008	Survey 2 - Oct. 2007	Survey 2 - Oct. 2006
Elementary Gen Ed NHQ	0.65%	0.36%	0.32%	0.16%	0.20%	0.59%
Elementary ESE NHQ	0.03%	0.10%	0.09%	1.21%	0.31%	0.67%
Secondary Gen Ed NHQ	2.67%	3.06%	1.15%	3.58%	4.06%	4.87%
Secondary ESE NHQ	0.17%	0.46%	0.14%	0.31%	0.28%	0.84%
HQ	96.49%	96.03%	98.62%	95.74%	95.14%	93.03%
	Survey 3 - Feb. 2012	Survey 3 - Feb. 2011	Survey 3 - Feb. 2010	Survey 3 - Feb. 2009	Survey 3 - Feb. 2008	Survey 3 - Feb. 2007
Elementary Gen Ed NHQ		0.41%	0.28%	0.13%	0.21%	0.21%
Elementary ESE NHQ	data not	0.13%	0.11%	0.20%	0.31%	0.48%
Secondary Gen Ed NHQ	available	3.34%	2.83%	2.19%	4.06%	4.27%
Secondary ESE NHQ		0.34%	0.44%	0.33%	0.28%	0.41%
HQ		92.78%	96.34%	97.14%	95.14%	94.63%

Efforts to improve the quality of the teaching force and attend to the needs of students are hindered by teacher shortages, particularly in the areas of ESE and secondary Reading, Math and Science. Also, it is often difficult to retain those teachers. Research continues to indicate that teachers have one of the highest attrition rates of any profession.

Of the teachers identified in the audit of May 19, 2011, 133 of the 171 teachers were located at Title 1 schools. Of the 133 teachers non-HQ: 53 were highly qualified by June 2011, 10 were ESE teachers who were support facilitating so were not required to meet

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

HQ, 14 were non-HQ but meeting their compliance requirement, 6 changed to a different teaching assignment for the following school year where they met the HQ standard, one was a teacher on leave, one was a long-term sub and one was a part-time hourly teacher.

All teachers are identified as non-HQ during FTE survey periods. All teachers are communicated with and provided a roadmap to meet the specific core content needs. The plan specifies benchmarks that are to be attained by the end of each year and the anticipated year of completion. It also tells them of the support the District will provide to the teacher in becoming highly qualified. Teachers hired new to the District since 7/1/10 sign a Hiring Agreement that stipulates requirements to be met and the expected date to meet compliance. For subject area exam requirements the timeline is by June of that school year. For all teachers who need to meet an endorsement requirement the teacher has a two-three year timeline with a set number of component points required yearly to meet compliance, i.e., a teacher out of field for reading has three years to be reading endorsed. One hundred twenty points is required yearly and the teacher must have the reading endorsement added to his/her teaching certificate by year three.

On-going training will continue to be offered for those teachers needing the endorsements via District professional development programs. The District will continue to provide resource materials for: subject area exam (SAE) preparation, test preparation courses offered by District content area supervisors and reimbursement for SAE for non-HQ teachers who take and pass subject area exams to meet HQ. Certification application fees are waived for adding subject areas to existing certificates to ensure all teachers meet the Highly Qualified (HQ) requirements.

Other ideas that are being addressed to ensure highly qualified teachers are:
1.) Technical systems, through use of Race to the Top funds, are being created to collect non-HQ teacher data which will provide information to identify and monitor our teachers for HQ. The current system is a manual compilation of HQ data so the data collection through this new process will improve state and federal compliance with the provisions of NCLB and ensure that all students are taught by highly qualified teachers.

New requirements for special education teachers are being imposed by the state. Special education teachers now must have specific content expertise in all core subjects they teach. There will be discussions held with ESE Supervisors and school administrators regarding avenues for helping teachers meet the *'Highly Qualified'* standard. Additionally, school administrators will gain a better understanding of what it means to be a consultative teacher and what it means to be a teacher of record.

2.) Ongoing meetings with school administrators will stress the need to have teachers highly qualified and will recommend they work with HR to change assignments within a school, within-school transfers and between-school transfers.

3.) The teacher online application is being revised to incorporate the certification and highly qualified requirements for all teachers so teachers are aware and can supply the required verification of certification and highly qualified status as part of their online application prior to hire.

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MANAGEMENT'S RESPONSE (CONTINUED)

4.) Board policy on compliance is now being written and will be implemented during the 2012-13 school year. Teachers hired after 7/1/10 are non-reappointed if they do not meet their compliance requirement to meet HQ. There are, however, no consequences for teachers on a Professional Services Contract. The new compliance policy will consider a teacher not meeting compliance as insubordinate and termination can be rendered for non-compliance.

5.) Teachers-Teachers.com, financial incentives, other incentives and working with our college partners will continue to be utilized to recruit and retain highly qualified teachers.

6.) The reporting timeline for non-HQ teachers can be modified. Pinellas County Schools identifies its non-HQ teachers at FTE Surveys 2 (around October 14th) and 3 (around February 13th). Following the guidelines for reporting non-HQ teachers, teachers' names must be sent to the School Board for approval prior to date certain and parent notification of non-HQ teacher must be sent home prior to date certain. The timelines are not conducive to reporting to the School Board or our school calendar. For example, for Survey 3, date certain was February 17th. Names of non-HQ teachers were required to be submitted for agenda prep on January 13th for the February 7th School Board meeting. Second semester began January 23rd so new teachers and unit adjustments weren't even in place to report teachers as non-HQ. The District is, therefore, out of compliance and open to be cited and fined in an audit. After meeting with a member of FADSS, her recommendation was that the District change its' school calendar to meet the non-HQ reporting process.