

**CLAY COUNTY
DISTRICT SCHOOL BOARD**

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2008



BOARD MEMBERS AND SUPERINTENDENT

Clay County District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

	<i>District</i>
	<u>No.</u>
<i>Carol A. Vallencourt</i>	<i>1</i>
<i>Carol Y. Studdard, Vice-Chair to 11-19-07, Chair from 11-20-07</i>	<i>2</i>
<i>Charles E. Van Zant, Sr., Vice-Chair from 11-20-07 to 12-20-07 (1)</i>	<i>3</i>
<i>Charles E. Van Zant, Jr., from 12-21-07, Vice-Chair</i>	<i>3</i>
<i>Wayne Bolla</i>	<i>4</i>
<i>Lisa B. Graham</i>	<i>5</i>

David L. Owens, Superintendent

Note (1): Charles E. Van Zant, Sr., was appointed as interim member and served until December 20, 2007.

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 Melinda Jones, CPA, and the audit was supervised by John P. Duffy, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

CLAY COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS.....	11
Exhibit – A Statement of Net Assets	11
Exhibit – B Statement of Activities.....	12
Exhibit – C Balance Sheet – Governmental Funds	14
Exhibit – D Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Exhibit – E Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	18
Exhibit – F Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Exhibit – G Statement of Net Assets – Proprietary Fund.....	21
Exhibit – H Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.....	22
Exhibit – I Statement of Cash Flows – Proprietary Fund	23
Exhibit – J Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	24
Exhibit – K Notes to Financial Statements	25
OTHER REQUIRED SUPPLEMENTARY INFORMATION.....	50
Exhibit – L Budgetary Comparison Schedule – General Fund.....	50
Exhibit – M Notes to Required Supplementary Information	51
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	52

CLAY COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	PAGE NO.
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 <i>GOVERNMENT AUDITING STANDARDS</i>	53
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	57
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	65
EXHIBIT – N MANAGEMENT’S RESPONSE	66

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District had not developed adequate policies for reporting known or suspected fraud to the appropriate authority.

Finding No. 2: The District did not timely conduct a review and evaluation of the reasons for collection of social security numbers (SSNs), prepare written statements notifying individuals of the purpose for collection of the numbers, or submit the certification of its compliance with the new SSN requirements to the Legislature, contrary to Section 119.071(5)(a), Florida Statutes.

Finding No. 3: The District's procedures for enrollment reporting of adult general education programs needed improvement.

Finding No. 4: Contrary to the provisions of Section 112.3143(3)(a), Florida Statutes, a District School Board Member voted to approve a guaranteed maximum price construction management agreement with a firm that indicated it was subcontracting with a company employing the Board Member's spouse, who was also the Vice-President and a Director of the subcontracted company.

Finding No. 5: The District lacked written policies and procedures for certain information technology security and configuration management functions.

Finding No. 6: The District's procedures for restricting access to appropriate users needed improvement.

Finding No. 7: The District's security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: Contrary to Federal regulations, the District did not correctly allocate program income from its exclusive beverage contract to the school food service program.

Federal Awards Finding No. 2: Instances were noted at three high schools in which competitive food and beverage items were sold contrary to Federal and State rules.

Audit Objectives and Scope

Our audit objectives were to determine whether the Clay 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 our report No. 2008-136.

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, 2008. 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*.



David W. Martin, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



850-488-5534
Fax: 850-488-6975

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Clay County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 16 percent of the assets and 34 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Clay County Education Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds and the Clay County Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 discretely presented component unit, each major fund, and the aggregate remaining fund information for the Clay County District School Board as of June 30, 2008, and the respective changes in financial position and cash flows, where

applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Clay 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.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 10) and the other required supplementary information (shown as Exhibits – L and M) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 3, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Clay 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, 2008. 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 found on pages 11 through 49.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-08 fiscal year are as follows:

- The District's assets exceed its liabilities at June 30, 2008, by \$448,235,922.21 (net assets).
- In total, net assets increased \$59,524,321.89, which represents a 15 percent increase from the 2006-07 fiscal year.
- General revenues total \$286,463,139.50, or 79 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$73,885,073.10, or 21 percent.
- Expenses total \$300,823,890.71. These expenses are offset by the \$73,885,073.10 of program specific revenues, with the remainder paid from general revenues. Total revenues exceed total expenses by \$59,524,321.89.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$22,511,671.15 at June 30, 2008, or 9 percent of total General Fund expenditures. The unreserved fund balance decreased by \$928,784.37 from the 2006-07 fiscal year.
- The District's investment in capital assets increased by a net amount of \$57,605,548.96, or 15 percent, as compared to the June 30, 2007, balance.
- The District's long-term debt decreased by a net amount of \$2,462,029, or 4 percent, as compared to the June 30, 2007, balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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 activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic

resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two 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 – This category includes the Clay County Education Foundation, Inc. (a direct support organization). Although a legally separate organization, this component unit is included because it meets the criteria for inclusion provided by generally accepted accounting principles. The financial information for this component unit is reported separately from the financial information presented for the primary government.

The Clay School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

FUND FINANCIAL STATEMENTS

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. This is in contrast to the entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories as 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 short-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental funds 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, Debt Service - Other Debt Service Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects - Other Capital Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts and maintains annual budgets for its governmental funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Funds. Proprietary funds use the economic resources measurement focus and accrual basis of accounting. The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insurance program. Since this service predominantly benefits governmental-type functions, the Internal Service Fund has been included within governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as school and student activity funds, commonly called the school internal 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 its Agency Funds to account for resources held for school 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, 2008, compared to net assets as of June 30, 2007:

	Net Assets, End of Year	
	Governmental Activities	
	<u>6-30-08</u>	<u>6-30-07</u>
Current and Other Assets	\$ 121,772,437.74	\$ 117,929,356.83
Capital Assets	<u>434,322,894.19</u>	<u>376,717,345.23</u>
Total Assets	<u>556,095,331.93</u>	<u>494,646,702.06</u>
Long-Term Liabilities	88,422,258.15	91,466,359.19
Other Liabilities	<u>19,437,151.57</u>	<u>14,468,742.55</u>
Total Liabilities	<u>107,859,409.72</u>	<u>105,935,101.74</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	366,573,837.19	306,506,259.23
Restricted	61,590,791.29	64,515,873.25
Unrestricted	<u>20,071,293.73</u>	<u>17,689,467.84</u>
Total Net Assets	<u>\$ 448,235,922.21</u>	<u>\$ 388,711,600.32</u>

The largest portion of the District’s net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, furniture 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 (14 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (4 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The District’s net assets increased by \$59,524,321.89 during the 2007-08 fiscal year. The increase represents the degree to which ongoing revenues have exceeded ongoing expenses. Details of the revenues and expenses comprising the increase are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-08	6-30-07
Program Revenues:		
Charges for Services	\$ 6,785,296.79	\$ 6,265,829.77
Operating Grants and Contributions	13,452,959.18	12,900,215.91
Capital Grants and Contributions	53,646,817.13	62,815,995.25
General Revenues:		
Property Taxes, Levied for Operational Purposes	56,916,338.37	51,473,427.92
Property Taxes, Levied for Capital Projects	20,699,273.83	17,749,766.87
Local Sales Taxes	1,802,566.33	1,763,982.00
Grants and Contributions Not Restricted to Specific Programs	202,084,843.22	194,660,885.88
Unrestricted Investment Earnings	2,834,210.95	4,225,053.85
Miscellaneous	2,125,906.80	2,475,208.52
Total Revenues	360,348,212.60	354,330,365.97
Functions/Program Expenses:		
Instruction	176,967,070.12	163,347,361.68
Pupil Personnel Services	14,146,748.12	13,199,930.96
Instructional Media Services	5,919,566.64	5,501,021.50
Instruction and Curriculum Development Services	5,440,740.75	4,590,171.64
Instructional Staff Training Services	2,924,192.34	3,125,315.32
Instruction Related Technology	1,332,042.05	824,294.20
Board of Education	756,944.99	665,613.77
General Administration	1,167,658.17	1,203,958.88
School Administration	14,771,727.55	13,777,717.11
Facilities Acquisition and Construction	5,538,131.47	6,724,393.32
Fiscal Services	748,451.58	684,723.57
Food Services	12,318,058.21	11,142,095.07
Central Services	3,666,770.72	3,344,004.75
Pupil Transportation Services	13,994,044.55	13,135,412.94
Operation of Plant	17,533,700.11	17,988,592.25
Maintenance of Plant	5,794,812.82	5,395,144.76
Administrative Technology Services	1,672,374.17	1,690,158.92
Community Services	383,630.50	457,497.53
Interest on Long-Term Debt	3,421,632.79	3,949,491.16
Unallocated Depreciation Expense	12,325,593.06	11,388,612.61
Total Functions/Program Expenses	300,823,890.71	282,135,511.94
Increase in Net Assets	\$ 59,524,321.89	\$ 72,194,854.03

The State’s Florida Education Finance Program (FEFP), State categorical educational programs, and local property taxes provide the majority of the District’s revenues for current operations. These revenues are included in general revenues, which provide about 79 percent of total revenues, whereas program revenues provide only about 21 percent. The majority of program revenues (98 percent) are in the facilities acquisition and construction, food services, pupil transportation services, and maintenance of plant activities.

The FEFP formula is used to allocate State revenue sources for current District operations and, utilizing student enrollment data, is designed to maintain equity in funding across all Florida school districts considering funding ability based on taxable local property values. The District experienced increases in student enrollment, FEFP funding, State categorical educational program funding, and local property tax revenues during the 2007-08 fiscal year. Student enrollment increased by 380 students, from 35,620 in the 2006-07 fiscal year to 36,000 in the 2007-08 fiscal year, and FEFP funding, State categorical educational program funding, and local property tax revenues increased by \$1,837,850, \$7,215,886.84 and \$8,392,417.41, respectively, as compared to the 2006-07 fiscal year.

Instructional activities represent the majority of the District's expenses, totaling approximately 58 and 59 percent, respectively, of total governmental expenses for the 2006-07 and 2007-08 fiscal years. Overall, total expenses increased \$18,688,378.77, or 7 percent, as compared to total revenues which increased \$6,017,846.63 or 2 percent. The increase in total expenses is mainly attributable to increases in instructional salaries and benefits.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

MAJOR GOVERNMENTAL FUNDS

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$22,511,671.15, while the total fund balance is \$31,821,403.03. The unreserved fund balance represents 9 percent of total General Fund expenditures, while the total fund balance represents 12 percent of such expenditures. The unreserved fund balance decreased by \$928,784.37 while the total fund balance decreased by \$849,996.81 during the fiscal year. Key factors are as follows:

- Total expenditures exceeded total revenues by \$830,529.64. Net other financing uses totaled \$332,221.70.
- Total revenues increased by \$13,992,404.45, or 6 percent, mainly from increases in State FEFP funding, State categorical program funding, and local property taxes.
- Total expenditures increased by \$19,581,033.61, or 8 percent, mainly due to increases in salaries and benefits expenditures.
- Net other financing sources (uses) decreased by \$2,772,875.62, or 114 percent, mainly due to transfers out to the Internal Service Fund.
- Inventories increased by \$312,754.53, which increased fund balance by an equal amount under the purchases method of inventory accounting used in the General Fund.

The Debt Service – Other Debt Service Fund is used to account for financial resources used to pay debt principal, interest, and related costs for the Certificates of Participation. The fund maintained a small fund balance, \$44,082.61 at June 30, 2008, all of which is reserved for the payment of debt service.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$12,716,639.57, all of which is required to be spent for the acquisition, construction, and maintenance of capital assets. Expenditures during the fiscal year were mainly for the new Shadowlawn Elementary School, new Oakleaf Village Elementary School, and miscellaneous maintenance projects.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$14,460,503.24, all of which is restricted for the acquisition, construction, and maintenance of capital assets. Expenditures were primarily for the new Shadowlawn Elementary School and the new Oakleaf Village Elementary School.

The Capital Projects – Other Capital Projects Fund is mainly used to account for the financial resources received from local impact fees, local sales taxes, Classrooms for Kids and Class Size Reduction Construction program funds, Certificates of Participation proceeds, and other miscellaneous sources. The fund had a total fund balance of \$28,827,598.07. The total fund balance decreased by \$14,891,133.87 in the current year, mainly from expenditures for the new Shadowlawn Elementary School, new Oakleaf Village Elementary School, and new Plantation Oaks Elementary School.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2007-08 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$13,294,912.48. Similarly, final appropriations decreased by \$14,438,557.79 from the original budgeted amounts. These budget revisions represent about a 5 percent decrease from the respective original budgets and were necessary to adjust planned revenues and expenditures based on actual resources and resource needs.

Actual revenues were slightly less than final budgeted amounts, whereas actual expenditures were \$12,671,969.05, or 5 percent, less than anticipated. Since actual expenditures were well within budgetary estimates, unexpended appropriations were available to increase fund balance. Accordingly, the actual ending fund balance exceeded the final amended budget fund balance by \$10,227,116.28.

CAPITAL ASSETS AND LONG-TERM DEBT

CAPITAL ASSETS

The District's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2008, is \$434,322,894.19. The capital assets include land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

The investment in capital assets increased by a net amount of \$57,605,548.96, or 15 percent, as compared to the June 30, 2007, balance. Major capital asset events during the current fiscal year included construction related to the new Shadowlawn Elementary School, new Oakleaf Village Elementary School, and new Plantation Oaks Elementary

School. The District also began construction of the new Oakleaf High School and completed construction of classroom additions at Charles E. Bennett Elementary School.

Additional information on the District's capital assets is shown in Notes 6 and 16 to the financial statements (Exhibit - K).

LONG-TERM DEBT

At June 30, 2008, the District had total long-term debt outstanding of \$67,749,057. This amount was comprised of \$58,994,057 of Certificates of Participation, \$7,060,000 of State School Bonds, and \$1,695,000 of District Revenue Bonds. The District's long-term debt decreased by \$2,462,029, or 4 percent, during the year. The decrease resulted from scheduled principal payments to retire long-term debt.

Additional information on the District's long-term debt is shown in Notes 7 through 9 to the financial statements (Exhibit - K).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Clay County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business Affairs, Clay County District School Board, 900 Walnut Street, Green Cove Springs, Florida 32043.

BASIC FINANCIAL STATEMENTS

**EXHIBIT - A
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2008**

	Primary Government Governmental Activities	Component Unit
ASSETS		
Current Assets:		
Cash	\$ 19,996,625.16	\$ 45,075.00
Investments - Other	41,698,261.17	
Restricted Investments	3,386,824.38	5,172.00
Accounts Receivable	115,223.04	
Funds Held by Others		9,796.00
Pledges Receivable		1,000.00
Due from Other Agencies	48,367,166.25	
Due from Excess Insurance Carrier	124,947.34	
Inventories	2,312,531.32	
Total Current Assets	<u>116,001,578.66</u>	<u>61,043.00</u>
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund	2,863,646.88	
Capital Credits Receivable	2,907,212.20	
Capital Assets:		
Nondepreciable Capital Assets	70,849,545.87	
Depreciable Capital Assets, Net	363,473,348.32	
Total Noncurrent Assets	<u>440,093,753.27</u>	
TOTAL ASSETS	<u>\$ 556,095,331.93</u>	<u>\$ 61,043.00</u>
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	\$ 3,900,940.92	\$
Payroll Deductions and Withholdings	3,098,781.61	
Accounts Payable	4,261,960.63	
Construction Contracts Payable	2,071,216.74	
Construction Contracts Payable - Retainage	2,631,503.23	
Scholarships Payable		9,796.00
Deferred Revenue	70,709.68	
Matured Certificates of Participation Payable	2,100,000.00	
Matured Interest Payable	1,286,824.38	
Estimated Liability for Arbitrage Rebate	15,214.38	
Long-Term Liabilities -- Portion Due Within One Year:		
Estimated Insurance Claims Payable	677,211.00	
Bonds Payable	740,000.00	
Certificates of Participation Payable	1,822,029.00	
Compensated Absences Payable	10,680,072.24	
Total Current Liabilities	<u>33,356,463.81</u>	<u>9,796.00</u>
Noncurrent Liabilities:		
Long-Term Liabilities -- Portion Due After One Year:		
Estimated Insurance Claims Payable	1,685,703.00	
Bonds Payable	8,015,000.00	
Certificates of Participation Payable	57,172,028.00	
Compensated Absences Payable	7,270,066.91	
Postemployment Healthcare Benefits Payable	360,148.00	
Total Noncurrent Liabilities	<u>74,502,945.91</u>	
Total Liabilities	<u>107,859,409.72</u>	<u>9,796.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	366,573,837.19	
Restricted for:		
State Categorical Programs	4,314,617.92	
Debt Service	715,959.56	
Capital Projects	56,560,213.81	
Other Purposes		5,570.00
Unrestricted	20,071,293.73	45,677.00
Total Net Assets	<u>448,235,922.21</u>	<u>51,247.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 556,095,331.93</u>	<u>\$ 61,043.00</u>

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

**EXHIBIT - B
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 176,967,070.12	\$ 417,467.23	\$	\$
Pupil Personnel Services	14,146,748.12			
Instructional Media Services	5,919,566.64			
Instruction and Curriculum Development Services	5,440,740.75			
Instructional Staff Training Services	2,924,192.34			
Instruction Related Technology	1,332,042.05			
Board of Education	756,944.99			
General Administration	1,167,658.17			
School Administration	14,771,727.55			
Facilities Acquisition and Construction	5,538,131.47			49,890,081.61
Fiscal Services	748,451.58			
Food Services	12,318,058.21	6,367,829.56	5,486,569.18	
Central Services	3,666,770.72			
Pupil Transportation Services	13,994,044.55		7,966,390.00	
Operation of Plant	17,533,700.11			
Maintenance of Plant	5,794,812.82			2,778,034.00
Administrative Technology Services	1,672,374.17			
Community Services	383,630.50			
Interest on Long-Term Debt	3,421,632.79			978,701.52
Unallocated Depreciation Expense	12,325,593.06			
Total Primary Government	\$ 300,823,890.71	\$ 6,785,296.79	\$ 13,452,959.18	\$ 53,646,817.13
Component Unit				
Clay County Education Foundation, Inc.	\$ 127,558.00	\$	\$ 125,706.00	\$

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - July 1, 2007

Net Assets - June 30, 2008

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

EXHIBIT - B

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (176,549,602.89)	\$
(14,146,748.12)	
(5,919,566.64)	
(5,440,740.75)	
(2,924,192.34)	
(1,332,042.05)	
(756,944.99)	
(1,167,658.17)	
(14,771,727.55)	
44,351,950.14	
(748,451.58)	
(463,659.47)	
(3,666,770.72)	
(6,027,654.55)	
(17,533,700.11)	
(3,016,778.82)	
(1,672,374.17)	
(383,630.50)	
(2,442,931.27)	
(12,325,593.06)	
<u>(226,938,817.61)</u>	
	<u>(1,852.00)</u>
56,916,338.37	
20,699,273.83	
1,802,566.33	
202,084,843.22	
2,834,210.95	651.00
2,125,906.80	
<u>286,463,139.50</u>	<u>651.00</u>
59,524,321.89	(1,201.00)
<u>388,711,600.32</u>	<u>52,448.00</u>
<u>\$ 448,235,922.21</u>	<u>\$ 51,247.00</u>

**EXHIBIT - C
CLAY COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008**

	General Fund	Debt Service - Other Debt Service Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS			
Cash	\$ 16,641,062.25	\$	\$
Investments - Other	8,562,935.49	3,428,777.80	12,346.11
Accounts Receivable	21,353.02		
Due from Other Funds	12,776,386.05		
Due from Other Agencies	78,110.79		14,900,000.00
Inventories	2,173,908.44		
Investments in SBA Fund B Surplus Funds Trust Fund	62,590.41	2,129.19	302,687.79
TOTAL ASSETS	\$ 40,316,346.45	\$ 3,430,906.99	\$ 15,215,033.90
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 3,899,863.31	\$	\$
Payroll Deductions and Withholdings	3,094,212.22		
Accounts Payable	657,741.30		
Construction Contracts Payable			682,361.57
Construction Contracts Payable - Retainage			367,600.32
Due to Other Funds	843,126.59		1,448,432.44
Deferred Revenue			
Matured Certificates of Participation Payable		2,100,000.00	
Matured Interest Payable		1,286,824.38	
Estimated Liability for Arbitrage Rebate			
Total Liabilities	8,494,943.42	3,386,824.38	2,498,394.33
Fund Balances:			
Reserved for State Categorical Programs	3,783,084.25		
Reserved for Encumbrances	3,352,739.19		6,195,398.39
Reserved for Inventories	2,173,908.44		
Reserved for Debt Service		44,082.61	
Unreserved:			
Designated for Special Programs	556,834.25		
Undesignated, Reported in:			
General Fund	21,954,836.90		
Special Revenue Funds			
Capital Projects Funds			6,521,241.18
Total Fund Balances	31,821,403.03	44,082.61	12,716,639.57
TOTAL LIABILITIES AND FUND BALANCES	\$ 40,316,346.45	\$ 3,430,906.99	\$ 15,215,033.90

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

EXHIBIT - C

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 17,640,792.63	\$ 6,926,693.19 22,915.16	\$ 3,315,562.91 722,509.12	\$ 19,956,625.16 37,294,054.34 44,268.18
157,186.74	32,681,302.87	409,628.47	13,186,014.52
	1,329,130.98	707,752.59	48,367,166.25
		138,622.88	2,312,531.32
		1,009,921.77	2,863,646.88
<u>\$ 17,797,979.37</u>	<u>\$ 40,960,042.20</u>	<u>\$ 6,303,997.74</u>	<u>\$ 124,024,306.65</u>
\$ 1,972,490.00	\$ 713,543.74	\$ 1,077.61	\$ 3,900,940.92
653,005.20	1,564,595.03	4,569.39	3,098,781.61
699,307.88	9,801,698.98	91,056.98	2,721,288.28
12,673.05	37,392.00	22,306.23	2,071,216.74
	15,214.38	1,412,096.13	2,631,503.23
		33,317.68	13,518,027.19
			70,709.68
			2,100,000.00
			1,286,824.38
			15,214.38
<u>3,337,476.13</u>	<u>12,132,444.13</u>	<u>1,564,424.02</u>	<u>31,414,506.41</u>
2,902,705.95	9,930,325.67	26,871.66	3,783,084.25
		102,021.75	22,408,040.86
		671,876.95	2,275,930.19
			715,959.56
			556,834.25
			21,954,836.90
		3,409,521.66	3,409,521.66
<u>11,557,797.29</u>	<u>18,897,272.40</u>	<u>529,281.70</u>	<u>37,505,592.57</u>
<u>14,460,503.24</u>	<u>28,827,598.07</u>	<u>4,739,573.72</u>	<u>92,609,800.24</u>
<u>\$ 17,797,979.37</u>	<u>\$ 40,960,042.20</u>	<u>\$ 6,303,997.74</u>	<u>\$ 124,024,306.65</u>

**EXHIBIT - D
CLAY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balances - Governmental Funds	\$	92,609,800.24
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.		434,322,894.19
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 fund are included in governmental activities in the statement of net assets.		4,455,359.73
Capital credits receivable are not available to liquidate liabilities in the governmental funds, but are accrued in governmental activities in the statement of net assets.		2,907,212.20
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	\$ 8,755,000.00	
Certificates of Participation Payable	58,994,057.00	
Compensated Absences Payable	17,950,139.15	
Postemployment Healthcare Benefits Payable	360,148.00	(86,059,344.15)
Total Net Assets - Governmental Activities	\$	448,235,922.21

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

THIS PAGE INTENTIONALLY LEFT BLANK.

**EXHIBIT - E
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008**

	General Fund	Debt Service - Other Debt Service Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 941,802.87	\$	\$
Federal Through State			
Federal Through Local			
State	197,215,217.71		16,446,638.00
Local:			
Taxes	56,895,470.74		
Miscellaneous	3,713,228.30	7,340.52	7,848.11
Total Revenues	<u>258,765,719.62</u>	<u>7,340.52</u>	<u>16,454,486.11</u>
Expenditures			
Current - Education:			
Instruction	169,239,149.87		
Pupil Personnel Services	13,212,202.30		
Instructional Media Services	5,861,567.67		
Instruction and Curriculum Development Services	4,934,085.28		
Instructional Staff Training Services	1,498,555.94		
Instruction Related Technology	1,329,972.90		
Board of Education	765,299.99		
General Administration	864,171.99		
School Administration	14,726,094.94		
Facilities Acquisition and Construction	915,259.16		2,908,834.28
Fiscal Services	746,192.20		
Food Services	51,681.32		
Central Services	3,862,798.25		
Pupil Transportation Services	12,632,919.21		
Operation of Plant	17,796,822.53		
Maintenance of Plant	5,702,699.77		
Administrative Technology Services	1,668,911.26		
Community Services	382,729.87		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	1,065,646.31		6,054,927.85
Other Capital Outlay	2,339,488.50		
Debt Service:			
Principal		2,100,000.00	
Interest and Fiscal Charges		2,593,211.86	
Total Expenditures	<u>259,596,249.26</u>	<u>4,693,211.86</u>	<u>8,963,762.13</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(830,529.64)</u>	<u>(4,685,871.34)</u>	<u>7,490,723.98</u>
Other Financing Sources (Uses)			
Transfers In	1,758,400.00	4,692,099.00	
Proceeds from Sale of Capital Assets	108,817.52		
Insurance Loss Recoveries	316,654.58		
Transfers Out	(2,516,093.80)		(100,000.00)
Total Other Financing Sources (Uses)	<u>(332,221.70)</u>	<u>4,692,099.00</u>	<u>(100,000.00)</u>
Net Change in Fund Balances	<u>(1,162,751.34)</u>	<u>6,227.66</u>	<u>7,390,723.98</u>
Fund Balances, July 1, 2007	32,671,399.84	37,854.95	5,325,915.59
Increase in Inventory Reserve	312,754.53		
Fund Balances, June 30, 2008	<u>\$ 31,821,403.03</u>	<u>\$ 44,082.61</u>	<u>\$ 12,716,639.57</u>

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

EXHIBIT - E

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$ 281,321.72	\$ 1,223,124.59
		16,699,411.15	16,699,411.15
		86,607.00	86,607.00
	31,636,478.45	1,768,123.07	247,066,457.23
20,720,141.46	1,802,566.33		79,418,178.53
674,966.84	4,348,581.40	6,438,943.89	15,190,909.06
<u>21,395,108.30</u>	<u>37,787,626.18</u>	<u>25,274,406.83</u>	<u>359,684,687.56</u>
		7,768,181.38	177,007,331.25
		892,794.19	14,104,996.49
		41,797.08	5,903,364.75
		490,998.04	5,425,083.32
		1,421,486.71	2,920,042.65
			1,329,972.90
			765,299.99
		301,027.75	1,165,199.74
1,154,490.75	480,988.08	75,197.93	14,726,094.94
			5,534,770.20
			746,192.20
		12,262,038.84	12,313,720.16
			3,862,798.25
		38,567.38	12,671,486.59
			17,796,822.53
			5,702,699.77
			1,668,911.26
			382,729.87
9,201,723.98	52,112,514.83	89,457.93	68,524,270.90
		594,186.14	2,933,674.64
		715,000.00	2,815,000.00
		475,449.93	3,068,661.79
<u>10,356,214.73</u>	<u>52,593,502.91</u>	<u>25,166,183.30</u>	<u>361,369,124.19</u>
<u>11,038,893.57</u>	<u>(14,805,876.73)</u>	<u>108,223.53</u>	<u>(1,684,436.63)</u>
		16,093.80	6,466,592.80
			108,817.52
			316,654.58
<u>(6,265,241.86)</u>	<u>(85,257.14)</u>		<u>(8,966,592.80)</u>
<u>(6,265,241.86)</u>	<u>(85,257.14)</u>	<u>16,093.80</u>	<u>(2,074,527.90)</u>
4,773,651.71	(14,891,133.87)	124,317.33	(3,758,964.53)
9,686,851.53	43,718,731.94	4,603,051.00	96,043,804.85
		12,205.39	324,959.92
<u>\$ 14,460,503.24</u>	<u>\$ 28,827,598.07</u>	<u>\$ 4,739,573.72</u>	<u>\$ 92,609,800.24</u>

**EXHIBIT - F
CLAY 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, 2008**

Net Change in Fund Balances - Governmental Funds \$ (3,758,964.53)

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 in the current period.	57,605,548.96
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of long-term debt repaid in the current period.	2,815,000.00
The deferred amount on refunding debt offsets the liability for certificates of participation in the statement of net assets, but the amount is amortized over the life of the debt in the statement of activities. This is the net decrease in the deferred amount on refunding debt during the current period.	(352,971.00)
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 earned in excess of the amount used in the current period.	(387,615.96)
The net change in the postemployment healthcare benefits payable liability is reported in the government-wide statements, but not in the governmental fund statements.	(360,148.00)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net income of the internal service fund is reported with governmental activities.	3,509,865.16
The District accrues capital credits to be received in future years in the statement of activities, but the revenue does not provide current financial resources and is not reported in the governmental funds.	128,647.34
The purchases method of inventory accounting is used in the governmental funds, while in the government-wide statements, inventories are accounted for on the consumption method.	<u>324,959.92</u>
Change in Net Assets - Governmental Activities	<u><u>\$ 59,524,321.89</u></u>

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

**EXHIBIT - G
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

		Governmental Activities - Internal Service Fund
		<hr/>
ASSETS		
Current Assets:		
Cash	\$	40,000.00
Investments		7,791,031.21
Due from Other Funds		433,498.12
Due from Excess Insurance Carrier		124,947.34
		<hr/>
TOTAL ASSETS	\$	8,389,476.67
		<hr/> <hr/>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$	1,540,672.35
Due to Other Funds		30,530.59
Estimated Insurance Claims Payable		677,211.00
		<hr/>
Total Current Liabilities		2,248,413.94
		<hr/>
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		1,685,703.00
		<hr/>
TOTAL LIABILITIES		3,934,116.94
		<hr/>
NET ASSETS		
Unrestricted		4,455,359.73
		<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$	8,389,476.67
		<hr/> <hr/>

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

**EXHIBIT - H
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Insurance Premiums	\$ 2,087,948.62
Other Operating Activity	537,799.67
Total Operating Revenues	2,625,748.29
OPERATING EXPENSES	
Excess Insurance Premiums	1,564,507.75
Purchased Services	160,780.98
Total Operating Expenses	1,725,288.73
Operating Income	900,459.56
NONOPERATING REVENUES	
Investment Income	109,405.60
Net Income Before Transfers	1,009,865.16
Transfers In	2,500,000.00
Net Income	3,509,865.16
Total Net Assets, July 1, 2007	945,494.57
Total Net Assets, June 30, 2008	\$ 4,455,359.73

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

**EXHIBIT - I
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board Funds	\$	2,087,948.62
Cash Payments to Vendors for Goods and Services		(2,391,587.51)
Cash Payments for Insurance Claims		(792,036.33)
Net Cash Used by Operating Activities		<u>(1,095,675.22)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In		<u>2,500,000.00</u>
Net Cash Provided by Noncapital Financing Activities		<u>2,500,000.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(6,689,204.73)
Proceeds from Sale of Investments		5,128,695.75
Interest Income		156,184.20
Net Cash Used by Investing Activities		<u>(1,404,324.78)</u>
Net Increase (Decrease) in Cash		
Cash at Beginning of Year		<u>40,000.00</u>
Cash at End of Year	\$	<u><u>40,000.00</u></u>
Reconciliation of Operating Income to Net Cash Used by Operating Activities:		
Operating Income	\$	<u>900,459.56</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Increase in Due from Other Funds		(432,998.12)
Decrease in Due from Excess Insurance Carrier		14,083.78
Decrease in Accounts Payable		(257,997.74)
Increase in Due to Other Funds		10,613.30
Decrease in Estimated Insurance Claims Payable		(1,329,836.00)
Total Adjustments		<u>(1,996,134.78)</u>
Net Cash Used by Operating Activities	\$	<u><u>(1,095,675.22)</u></u>
Noncash Investing Activity		
Decrease in Fair Value of Investments	\$	<u><u>(46,778.60)</u></u>

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

EXHIBIT - J
CLAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 926,283.47
Investments	<u>1,910,982.87</u>
TOTAL ASSETS	<u><u>\$ 2,837,266.34</u></u>
LIABILITIES	
Accounts Payable	\$ 101,796.41
Due to Other Funds	70,954.86
Internal Accounts Payable	<u>2,664,515.07</u>
TOTAL LIABILITIES	<u><u>\$ 2,837,266.34</u></u>

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

EXHIBIT – K
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Clay School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the Clay County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the basic financial statements, Exhibits A and B, include the financial data of the Clay County Education Foundation, Inc. (Foundation). The Foundation was organized and operated in accordance with Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property, and to make expenditures to, or for the benefit of, public prekindergarten through twelfth grade education in Clay County. The nature and significance of the Foundation's relationship with the School Board causes it to be considered a component unit. The financial data reported on the accompanying financial statements was derived from the audited financial statements of the Foundation for the fiscal year ended June 30, 2008. A copy of the separate financial statements for the Foundation is filed with the District.

➤ **Basis of Presentation**

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

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and 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.

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the long-term certificates of participation.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources received from the Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Other Capital Projects Fund – to account mainly for the financial resources received from certificates of participation proceeds, local sales taxes, local impact fees, and other miscellaneous sources, to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

- Internal Service Fund – to account for the District's individual self-insurance program.
- 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.

The government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized 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.

The Clay County Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Internal Service Fund is accounted for as proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the District for workers' compensation, automobile liability, general liability, and property loss insurance premiums. The principal operating expenses include insurance claims, excess insurance premiums, and administrative expenses and fees. 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.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

➤ **Deposits and Investments**

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

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investments of debt service moneys and amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund to also establish the Fund B Surplus Funds Trust Fund.

The District's investments in the Local Government Surplus Funds Trust Fund, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2008, 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 the Fund B Surplus Funds Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.923331 at June 30, 2008. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

Investments made locally are reported at fair value and consist of amounts placed in a money market fund under a trust agreement in connection with certificates of participation financing arrangements. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that maintenance inventories are stated at weighted-average, and United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Under the economic resources measurement focus of the government-wide financial statements, the costs of inventories are recorded as expenditures when used rather than purchased. In the fund financial statements, except for the United States Department of Agriculture surplus commodities, the costs of inventories are recorded as expenditures when purchased rather than used and reported purchased inventories are equally offset by a fund balance reserve.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

➤ **Restricted Assets**

Certain invested assets held by a trustee under a trust agreement, in the name of the District, in connection with certificates of participation financing arrangements are classified as restricted assets on the statement of net assets because they are set aside for repayment of maturing debt as required by applicable debt covenants. These assets are restricted for the repayment of matured certificates of participation principal and interest reported as current liabilities on the statement of net assets and are payable on July 1.

➤ **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. Land, improvements other than buildings, and buildings acquired or constructed prior to July 1, 1968, are stated at appraised value when historical costs could not be determined.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	25 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	7 years
Motor Vehicles	10 years
Audio Visual Materials and Computer Software	5 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.

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

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received allocations under the Classrooms for Kids and the Class Size Reduction Construction programs. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes these allocations as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2007 tax levy on September 6, 2007. 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.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 Clay 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.

➤ **Local Government Infrastructure Surtax**

The citizens of Clay County, on November 7, 1989, approved a one percent local government infrastructure sales surtax authorized under Section 212.055(2), Florida Statutes. Pursuant to Section 212.055(2)(c)1., Florida Statutes, the County and its municipalities entered into an interlocal agreement with the School Board, dated June 23, 1998, wherein the parties agreed to a distribution formula for the infrastructure sales surtax proceeds. The distribution formula provides, in part, that the School Board shall receive ten percent of the County's portion of the proceeds using the statutory distribution formula provided in Section 218.62, Florida Statutes. The surtax proceeds are to be used for fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of public facilities which have a useful life expectancy of five or more years; any land acquisition, land improvement, design, and engineering costs related thereto; and certain vehicle purchases.

➤ **Educational Impact Fees**

Clay County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2003. This ordinance was most recently amended in October 2005, when Ordinance 2005-43 established, in part, revised rates to be collected. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition, facility design and construction costs, furniture and equipment, and payment of principal, interest, and related costs of indebtedness necessitated by new residential development. Because the educational impact fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements.

➤ **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.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2008, the District has the following investments and maturities:

Investment	Maturities	Fair Value
First American Treasury Obligations Money Market Fund (1)	19 Day Average	\$ 3,395,663.00
State Board of Administration:		
Local Government Surplus Funds Trust Fund Investment Pool (2)(3)	20.22 Day Average	43,404,964.68
Fund B Surplus Funds Trust Fund (2)	9.22 Year Average	2,863,646.88
Debt Service Accounts	6 Months	195,440.74
Total Investments, Primary Government		<u>\$ 49,859,715.30</u>

- Notes: (1) At June 30, 2008, investments totaling \$3,395,663 were held under a trust agreement in connection with Certificates of Participation financing arrangements.
- (2) Includes Fiduciary Fund investments of \$1,910,982.87.
- (3) At June 30, 2008, certain significant withdrawals from the Local Government Surplus Funds Trust Fund Investment Pool may be subject to a 2 percent redemption fee by the State Board of Administration.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses from increasing

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

interest rates, but generally requires shorter-term investment maturities that are matched with cash flow needs to avoid selling securities prior to maturity.

- The maturity of the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool is based on the weighted average days to maturity (WAM). 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. The maturity of the State Board of Administration Local Government Fund B Surplus Funds Trust Fund is based on the weighted average life (WAL). A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates as of June 30, 2008.

Credit Risk

- The District's investment policy limits investments to the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool; Securities and Exchange Commission registered money market funds with the highest credit quality rating; interest-bearing time deposits or savings accounts held in qualified public depositories; direct obligations of the United States Treasury, Federal agencies, and instrumentalities; any open-end or closed-end management-type investment company or registered investment trust investing in, or repurchase agreements collateralized by, obligations of the United States Government or any agency or instrumentality; and commercial paper and bankers' acceptances with quality credit ratings.
- The District's investments in the State Board of Administration Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2008, the District's investment in the Local Government Surplus Funds Trust Fund Investment Pool is rated AAAM by Standard & Poor's. The Fund B Surplus Funds Trust Fund is unrated.
- The District's investment in the First American Treasury Obligations Money Market Fund is rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk

- The District's investment policy requires that all securities purchased and collateral obtained be held by a third party custodial institution and be properly designated as an asset of the District.
- The District's investments in the First American Treasury Obligations Money Market Fund are held by the safekeeping agent in the name of the District.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

4. DUE FROM OTHER AGENCIES

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

Fund/Source	Amount
Major Funds:	
General:	
United States Department of Defense:	
Navy Junior Reserve Officers Training Corps	\$ 66,655.12
Florida Department of Health:	
Full Service Schools	6,009.70
Clay County Sheriff's Office:	
Fuel Reimbursement	5,057.29
Other Agencies	388.68
Capital Projects - Public Education Capital Outlay (PECO):	
Florida Department of Education:	
State PECO Appropriations	14,900,000.00
Capital Projects - Other Capital Projects:	
Florida Department of Education:	
Classrooms for Kids	26,278,748.00
Class Size Reduction Construction	6,000,000.00
Clay County Board of County Commissioners:	
Impact Fees	238,406.85
Sales Surtax	124,178.11
City of Green Cove Springs:	
Impact Fees	20,809.72
Florida Department of Revenue:	
Gas Tax Refund	19,160.19
Nonmajor Governmental Funds:	
Special Revenue - Food Service:	
Florida Department of Education:	
National School Lunch Program	586,750.59
Special Revenue - Other:	
University of South Florida:	
RTI Project	18,014.17
United States Department of Education:	
Fund for the Improvement of Education	15,833.15
Florida Department of Education:	
Various Grants	86,660.24
Other Agencies	494.44
	494.44
Total Governmental Activities	\$ 48,367,166.25

The amounts due from other agencies in the Capital Projects Funds for State PECO Appropriations, Class Size Reduction Construction, and Classrooms for Kids are for long-term capital projects and may not be entirely collected within one year.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

5. CAPITAL CREDITS RECEIVABLE

The District participates in a nonprofit electric cooperative established under Chapter 425, Florida Statutes. In accordance with this Statute, revenues in excess of operating expenses, unless otherwise determined by a vote of the membership, are distributed by the cooperative on a pro rata basis to its members. The policy of the Clay Electric Cooperative, Inc., is to credit the excess revenues to the members' accounts. Annually, the Cooperative makes payments for designated prior years' capital credits. During the 2007-08 fiscal year, the District received \$72,538.09 related to portions of capital credits earned from the 1985 through 2006 fiscal years. At June 30, 2008, the accumulated credits to the District's accounts were \$2,907,212.20.

6. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-07	Additions	Deletions	Balance 6-30-08
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 29,746,354.61	\$ 152,759.20	\$	\$ 29,899,113.81
Construction in Progress	12,245,214.62	65,202,994.41	36,497,776.97	40,950,432.06
Total Capital Assets Not Being Depreciated	41,991,569.23	65,355,753.61	36,497,776.97	70,849,545.87
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	20,415,459.37	1,002,648.93		21,418,108.30
Buildings and Fixed Equipment	367,303,712.11	35,495,128.04		402,798,840.15
Furniture, Fixtures, and Equipment	30,810,781.08	3,262,943.11	2,159,429.49	31,914,294.70
Motor Vehicles	18,481,721.63	2,494,091.58	1,084,003.27	19,891,809.94
Audio Visual Materials and Computer Software	3,269,014.71	345,157.24	100,774.26	3,513,397.69
Total Capital Assets Being Depreciated	440,280,688.90	42,599,968.90	3,344,207.02	479,536,450.78
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	10,742,516.98	814,177.95		11,556,694.93
Buildings and Fixed Equipment	70,312,152.55	7,125,898.93		77,438,051.48
Furniture, Fixtures, and Equipment	13,414,960.38	3,928,325.76	2,159,429.49	15,183,856.65
Motor Vehicles	9,055,913.78	1,526,803.52	1,084,003.27	9,498,714.03
Audio Visual Materials and Computer Software	2,029,369.21	457,190.42	100,774.26	2,385,785.37
Total Accumulated Depreciation	105,554,912.90	13,852,396.58	3,344,207.02	116,063,102.46
Total Capital Assets Being Depreciated, Net	334,725,776.00	28,747,572.32		363,473,348.32
Governmental Activities Capital Assets, Net	\$ 376,717,345.23	\$ 94,103,325.93	\$ 36,497,776.97	\$ 434,322,894.19

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 1,526,803.52
Unallocated	<u>12,325,593.06</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$13,852,396.58</u></u>

7. CERTIFICATES OF PARTICIPATION

Certificates of Participation at June 30, 2008, are as follows:

<u>Series</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Lease Term Maturity</u>	<u>Original Amount</u>
Series 2000 (Partially Refunded)	\$ 1,870,000	5.125 - 5.200	2010	\$ 24,980,000
Series 2003	15,495,000	3.875 - 5.000	2025	15,495,000
Series 2004, Refunding	8,485,000	2.250 - 3.625	2017	9,900,000
Series 2005A	15,885,000	3.2 - 4.6	2027	16,430,000
Series 2005B, Refunding	<u>17,965,000</u>	3.2 - 5.0	2025	18,545,000
Subtotal	59,700,000			
Less: Deferred Amount on Refunding Debt (1)	<u>(705,943)</u>			
Total Certificates of Participation	<u><u>\$ 58,994,057</u></u>			

Note (1): The Deferred Amount on Refunding Debt represents the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.

The District entered into a master financing arrangement on May 15, 1997, which arrangement was characterized as a lease-purchase agreement, with the Clay School Board Leasing Corporation whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of \$10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and provide for the rent payments through to term, the

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for the remaining term of the ground leases.

A summary of the lease terms is as follows:

<u>Certificates</u>	<u>Lease Term</u>
Series 2000	Earlier of date paid in full or June 30, 2025
Series 2003	Earlier of date paid in full or June 30, 2025
Series 2004, Refunding	Earlier of date paid in full or June 30, 2017
Series 2005A	Earlier of date paid in full or June 30, 2027
Series 2005B, Refunding	Earlier of date paid in full or June 30, 2025

The District properties included in the ground leases under this arrangement include:

<u>Certificates</u>	<u>Description of Properties</u>
Series 2004, Refunding	Acquisition of approximately 42 acres of land adjacent to the former Ridgeview Junior High School and conversion of the facility to a senior high school.
Series 2000 and Series 2005B, Refunding	Construction of a new senior high school in the Fleming Island area.
Series 2003	Construction of a new junior high school in the Lake Asbury area.
Series 2005A	Construction of a kindergarten through 8th grade school in the Oakleaf area.

The lease payments are payable by the District, semiannually, on July 1 and January 1, and must be remitted by the District as of the 15th day of the month preceding the payment dates. The following is a schedule by years of future minimum lease payments under the leases together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 4,675,733.76	\$ 2,175,000.00	\$ 2,500,733.76
2010	4,671,433.76	2,250,000.00	2,421,433.76
2011	4,671,253.76	2,335,000.00	2,336,253.76
2012	4,671,766.26	2,410,000.00	2,261,766.26
2013	4,674,941.26	2,495,000.00	2,179,941.26
2014-2018	23,368,726.34	13,960,000.00	9,408,726.34
2019-2023	23,374,355.02	17,305,000.00	6,069,355.02
2024-2027	18,693,522.50	16,770,000.00	1,923,522.50
Subtotal	88,801,732.66	59,700,000.00	29,101,732.66
Less: Deferred Amount on Refunding Debt	(705,943.00)	(705,943.00)	
Total Minimum Lease Payments	<u>\$88,095,789.66</u>	<u>\$58,994,057.00</u>	<u>\$29,101,732.66</u>

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

8. BONDS PAYABLE

Bonds payable at June 30, 2008, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 385,000	4.125 - 4.750	2019
Series 2002B	1,685,000	3.500 - 5.375	2015
Series 2003A	595,000	3.00 - 4.25	2023
Series 2005A	3,655,000	5.0	2017
Series 2005B	740,000	5.0	2020
District Revenue Bonds:			
Series 1995	<u>1,695,000</u>	5.625 - 5.875	2020
Total Bonds Payable	<u><u>\$ 8,755,000</u></u>		

The various bonds were issued to finance capital outlay projects of the District and to refund certain outstanding bonds with lower cost bonded debt. The following is a description of the bonded debt issues:

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Revenue Bonds**

These bonds were issued to refund the District Revenue Bonds, Series 1971-A, and to finance costs of various capital improvements in the District. These bonds are authorized by Chapter 65-1383, Laws of Florida, and Chapter 70-631, Laws of Florida, which provides that the bonds be secured by the portion of the racetrack and jai alai fronton funds distributed annually to Clay County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes), and Chapter 65-1164, Laws of Florida. The annual distribution is remitted by the Florida Department of Financial Services to the District and the Board has established a sinking fund as required by the bond resolution.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2009	\$ 983,140.00	\$ 640,000.00	\$ 343,140.00
2010	984,902.50	670,000.00	314,902.50
2011	986,402.50	705,000.00	281,402.50
2012	986,058.75	740,000.00	246,058.75
2013	987,258.75	775,000.00	212,258.75
2014-2018	3,685,533.75	3,210,000.00	475,533.75
2019-2023	358,756.25	320,000.00	38,756.25
Total State School Bonds	8,972,052.50	7,060,000.00	1,912,052.50
District Revenue Bonds:			
2009	199,068.75	100,000.00	99,068.75
2010	198,443.75	105,000.00	93,443.75
2011	202,537.50	115,000.00	87,537.50
2012	200,781.25	120,000.00	80,781.25
2013	198,731.25	125,000.00	73,731.25
2014-2018	1,007,631.25	760,000.00	247,631.25
2019-2020	402,900.00	370,000.00	32,900.00
Total District Revenue Bonds	2,410,093.75	1,695,000.00	715,093.75
Total	\$11,382,146.25	\$8,755,000.00	\$2,627,146.25

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

9. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-07	Additions	Deductions	Balance 6-30-08	Due in One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	\$ 61,800,000.00	\$	\$ 2,100,000.00	\$ 59,700,000.00	\$ 2,175,000.00
Less Deferred Amount on Refunding Debt	(1,058,914.00)		(352,971.00)	(705,943.00)	(352,971.00)
Net Certificates of Participation Payable	60,741,086.00		1,747,029.00	58,994,057.00	1,822,029.00
Bonds Payable	9,470,000.00		715,000.00	8,755,000.00	740,000.00
Estimated Insurance Claims Payable	3,692,750.00	(537,799.67)	792,036.33	2,362,914.00	677,211.00
Compensated Absences Payable	17,562,523.19	11,067,688.20	10,680,072.24	17,950,139.15	10,680,072.24
Postemployment Healthcare Benefits Payable		639,963.00	279,815.00	360,148.00	
Total Governmental Activities	<u>\$ 91,466,359.19</u>	<u>\$ 11,169,851.53</u>	<u>\$ 14,213,952.57</u>	<u>\$ 88,422,258.15</u>	<u>\$ 13,919,312.24</u>

Internal service funds predominately serve the governmental funds and, accordingly, long-term liabilities of those funds are included in the governmental activities. For the governmental activities, compensated absences are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with resources of the Internal Service Fund.

10. 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	\$ 12,776,386.05	\$ 843,126.59
Capital Projects:		
Public Education Capital Outlay		1,448,432.44
Local Capital Improvement		12,673.05
Other Capital Projects		9,801,698.98
Nonmajor Governmental	409,628.47	1,412,096.13
Internal Service	433,498.12	30,530.59
Fiduciary		70,954.86
Total	<u>\$ 13,619,512.64</u>	<u>\$ 13,619,512.64</u>

The interfund payables due to the General Fund resulted from expenditures being adjusted between funds. The interfund receivables due from the General Fund resulted from Internal Service Fund interfund charges

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

and moneys deposited in the General Fund that were payable to the nonmajor governmental funds. The interfund amounts represent temporary loans from one fund to another and are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$1,758,400.00	\$2,516,093.80
Debt Service:		
Other Debt Service	4,692,099.00	
Capital Projects:		
Public Education Capital Outlay		100,000.00
Local Capital Improvement Fund		6,265,241.86
Other Capital Projects		85,257.14
Nonmajor Governmental	16,093.80	
Internal Service	2,500,000.00	
Total	\$8,966,592.80	\$8,966,592.80

Interfund transfers represent permanent transfers of moneys between funds. The transfers out of the General Fund were for contributions to the Internal Service Fund to cover the amount needed for estimated self-insurance losses and to provide funding for food service costs of the Voluntary Prekindergarten program. The transfers out of the Capital Projects Funds were to provide for debt service payments, to fund equipment purchases, and to provide funding for certain expenditures of the District's maintenance department.

11. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2008-09 fiscal year budget as a result of purchase orders outstanding at June 30, 2008.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Pursuant to the provisions of Section 1006.40(6), Florida Statutes, the District is authorized to issue purchase orders for instructional materials in anticipation of the subsequent year’s legislative appropriations. Because revenues for these appropriations are not available at fiscal year-end, a reserve for encumbrances is not shown for these outstanding purchase orders. However, purchase orders outstanding in the General Fund for these instructional materials total \$2,949,532.16 at June 30, 2008.

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2007-08 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 142,457,143.00
Categorical Educational Programs:	
Class Size Reduction	35,791,823.00
Transportation	7,966,390.00
Instructional Materials	3,617,306.00
School Recognition	1,694,594.00
Excellent Teaching Program	1,264,661.38
Florida Teachers Lead Program	672,274.00
Voluntary Prekindergarten Program	287,233.61
Classrooms for Kids	31,556,356.00
Gross Receipts Tax (Public Education Capital Outlay)	16,446,638.00
Discretionary Lottery Funds	1,739,312.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,413,753.86
Workforce Development Program	1,007,199.00
Food Service Supplement	111,696.00
Miscellaneous	1,040,077.38
 Total	 \$ 247,066,457.23

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

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2007 tax roll for the 2007-08 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.731	\$51,085,804.17
Basic Discretionary Local Effort	0.510	5,507,030.25
Supplemental Discretionary Local Effort	0.250	2,699,524.63
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>21,596,197.07</u>
Total	<u>7.491</u>	<u>\$80,888,556.12</u>

14. 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).

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

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in the 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. Benefits in PEORP vest after one year of service. There were 711 District participants during the 2007-08 fiscal year. Required contributions made to PEORP totaled \$2,338,543.99.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2007-08 fiscal year, contribution rates were as follows:

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$10,495,122.19, \$14,898,016.74, and \$16,118,151.92, respectively, which were equal to the required contributions for each fiscal year.

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

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

Effective for the 2007-08 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$5,529,370 at the July 1, 2007, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment healthcare benefits liability at the date of transition.

Plan Description. The Postemployment Health Care Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's health insurance plan. 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. Additionally, retirees who worked for and retired from the District after a minimum of 25 years, and who are age 59 before the start of the insurance plan year (October 1) receive insurance coverage at a reduced (explicitly subsidized) premium rate. This defined benefit plan provides an annual premium reduction of up to \$1,200 and continues until the retirees are eligible to enroll in the Federal Medicare program for their primary coverage (age 65). The Postemployment Health Care Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Funding Policy. For the Postemployment Health Care Benefits Plan, contribution requirements of the District are established and may be amended through recommendations of the Insurance Committee 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. For the 2007-08 fiscal year, 144 retirees received postemployment healthcare benefits. The District provided required contributions of \$279,815 toward the annual OPEB cost, comprised of claim payments made on behalf of retirees (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling \$1,009,120.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 417,868
Amortization of Unfunded Actuarial Accrued Liability	197,481
Interest on Normal Cost and Amortization	<u>24,614</u>
Annual Required Contribution	639,963
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	<u> </u>
Annual OPEB Cost (Expense)	639,963
Contribution Toward the OPEB Cost	<u>(279,815)</u>
Increase in Net OPEB Obligation	360,148
Net OPEB Obligation, Beginning of Year	<u> </u>
Net OPEB Obligation, End of Year	<u><u>\$ 360,148</u></u>

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, 2008 (the year of implementation), was as follows:

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7/1/07 2007-08	\$ 639,693	43.7%	\$ 360,148

Funded Status and Funding Progress. As of July 1, 2007, the actuarial accrued liability for benefits was \$5,529,370, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$5,529,370 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$118,363,122, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.7 percent.

Actuarial Methods and Assumptions. 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 the 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. 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 initial OPEB actuarial valuation as of July 1, 2007, used the entry age actuarial method to estimate the unfunded actuarial liability and the 2007-08 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4.5 percent per year, and an annual healthcare cost trend rate of 11.5 percent initially for the 2007-08 fiscal year, reduced by 1 percent per year, to an ultimate rate of 5.5 percent after six years. 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, 2008, was 29 years.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

16. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
New School Construction:			
Shadowlawn Elementary:			
Architect	\$ 1,055,160.72	\$ 1,047,563.54	\$ 7,597.18
Construction Manager	18,152,029.98	17,628,789.26	523,240.72
Direct Materials	6,423,959.02	5,850,522.84	573,436.18
Plantation Oaks Elementary:			
Architect	912,500.00	870,427.77	42,072.23
Construction Manager	13,095,502.37	9,227,258.42	3,868,243.95
Direct Materials	5,352,207.63	3,990,597.86	1,361,609.77
Oakleaf High:			
Architect	2,250,000.00	1,350,000.00	900,000.00
Construction Manager	4,919,000.00	822,200.53	4,096,799.47
Direct Materials	266,297.00	163,071.84	103,225.16
Total	\$ 52,426,656.72	\$ 40,950,432.06	\$ 11,476,224.66

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

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 liability is limited to \$100,000 per occurrence for automobile liability, general liability, and property loss coverages. The District's liability for workers' compensation is limited from \$125,000 to \$325,000 per occurrence, depending on the year of occurrence.

EXHIBIT - K (Continued)
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

A liability in the amount of \$2,362,914 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2008.

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2006-07	\$3,038,613.00	\$ 1,563,392.63	\$(909,255.63)	\$ 3,692,750.00
2007-08	3,692,750.00	(537,799.67)	(792,036.33)	2,362,914.00

Health and hospitalization coverage and other coverages deemed necessary by the Board were provided through purchased commercial insurance with minimum deductibles for each line of coverage.

18. SUBSEQUENT EVENTS

On July 31, 2008, the District issued Certificates of Participation, Series 2008, in the amount of \$11,165,000, with an interest rate of 4.76 percent. The Series 2008 proceeds will be used to fund a portion of the new High School "QQQ" (Oakleaf High School) construction cost.

On September 18, 2008, the Board approved a guaranteed maximum price agreement of \$51,366,300 for Oakleaf High School. The construction cost of Oakleaf High School will be funded with capital projects moneys and proceeds from the Certificates of Participation, Series 2008.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**EXHIBIT - L
CLAY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2008**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 810,000.00	\$ 810,000.00	\$ 941,802.87	\$ 131,802.87
State	211,180,369.08	197,248,850.51	197,215,217.71	(33,632.80)
Local:				
Taxes	55,625,200.00	56,302,936.00	56,895,470.74	592,534.74
Miscellaneous	4,636,091.00	4,594,961.09	3,713,228.30	(881,732.79)
Total Revenues	272,251,660.08	258,956,747.60	258,765,719.62	(191,027.98)
Expenditures				
Current - Education:				
Instruction	190,075,138.18	174,328,082.92	169,239,149.87	5,088,933.05
Pupil Personnel Services	12,735,563.41	13,717,899.72	13,212,202.30	505,697.42
Instructional Media Services	5,978,706.46	5,900,033.72	5,861,567.67	38,466.05
Instruction and Curriculum Development Services	4,540,058.53	5,131,596.94	4,934,085.28	197,511.66
Instructional Staff Training	1,478,919.42	2,180,439.91	1,498,555.94	681,883.97
Instruction Related Technology	1,352,014.43	1,456,658.10	1,329,972.90	126,685.20
Board of Education	2,372,905.47	2,306,420.59	765,299.99	1,541,120.60
General Administration	1,014,586.95	871,466.99	864,171.99	7,295.00
School Administration	14,068,846.60	14,756,361.76	14,726,094.94	30,266.82
Facilities Acquisition and Construction	2,616,790.63	1,660,582.61	915,259.16	745,323.45
Fiscal Services	673,845.29	750,827.90	746,192.20	4,635.70
Food Services		51,713.88	51,681.32	32.56
Central Services	4,084,237.08	3,889,617.49	3,862,798.25	26,819.24
Pupil Transportation Services	12,994,420.27	12,647,430.91	12,632,919.21	14,511.70
Operation of Plant	19,841,818.90	19,261,923.94	17,796,822.53	1,465,101.41
Maintenance of Plant	5,764,660.95	5,932,797.77	5,702,699.77	230,098.00
Administrative Technology Services	2,405,441.81	1,691,863.89	1,668,911.26	22,952.63
Community Services	451,322.45	383,588.18	382,729.87	858.31
Fixed Capital Outlay:				
Facilities Acquisition and Construction	866,348.40	1,491,036.22	1,065,646.31	425,389.91
Other Capital Outlay	3,391,150.87	3,857,874.87	2,339,488.50	1,518,386.37
Total Expenditures	286,706,776.10	272,268,218.31	259,596,249.26	12,671,969.05
Deficiency of Revenues Under Expenditures	(14,455,116.02)	(13,311,470.71)	(830,529.64)	12,480,941.07
Other Financing Sources (Uses)				
Operating Transfers In	1,658,400.00	1,758,400.00	1,758,400.00	
Proceeds from Sale of Capital Assets	60,000.00	100,000.00	108,817.52	8,817.52
Insurance Loss Recoveries	40,000.00	340,000.00	316,654.58	(23,345.42)
Operating Transfers Out		(16,093.80)	(2,516,093.80)	(2,500,000.00)
Total Other Financing Sources (Uses)	1,758,400.00	2,182,306.20	(332,221.70)	(2,514,527.90)
Net Change in Fund Balance	(12,696,716.02)	(11,129,164.51)	(1,162,751.34)	9,966,413.17
Fund Balance, July 1, 2007	32,671,399.84	32,671,399.84	32,671,399.84	
Increase in Inventory Reserve		52,051.42	312,754.53	260,703.11
Fund Balance, June 30, 2008	\$ 19,974,683.82	\$ 21,594,286.75	\$ 31,821,403.03	\$ 10,227,116.28

**EXHIBIT - M
CLAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008**

1. EXPENDITURES OVER APPROPRIATIONS IN AN INDIVIDUAL FUND

For the fiscal year ended June 30, 2008, expenditures exceeded appropriations in the following individual fund:

Activity	General Fund		
	Final Budget	Actual	Variance Unfavorable
Other Financing Uses:			
Operating Transfers Out	\$ (16,093.80)	\$ (2,516,093.80)	\$ (2,500,000.00)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CLAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 638,579.58
National School Lunch Program	10.555	300	3,829,685.99
Summer Food Service Program for Children	10.559	323	9,237.22
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)(A)	None	<u>897,370.39</u>
Total United States Department of Agriculture			<u>5,374,873.18</u>
United States General Services Administration:			
Indirect:			
Florida Department of Management Services:			
Donation of Federal Surplus Personal Property	39.003 (2)(B)	None	<u>2,784.62</u>
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	679,531.22
Fund for the Improvement of Education	84.215	N/A	<u>281,321.72</u>
Total Direct			<u>960,852.94</u>
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	6,512,610.61
Special Education - Preschool Grants	84.173	267	174,391.21
University of Florida:			
Special Education - Grants to States	84.027	00070841	433.60
University of South Florida:			
Special Education - Grants to States	84.027	1725-1021-00-H	48,128.85
Washington County District School Board:			
Special Education - Grants to States	84.027	7623005	<u>526.02</u>
Total Special Education Cluster			6,736,090.29
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	30,617.27
Title I Grants to Local Educational Agencies	84.010	212, 222, 224, 226, 228	2,323,357.34
Career and Technical Education - Basic Grants to States	84.048	151, 152	218,863.50
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	101,472.36
Education for Homeless Children and Youth	84.196	127	73,192.90
State Grants for Innovative Programs	84.298	113	53,425.42
Education Technology State Grants	84.318	121	20,847.96
Reading First State Grants	84.357	211	208,509.17
English Language Acquisition Grants	84.365	102	44,284.25
Improving Teacher Quality State Grants	84.367	224	815,270.01
St. Johns River Community College:			
Tech-Prep Education	84.243	21164	<u>37,518.26</u>
Total Indirect			<u>10,663,448.73</u>
Total United States Department of Education			<u>11,624,301.67</u>
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	<u>306,004.78</u>
Total Expenditures of Federal Awards			<u>\$ 17,307,964.25</u>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2007-08 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 received during the 2007-08 fiscal year, including cash-in-lieu of donated food of \$32,398.39. Commodities are valued at fair value as determined at the time of donation.
 (B) Donation of Federal Surplus Personal Property - Represents 23.3 percent of the original acquisition costs of the donated Federal surplus personal property obtained during the 2007-08 fiscal year.



David W. Martin, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



850-488-5534
Fax: 850-488-6975

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Clay County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Clay County District School Board's financial statements. The financial statements of the school internal funds and the Clay County Education Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

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

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit – N. 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 3, 2009



David W. Martin, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



850-488-5534
Fax: 850-488-6975

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

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

Compliance

We have audited the Clay County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2008. 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 the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

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

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We do not consider the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be a material weakness.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit – N. 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 3, 2009

**CLAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559), Title I Grants to Local Educational Agencies (CFDA No. 84.010), and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	\$519,238
Auditee qualified as low-risk auditee?	Yes

**CLAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

ADDITIONAL MATTERS

Finding No. 1: Policies for Reporting Fraud

The District had not developed adequate policies for communicating and reporting known or suspected fraud. Clay County School Board Policy 2.17, *Discipline*, provides that administrative and instructional staff members shall receive and familiarize themselves with the Code of Ethics of the Education Profession in Florida. This policy also requires that District staff report any alleged violation of a school law or rule, and that a report of an alleged violation of school law, rule, or regulation shall be filed with the Assistant Superintendent for Human Resources, who will direct the investigation. Although this policy addresses professional conduct, it does not clearly identify actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigation, and consequences for fraudulent behavior.

Effective fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Furthermore, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority. Subsequent to our inquiries, District personnel indicated that the District is in the process of developing a comprehensive policy to adequately encompass procedures for communicating and reporting known or suspected fraud.

Recommendation: To aid in the detection and prevention of fraud, the District should continue its efforts to develop policies for communicating and reporting known or suspected fraud to the appropriate authority.

Finding No. 2: Collection of Social Security Numbers

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

Effective October 1, 2007, Section 119.071(5)(a), Florida Statutes, as amended by Chapter 2007-251, Laws of Florida, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or imperative for the performance of

the District's duties and responsibilities as prescribed by law. Additionally, this section requires that, as the District collects an individual's SSN, it must provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this section provides that SSNs collected by the District may not be used by the District for any purpose other than the purpose provided in the written statement. This section also requires that the District review whether its collection of SSNs is in compliance with the above requirements; immediately discontinue the collection of SSNs for purposes that are not in compliance; and certify to the President of the Senate and the Speaker of the House of Representatives its compliance with these requirements no later than January 31, 2008. Further, by this date, the District was required to file a report with the Executive Office of the Governor, the President of the Senate, and the Speaker of the House of Representatives listing the identity of all commercial entities that have requested SSNs during the preceding calendar year and the specific purposes stated by each commercial entity regarding its need for SSNs. If no disclosure requests were made, the District was required to so indicate.

Our inquiry and review disclosed that the District collected SSNs from students, employees and prospective employees, and certain contracted vendors for various purposes such as for student enrollment, employee insurance, withholding taxes, citizenship verification, and background checks. However, contrary to the above law, the District did not, of record, conduct a review and evaluation of the reasons for collection of SSNs and provide written statements notifying individuals of the purpose for collection. Further, contrary to the above law, the District did not certify to the Legislature that it complied with Section 119.071(5)(a), Florida Statutes, or report to the Governor and Legislature the identity of all commercial entities that requested SSNs during the preceding calendar year. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Subsequent to our inquiries, District management initiated actions to comply with the requirements of Section 119.071(5)(a), Florida Statutes, including the development and approval of a Board policy addressing SSNs, preparation of written statements indicating the purpose for collecting SSNs, certifying its compliance with Section 119.071(5)(a), Florida Statutes, to the Legislature, and reporting to the Governor and Legislature that no commercial entities requested SSNs during the 2007 calendar year.

Recommendation: The District should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes, and properly monitor its collection and use of social security numbers.

Finding No. 3: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2007-72, Laws of Florida, Specific Appropriation 125, requires that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. FDOE reporting procedures provide 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. FDOE procedures for reporting instructional hours 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.

Controls over enrollment reporting could be improved. Our tests of District records for 30 students enrolled in 71 classes disclosed the following:

- The District incorrectly reported, due to inputting errors, the instructional hours of four students in our tests that participated in an adult high school diploma program referred to as Jump Start. The program included reportable hours in both adult high school and on-the-job training courses, and the inputting errors occurred when the District attempted to correct certain course codes, resulting in 626 hours overreported. Also, the District incorrectly calculated, due to oversights, other course hours for the four students in our tests resulting in 95 net overreported hours.
- The District inadvertently reported instructional hours for days when classes were not held, such as holidays and before class start dates, resulting in overreported hours ranging from 2.5 to 38, and totaling 152 hours, for 16 students enrolled in 25 classes.
- The District incorrectly reported instructional hours for students enrolled in GED preparatory courses because of manual calculation errors in determining the number of hours to input. Hours were overreported for two students by 22.5 and 15 hours, respectively.
- Contrary to the withdrawal standard (six consecutive absences) set by FDOE, the District's procedures provided for GED students to be withdrawn only after two months of nonattendance. While our tests did not disclose instances in which student withdrawals after six consecutive absences impacted the number of hours reported to FDOE, the District procedures could result in hours overreported.

We provided District personnel details of the calculated instructional contact hours included in our tests, and the District agreed with our calculations. Given the exceptions cited above, the full extent of the course hours overreported was not readily apparent. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly and be accurately presented in FDOE's records.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to FDOE. Further, the District should determine the extent of hours overreported and contact FDOE for proper resolution.

Finding No. 4: Board Member Voting Conflict

Section 112.3143(3)(a), Florida Statutes, provides that no local public officer shall vote in an official capacity upon any measure which would inure to his or her special private gain or loss, or which he or she knows would inure to the special private gain or loss of a relative or business associate of the public officer. Such public officer shall, prior to the vote being taken, publicly state the nature of the officer's interest in the matter from which he or she is abstaining from voting and, within 15 days after the vote occurs, disclose the nature of his or her interest as a public record in a memorandum filed with the person responsible for recording the minutes of the meeting, who shall incorporate the memorandum in the minutes.

Contrary to the provisions of Section 112.3143(3)(a), Florida Statutes, a District School Board Member voted on April 17, 2008, to approve a guaranteed maximum price construction management agreement with a firm that indicated it was subcontracting with a company employing the Board Member's spouse, who was also the Vice-President and a Director of the subcontracted company. Upon inquiry, we were advised by the Board's attorney that the Board member had requested the attorney review the facts of the matter to determine whether there was a conflict which would require abstaining from voting. The Board attorney indicated that, based on his

review, there was no special gain to the School Board member or the member's spouse, or a conflict that would require abstention. In response to our inquiry, the Board attorney indicated that, based on his current understanding, there probably should have been an abstention and that procedures have been revised to ensure compliance with applicable abstention and reporting requirements when such voting conflicts arise.

Recommendation: The District should continue its efforts to ensure compliance with the requirements of Section 112.3143(3)(a), Florida Statutes, when voting conflicts arise.

Finding No. 5: Information Technology – Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

Our audit disclosed that, although informal procedures existed and were utilized to manage and support the network and financial application, the District lacked written policies and procedures for the following IT security and configuration management functions:

- Requesting, prioritizing, and authorizing application system changes, including patches and updates.
- Administering vendor-supplied user identifications (IDs), Guest accounts, administrative passwords, and security devices (such as routers and firewalls).
- Creating, maintaining, changing, and reviewing user IDs and associated access privileges.
- Resetting passwords, including positive user identification measures.
- Reviewing security logs.

Without written policies and procedures, the risk is increased that IT security and configuration management controls may not be followed consistently and in a manner pursuant to management's expectations.

Recommendation: The District should establish written policies and procedures to document management's expectations for the performance of the above-listed IT security and configuration management functions.

Finding No. 6: Information Technology – Access Privileges

Effective restriction of access to authorized employees permits access to application and systems software processing functions solely for purposes of performing assigned duties and precludes unauthorized employees from gaining access.

Our audit disclosed instances of inappropriate or unnecessary access privileges, as described below:

- Certain employees within the Business Affairs Division had the capability to perform incompatible duties. Specifically, eight employees were granted access to add and update vendor information, add and update purchase orders, pay invoices, and print checks within the financial application. Five of the eight employees were granted additional access to process journal entries. The absence of a clear division of roles and responsibilities allows the possibility for one employee to control all critical stages of a process, increasing the risk of unauthorized or erroneous transactions being processed without timely detection. In response to

audit inquiry, District management indicated that the employees' access was reviewed and further restricted, where appropriate. The District also provided information regarding compensating controls, such as reviews of bank and investment statement reconciliations, that had been implemented where access could not be further restricted without limiting the employee from performing a stipulated job function.

- Twenty-four employees within the District were granted access within the domain administrator group used to administer the District's network. Domain administrator access privileges are typically limited to employees who are responsible for performing network administration duties and who require complete access to network and server resources. The complete network access capabilities provided by the group suggested a need for the District to review the responsibilities of each employee in the group and determine if additional access groups with more limited network access capabilities would be warranted. When complete network access privileges are unnecessarily granted, the risk is increased that unauthorized network hardware, software, or configuration changes will occur and not be timely detected.
- One of two former employees whose access we tested and who terminated employment with the District on or before June 30, 2008, retained access capabilities to the finance application as of July 15, 2008. Subsequent to audit inquiry, the former employee's access was disabled. District staff also informed us that software has been acquired to promptly identify and disable computer access privileges; however, as of January 26, 2009, the software had not been implemented. Without adequate procedures to ensure the timely revocation of access privileges of former employees, the risk is increased of unauthorized access to the District's information resources.

Recommendation: The District should continue to evaluate employee access privileges in conjunction with assigned duties to ensure that privileges and assignments enforce an appropriate separation of duties. Should it not be practicable to further restrict access because of backup responsibilities, the District should implement alternate procedures to mitigate the risk. This may include, for example, an independent review of the activities performed by employees with access capabilities that do not enforce an appropriate separation of duties. In addition, the District should continue its efforts to enhance controls over the timely deletion of IT access privileges of former employees to minimize the risk of compromising the District's data and IT resources.

Finding No. 7: Information Technology – 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 in the area of user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency: United States Department of Agriculture****Pass-Through Entity: Florida Department of Education****Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$290,868**

Program Income – Exclusive Beverage Contract. Contrary to Federal Regulations, the District did not correctly allocate program income from its exclusive beverage contract to the nonprofit school food service (food service program) account. The Board approved a five-year renewal of an exclusive beverage contract effective for the period July 1, 2005, through June 30, 2010, to provide beverage products to the District's schools and its food service program. The exclusive beverage contract also provides for certain cash and noncash incentives to District schools and the food service program, which totaled \$453,677 for the 2007-08 fiscal year.

Federal regulations require that if the food service program is included in a properly procured long-term beverage contract that includes incentives, the incentives which represent program income must be allocated properly to the food service program, and that the full value of all incentives (cash and noncash) would be used to determine the amount of program income resulting from the contract. Additionally, the portion of the full value of these incentives allocable to the school food service program would be deposited into the food service account. Failure to provide the food service program with its allocated share of cash or noncash incentives would circumvent the proper allocation of program income to the food service program, contrary to Title 7, Section 3016.25, Code of Federal Regulations.

During the 2007-08 fiscal year, the District allocated \$49,390 received from the exclusive beverage contractor to the food service program, and the remainder was provided primarily to District schools (\$389,287) and the District's General Fund hospitality account (\$15,000). However, a year-end exclusive beverage contract review report provided by the exclusive beverage contractor indicated that approximately 75 percent of the beverage products were used in the District's school food service program and 25 percent were used in the District's schools. In these circumstances, the District should have allocated 75 percent to the food service program, or \$340,258. As a result of the improper allocation of cash and noncash incentives, \$290,868 was deposited outside the food service program account and, therefore, represents program questioned costs. Inquiry with District personnel indicated that the District was of the opinion it should not have to share the proceeds with the food service program since the District would have received the cash and noncash incentives, under the terms of the contract, whether any beverages were sold by the program or not. However, since 75 percent of the beverage products sold was used in the food service program, that percentage of the proceeds should have been allocated to the program.

Recommendation: The District should document to the grantor (Florida Department of Education) that program income attributable to the exclusive beverage contract was properly allocated to the food service program, or the questioned costs of \$290,868 should be restored to the program. The District should also enhance its procedures to ensure that future income from the exclusive beverage contract is properly allocated and deposited to the food service program.

District Contact Person: Dr. George Copeland, Assistant Superintendent for Business Affairs

Follow-up to Management's Response:

In its response to Federal Awards Finding No. 1, the District provides various factors to consider in calculating the amount of program income to distribute to the food service program; however, District records did not evidence a determination of how these factors would impact the income allocation from the exclusive beverage contractor to the program.

Federal Awards Finding No. 2:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Competitive Food Sales. Instances were noted at three high schools in which competitive food and beverage items were sold contrary to Federal and State rules. Title 7, Section 210.11, Code of Federal Regulations, requires that State agencies and school food authorities establish such rules or regulations as are necessary to control the sale of foods in competition with lunches served under the National School Lunch Program. State Board of Education Rule 6A-7.0411(2)(c), Florida Administrative Code, provides that carbonated beverages may be sold at any time in high schools by a school activity or organization authorized by the principal if a beverage of 100 percent fruit juice is sold at each location where carbonated beverages are sold. However, carbonated beverages may not be sold where breakfast or lunch is being eaten or served.

Our review of the District’s compliance with the competitive food and beverage sales requirements at Fleming Island High, Middleburg High, and Ridgeview High Schools during September 2008 disclosed that carbonated beverages were sold to students throughout the school day; however, not all locations had 100 percent fruit juice available for sale where the carbonated beverages were sold. Also, at Ridgeview High School, carbonated beverages were sold in the same location where lunches were served. A similar finding was noted in our report No. 2008-136.

Subsequent to our inquiries, the District revised its procedures to require that school personnel accompany the beverage contractor to ensure that 100 percent fruit juice is available in all beverage vending machines when they are restocked.

Recommendation: The District should continue its efforts to ensure compliance with the Federal regulations and State rules relating to the sale of foods and beverages in competition with the National School Lunch Program.

District Contact Person: Dr. George Copeland, Assistant Superintendent for Business Affairs

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and in the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2008-136.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit – N.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*CLAY COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008*

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
2007-149 (2)	National School Lunch Program (CFDA No. 10.555) - Special Tests and Provisions - Competitive Food Sales	The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items.	Not corrected	The District will assign staff at each school to confirm machines are stocked in compliance with requirements at time of delivery.
2008-136 (1)	Improving Teacher Quality State Grants (CFDA No. 84.367) - Level of Effort - Supplement Not Supplant	The District did not document that a portion of a technology specialist's salary and benefits paid from the grant met the supplement not supplant compliance requirement, resulting in questioned costs totaling \$22,904.	Corrected	
2008-136 (2)	Improving Teacher Quality State Grants (CFDA No. 84.367) - Allowable Costs/Cost Principles - Documentation of Employee Time and Effort	Enhancements were needed in District procedures for documenting salaries and benefits charged to the grant.	Corrected	
2008-136 (3)	Title I Grants to LEAs (CFDA No. 84.010); State Grants for Innovative Programs (CFDA No. 84.298); Education Technology State Grants (CFDA No. 84.318); Improving Teacher Quality State Grants (CFDA No. 84.367) - Allowable Costs/Cost Principles - Contract Provisions	Improvements were needed in District procedures to provide for required provisions in contracts funded with Federal moneys.	Corrected	
2008-136 (4)	National School Lunch Program (CFDA No. 10.555) - Special Tests and Provisions - Competitive Food Sales	The District did not comply with applicable Federal regulations and State rules relating to the sale of competitive food and beverage items.	Not corrected	The District will assign staff at each school to confirm machines are stocked in compliance with requirements at time of delivery.

**EXHIBIT – N
MANAGEMENT’S RESPONSE**



Ben Wortham
Superintendent of Schools

SCHOOL DISTRICT OF CLAY COUNTY

900 Walnut Street
Green Cove Springs, Florida 32043

Telephones:
904/284-6500 (GCS) 904/272-8100 (OP)
1-888-663-2529 (KH)
FAX 904/284-6535 TDD 904/284-6584

BOARD MEMBERS

- Carol Vallencourt
District 1
- Carol Studdard
District 2
- Charles Van Zant, Jr.
District 3
- Frank Farrell
District 4
- Lisa Graham
District 5

March 3, 2009

Mr. David W. Martin, CPA
Auditor General
Room 476A Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Clay County District School Board’s written response to the Preliminary and Tentative Audit Findings for the Fiscal Year Ended June 30, 2008.

Dear Auditor General Martin:

Pursuant to the List of Preliminary and Tentative Audit Findings and Recommendations for the Clay County District School Board for the Fiscal Year ended June 30, 2008, please accept the following written response as requested. In accordance with your directions we are submitting a written statement of explanation concerning all of the findings and our actual or proposed corrective actions.

Finding No. 1: Policies for Reporting Fraud

To aid in the detection and prevention of fraud, the School District of Clay County is presently working to draft a School Board policy to clearly communicate processes for reporting known or suspected fraud. Once researched fully and drafted, the new policy will clearly identify actions constituting fraud, reporting procedures for suspected fraud, responsibility for fraud investigations, and consequences for fraudulent behavior. A comprehensive policy will be advertised and adopted to increase the likelihood that known or suspected fraud will be reported to the proper authority.

Finding No. 2: Collection of Social Security Numbers

The School District of Clay County has conducted a review and evaluation of the reasons for collection of social security numbers and provided written statements notifying individuals of the purpose for collection. Moreover, the District recognizes its annual responsibility to certify to the Legislature compliance with Section 119.071(5)(a) of Florida Statutes. Ongoing commitment is pledged to properly monitor collection and use of social security numbers to ensure their confidential status and protect individuals against financial or personal harm.

Finding No. 3: Adult General Education Courses

The School District of Clay County’s Adult Education Office has replaced the “Jump Start” program with a GED Preparatory Class in order to be in compliance, and to follow DOE guidelines concerning entrance and completion. The issue of the District inadvertently reporting instructional hours when classes were not held, has been corrected with the desisted Jump Start Program. This program operated on a different calendar than the School District, holding classes on a school holiday, inservice day or a planning day which resulted in the reporting of those hours. The over reporting of the hours for students enrolled in the GED preparatory courses was not due to manual calculation errors. Our TERMS System automatically calculated the data for reporting. The District’s Program Specialist and TERMS experts have been consulted and are presently working on a solution to this problem. In response to the attendance policy set forth by FDOE, students were not in class due to the term ending July 24, 2007 until August 26, 2007, the beginning of the new term. The information was submitted for timeline purposes only. Future reportings will be more closely monitored to avoid over reporting of hours and to accurately submit correct data for FDOE’s records.

Page 2
 Audit Response
 March 3, 2009

Finding No. 4: Board Member Voting Conflict

The School District of Clay County shall continue its efforts and will ensure their compliance with Florida Statute 112.3143(3)(a), when such voting conflicts arise requiring abstention.

Finding No. 5: Information Technology – Written Policies and Procedures

The School District of Clay County is in the process of establishing written policies and procedures to document management's expectations for performance in IT's security and management functions.

Finding No. 6 – Information Technology – Access Privileges

The District has taken action to restrict access where appropriate and had mitigating controls in place where necessary in regard to the Business Affairs Division. A policy will be developed identifying a privilege strategy that will restrict the authority to acceptable levels while allowing school based personnel the ability to provide required service. Furthermore, a policy will be developed to insure Human Resources notifies Information Services in the event of terminations.

Finding No. 7 – Information Technology – User Authentication

The District enhanced security controls in the area of user authentication and changed its procedure effective November 24, 2008, to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Federal Awards Finding No. 1: Program Income – Exclusive Beverage Contract.

The School District of Clay County is in its 9th year of an "Exclusive Beverage" contract, with the current contract concluding June 30, 2010. Not until this audit have we been informed that the distribution of income was not in compliance with Federal Guidelines. The auditors cite Federal Regulations that program income must be distributed to School Food Services based on the percent of their sales to the total sales. However, we respectfully disagree with the analysis of determining what that income amount is, and the timing of when payment should be made. Please consider the following:

- The district in 2007-08 received \$6,000 for scholarships (\$1,000 per high school). This has been allocated to our 6 high schools. This amount is earmarked specifically as scholarships and only for high schools. This cannot be distributed based on sales/volume incentives.
- The Division of Business Affairs was given \$2,000 as a fee to administer the contract for the district. However, this fee was distributed to all the schools based on enrollment and the funds must be expended on behalf of students. These fees were allocated to schools and the amount was not based on sales/volume incentives.
- The district received a \$25,000 fee as a signing bonus, and a \$90,000 Sponsorship Fee that was distributed in full to schools based on enrollment except for \$15,000 that was retained at the district level to be distributed to the divisions and Superintendent's office as a hospitality fund. The \$100,000 was spent on behalf of students. These fees were negotiated on behalf of the schools and not based on sales/volume incentives.
- The district received an Exclusive Rights Fee of \$278,614. This fee was based on enrollment in the amount of \$20/student in high school, \$5/student in junior high, and \$1/student in elementary school. All of these funds were distributed to the schools and must be expended on behalf of students. None of these funds were based on sales/volume incentives.
- 95% of the volume incentive fees (based on sale of products) were distributed to School Food Services.
- All fees described (except for the \$15,000) have been allocated to schools and have been expended on behalf of students.
- The district has not charged School Food Services the full cost of direct and indirect costs in order for their fund balance to meet state guidelines.

Page 3
Audit Response
March 3, 2009

- The Auditor's percentage calculations of 75% allocated as sales from School Food Services are questioned since Pepsi does not take into account all products purchased in the district such as concession purchases for athletics and bulk sales with clubs. The result is that the 75/25% allocation is based on partial or incomplete information.
- The Exclusive Beverage contract and the method in which the School District distributes all revenue was approved by the School Board.

Federal Awards Finding No. 2: Noncompliance with National School Lunch Program

The District will continue its efforts to ensure compliance with the Federal regulations and State rules relating to the sale of foods and beverages in competition with the National School Lunch Program. The District has revised its procedures to require that school personnel accompany the beverage contractor to ensure that 100% fruit juice is available in all beverage vending machines when they are restocked and at each location where carbonated beverages are sold.

This response is being submitted electronically in Word and PDF format as requested.

Sincerely,



Ben H. Wortham
Superintendent of Schools