SPECIAL-PURPOSE FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND OTHER FINANCIAL INFORMATION, AND OTHER REPORTS

Hillsborough County, Florida
Sheriff
Year Ended September 30, 2006

Hillsborough County, Florida
Sheriff

Special-Purpose Financial Statements, Required Supplementary Information, Other Information, and Other Reports

Year Ended September 30, 2006

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Report of Independent Certified Public Accountants

The Honorable David A. Gee
Sheriff
Hillsborough County, Florida

We have audited the accompanying special-purpose financial statements of the general fund and the aggregate remaining fund information of Hillsborough County, Florida, Sheriff (the Sheriff), as of and for the year ended September 30, 2006, as listed in the table of contents. These special-purpose financial statements are the responsibility of the management of the Sheriff. Our responsibility is to express opinions on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 special-purpose financial statements are free of material misstatement. We were not engaged to perform an audit of the Sheriff's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying special-purpose financial statements referred to above were prepared for the purpose of complying with, Section 218.39, *Florida Statutes*, and Chapter 10.557(3), *Rules of the Auditor General for Local Government Entity Audits.* These financial statements are not intended to be a complete presentation of the Sheriff's financial position and its changes in financial position, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States. Additionally, the special-purpose statements present only the Sheriff and do not purport to, and do not, present fairly the financial position of Hillsborough County, Florida, as of September 30, 2006, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund and the aggregate remaining fund information of Hillsborough County, Florida, Sheriff as of September 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 budgetary comparison schedules on page 19 are not a required part of the special-purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 special-purpose financial statements. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Sheriff, management, The Board of County Commissioners, and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

December 6, 2006

Special-Purpose Financial Statements

Hillsborough County, Florida
Sheriff

Special-Purpose Balance Sheet – Governmental Funds

September 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 43,308,409	$ 4,619,793	$ 47,928,202
Receivables	366,717	142,966	509,683
Due from other governments	1,176,747	4,706	1,181,453
Due from the Board of County Commissioners	71,495	86,000	157,495
Inventories	–	142,452	142,452
Total assets	$ 44,923,368	$ 4,995,917	$ 49,919,285
Liabilities and fund balances			
Liabilities:			
Accounts payable	$ 9,577,358	$ 186,789	$ 9,764,147
Wages and benefits payable	5,233,487	–	5,233,487
Due to other governments	3,427,241	12,951	3,440,192
Deferred revenue	–	2,095,229	2,095,229
Due to the Board of County Commissioners	26,685,282	630,859	27,316,141
Total liabilities	44,923,368	2,925,828	47,849,196
Fund balances:			
Reserved for child protection investigations	–	42,669	42,669
Reserved for canteen fund	–	1,884,968	1,884,968
Reserved for inventories	–	142,452	142,452
Total fund balances	–	2,070,089	2,070,089
Total liabilities and fund balances	$ 44,923,368	$ 4,995,917	$ 49,919,285

See accompanying notes.

Hillsborough County, Florida
Sheriff

Special-Purpose Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Intergovernmental revenue	$ 322,754,483	$ 2,003,427	$ 324,757,910
Changes for services	5,900,758	7,772,006	13,672,764
Operating grants	2,344,315	1,707,631	4,051,946
Interest income	2,717,299	131,915	2,849,214
Miscellaneous income	2,041,251	387,558	2,428,809
Fines and forfeits	–	1,287,207	1,287,207
Total revenues	335,758,106	13,289,744	349,047,850
Expenditures:			
Current:			
General government:			
Personal services	10,438,132	–	10,438,132
Operating	246,733	–	246,733
Total general government	10,684,865	–	10,684,865
Public safety:			
Personal services	217,533,288	6,036,310	223,569,598
Operating	61,348,228	3,340,119	64,688,347
Capital outlay	19,182,080	2,136,657	21,318,737
Total public safety	298,063,596	11,513,086	309,576,682
Total expenditures	308,748,461	11,513,086	320,261,547
Excess of revenues over expenditures	27,009,645	1,776,658	28,786,303
Other financing uses:			
Transfer out:			
Distribution of excess appropriations to Board of County Commissioners	(27,009,645)	(1,976,781)	(28,986,426)
Net change in fund balances	–	(200,123)	(200,123)
Fund balances, beginning of year	–	2,270,212	2,270,212
Fund balances, end of year	$ –	$ 2,070,089	$ 2,070,089

See accompanying notes.

Hillsborough County, Florida
Sheriff

Special-Purpose Balance Sheet – Agency Fund

September 30, 2006

Assets	
Cash and investments	$ 4,601,950
Accounts receivable	1,581
Due from other governmental agencies	23,292
Total assets	$ 4,626,823
Liabilities	
Due to other governmental agencies	$ 3,815
Deposits	4,623,008
Total liabilities	$ 4,626,823

See accompanying notes.

Hillsborough County, Florida
Sheriff

Notes to Special-Purpose Financial Statements

September 30, 2006

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting principles and policies used in the preparation of the accompanying special-purpose financial statements.

Reporting Entity—The Hillsborough County, Florida, Sheriff (the Sheriff) is a separate constitutional officer as provided by Article VIII, Section 1(d), Florida Constitution and for financial reporting purposes by Chapter 218, *Florida Statutes*. In addition, for financial reporting purposes, it is deemed to be a part of the primary government of Hillsborough County, Florida (the County), and is, therefore, included as such in the Hillsborough County, Florida, Comprehensive Annual Financial Report (CAFR).

Basis of Presentation—These special-purpose financial statements presented include the general fund, non-major special revenue funds and the agency fund of the Sheriff's Office. The accompanying special-purpose financial statements were prepared for the purposes of complying with Section 218.39, *Florida Statues*, and Chapter 10.557(3), *Rules of the Auditor General for Local Governmental Entity Audits*.

Chapter 10.556(5), *Rules of the Auditor General for Local Governmental Entity Audits*, requires the Hillsborough County, Florida Sheriff financial statements to present only fund financial statements. Accordingly, due to the omission of government-wide financial statements and related disclosures, including a management's discussion and analysis, these financial statements do not constitute a complete presentation of the financial position of the Hillsborough County, Florida Sheriff as of September 30, 2006, and the changes in its financial position for the year then ended, in conformity with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, but otherwise constitute financial statements prepared in conformity with U.S. generally accepted accounting principles.

1. Summary of Significant Accounting Policies (continued)

The Sheriff reports the following major governmental fund:

The General Fund is used to account for all revenue and expenditures applicable to the general operations of the Sheriff that are not required either legally or by accounting principals generally accepted in the United States to be accounted for in another fund.

Additionally, the Sheriff reports the following fiduciary fund type:

General Agency Fund—Agency funds are custodial in nature and do not involve measurements of results of operations (assets equal liabilities). The Agency fund accounts for cash bonds and other funds held by the Sheriff as a trustee.

Basis of Accounting—Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the special-purpose financial statements. Basis of accounting refers to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. The Sheriff considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the liability is incurred except for accumulated sick and vacation pay, which are not recorded until paid. Agency funds use the full accrual basis of accounting.

Substantially all of the Sheriff's funding is appropriated by the Board. In applying the "susceptible to accrual" concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Sheriff; therefore, revenues are recognized when the expenditures have been incurred. Grant revenues are recorded in this manner. In the other, monies are generally unrestricted and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if measurable and available to finance expenditures of the current period.

1. Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents and Investments—Cash consists of checking and savings accounts, collectively designated as cash deposits. Cash deposits are carried at cost.

The Sheriff deposits cash in qualified public depositories. The deposits are fully insured by the Federal Deposit Insurance Corporation and/or secured by the multiple financial institution collateral pool established under Chapter 280, *Florida Statutes*. In accordance with these statutes, qualified public depositories are required to pledge eligible collateral in varying percentages. Any losses to public depositors are covered by applicable deposit insurance, by the sale of pledged securities, and if necessary, by assessments against other qualified public depositories.

Florida Statutes, Section 218.415, authorizes the Sheriff to invest in obligations of the U.S. government, its agencies and instrumentalities, and certain other investments. Investments are stated at fair value.

Compensated Absences—In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Sheriff determines the liability for compensated absences, as well as certain other salary-related costs associated with the payment of compensated absences that are recorded and reported by the County in the basic financial statements. Vacation leave is accrued as a liability as the benefits are earned by the employees. Sick leave is accrued as a liability as the benefits are earned by the employees, but only to the extent that it is probable that the Sheriff will compensate the employees for the benefits through cash payments at termination or retirement.

The Sheriff's sick time payable liability at September 30, 2006, consisted of two parts. Hillsborough County Civil Service Rules state that sick leave termination payments are to be made under two conditions. Compensation for employees in "Plan A" includes a sick leave payment at termination for all hours of sick time accrued up to 480 hours and half of the sick time accrued over 960 hours. A liability is recorded for each employee in Plan A based on the employee's hourly pay rate. Compensation for employees in "Plan B" includes a sick leave payment at termination for the employee's unused sick leave hours from February 2, 1997, with payment only for each hour of sick time accrued up to 480 hours and half of the sick time accrued over 960 hours. A liability is recorded for each employee who has a termination payment under Plan B. Employees in Plan B hired after February 2, 1997, will not receive a sick leave payment at termination, so no sick leave liability is recorded for these employees.

1. Summary of Significant Accounting Policies (continued)

The compensated absences liability also included other salary-related costs incrementally associated with the payment of compensated absences such as the Sheriff's share of Social Security and Medicare taxes as well as the Sheriff's required pension contributions to the Florida Retirement System.

Inventories—Inventories consist primarily of materials and supplies that are valued at the lower of cost or market value using the weighted-average cost method. Inventories of the general fund are accounted for under the purchases method, whereby the cost is recorded as an expenditure when purchased. Inventories of non-major governmental funds are accounted for under the consumption method of accounting in which inventory acquisitions are recorded in inventory initially and charged as expenditures when used. Therefore, the fund balance is reserved for the amount of inventory existing at year-end.

Capital Assets—Capital assets, which include vehicles and equipment, are recorded as capital outlay expenditures in the Governmental Funds at the time goods are received and a liability is incurred. These assets are then capitalized at cost in the statement of net assets as part of the basic financial statements of the County. Capital assets acquired under capital leases are capitalized at cost in the statement of net assets of the County at the time the assets are received. Donated and confiscated capital assets are recorded in the statement of net assets of the County at fair value at the time received. Capital assets are depreciated using the sum of the years' digits method over three to 10 years. The depreciation expense is recorded in the statement of activities as part of the basic financial statements of the County.

Refund of "Excess Fees"—*Florida Statutes* provide that the excess of the Sheriff's appropriations over expenditures held by the Sheriff at the end of the fiscal year are to be refunded to the Board. The amount of unrestricted excess at the end of the fiscal year is reported as a liability in the balance sheet and the transfer and distribution of total excess revenues are reported a transfer out (other financing use) in the special-purpose statement of revenues, expenditures and changes in fund balances.

2. Cash, Cash Equivalents, and Investments

At September 30, 2006, the carrying balances totaled $57,933 for petty cash and cash held at jails, and $46,138,779 for deposits. The bank balances consisted of $49,118,452 for deposits. Bank balances are fully insured in accordance with Section 280, *Florida Statutes*, which establishes the multiple financial institution collateral pool. Investment balances consisted of investments held by the State Board of Administration with a carrying value and fair value of $6,333,440.

Florida Statute 219.075 authorizes the Sheriff to invest surplus funds in the following:

a. The State of Florida's Local Government Surplus Funds Trust Fund (SBA Pool).

b. Negotiable direct obligations of the United States government or negotiable obligations whose principal and interest are unconditionally guaranteed by the United States government.

c. Interest-bearing deposits or savings accounts in state banks, national banks doing business in Florida, as well as savings and loan associations under state supervision and savings and loan associations under federal supervision which are located in the state. Any of the deposits in this category must be secured by collateral as prescribed by law.

d. Securities of, or other interests in, any open-ended or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to United States government obligations and to repurchase agreements fully collateralized by such United States government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

The Sheriff invested funds throughout the year with the Local Government Surplus Funds Investment Pool Trust Fund (SBA Pool) (the Surplus Funds Investment Pool), an investment pool administered by the State Board of Administration of Florida, which is carried at amortized cost. The fair value of the Sheriff position in the pool is the same as the value of the pool shares.

2. Cash, Cash Equivalents, and Investments (continued)

Throughout the year and as of September 30, 2006, the Surplus Funds Investment Pool contained certain floating and adjustable rate securities which were indexed based on prime rate and/or one- and three-month London Inter Bank Offering Rate (LIBOR) rates.

There is a risk of loss of interest on the investments if there are changes in the underlying indexed base. The Surplus Funds Investment Pool met the criteria to be a "2a7-like" pool, as defined in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and is permitted to report investments at amortized cost. The SBA Pool met the criteria to be a "2a7-like" pool, as defined in GASB 31, Certain Investments and External Investment Pools, and is permitted to report investments at amortized cost. A 2a7-like pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the regulations set forth in the SEC's Rule 2a7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the SBA Pool operates essentially as a money market fund and is not categorized as to custodial risk according to the criteria set forth in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Custodial Credit Risk

At September 30, 2006, the Sheriff's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

Credit Risk

The Sheriff's policy is to follow the guidelines in Section 219.075, *Florida Statutes*, regarding the deposit of funds received and the investment of surplus funds. Sections 219.075 and 218.415, *Florida Statutes*, authorize the Sheriff to invest in the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act; Securities and Exchange Commission registered money market funds with the

2. Cash, Cash Equivalents and Investments (continued)

highest credit quality rating from a nationally recognized rating agency; direct obligations of the United States Treasury; federal agencies and instrumentalities, or interest-bearing time deposits and savings accounts held in federal or state-chartered banks and savings and loan associations doing business in Florida, provided that any such deposits are secured by collateral as may be prescribed. Additionally, *Florida Statutes* allow local governments to place public funds with institutions that participate in a collateral pool under Florida Security for Public Deposits Act. The pool is administered by the State Treasurer who may make additional assessments to ensure that no public funds will be lost.

At September 30, 2006, substantially all of the Sheriff's investments were in the SBA Pool administered by the State Board of Administration, an investment pool not rated by a nationally recognized statistical rating organization.

3. Accounts Receivable

Accounts receivable are amounts due to the Sheriff from non-governmental entities. Most of the receivable recorded in the general fund is a pending refund for overpayment of workers' compensation coverage. Most of the receivable recorded in non-major governmental funds is a receivable due to the jail inmate canteen fund and is for telephone commission earned during September 2006.

Funds due from other governments are amounts due from governmental entities other than the Board of County Commissioners and are owed to the Sheriff as reimbursement of expenditures covered under a grant, police services rendered under a contractual agreement, reimbursement of task force expenditures, or reimbursement for the cost of housing federal prisoners.

4. Capital Assets

Capital assets are recorded and capitalized at cost in the statement of net assets as part of the basic financial statements of the County.

4. Capital Assets (continued)

A summary of changes in capital assets follows:

	Balance September 30, 2005	Increases	Decreases	Balance September 30, 2006
Vehicles and equipment	$ 88,598,926	$ 20,617,370	$ (18,454,335)	**$ 90,761,961**
Accumulated depreciation	(62,940,146)	(12,651,504)	17,915,273	**(57,676,377)**
Capital assets, net	$ 25,658,780	$ 7,965,866	$ (539,062)	**$ 33,085,584**

The land and buildings used by the Sheriff such as the main office building, garage, jails and radio maintenance facility are provided by the Board. Except for an interlocal lease agreement for land used at the practical training facility, the Board provides the land and buildings at no cost.

5. Accounts Payable

Accounts payable in the governmental funds are amounts owed due to transactions with various vendors. Funds due to the Board of County Commissioners are amounts due to the Hillsborough Board of County Commissioners. Funds due to other governments are amounts due to governmental entities other than the Board of County Commissioners. Deposits are funds held in trust that are due to individuals.

6. Lease Obligations

The Sheriff occupies branch offices and pays rent under operating leases at various locations of more than one year. Additionally, the Sheriff operates a practical training facility in southeastern Hillsborough County on land owned by the Board and leases the land under an interlocal lease agreement. Rent expenditures for the fiscal year ended September 30, 2006, were $215,817.

6. Lease Obligations (continued)

Minimum future lease payments on operating leases with more than one year remaining at September 30, 2006, are as follows:

2007	$ 811,777
2008	820,676
2009	805,268
2010	660,279
2011	650,233
2012-2036	14,124,900
Total minimum lease payments	$ 17,873,133

These leases are cancelable if funds are not appropriated for their purpose and are not enforceable against a new administration with the exception of one lease agreement.

In July of 2006, the Sheriff entered into a lease/interlocal agreement with Hillsborough County for office space, adjacent land, and parking lots. The terms of the lease/interlocal agreement require the Sheriff to pay the County $16,949,880 by making monthly lease payments for 30 years. The agreement requires that the payments be made from non-ad valorem funds such as grant or special revenues. The agreement recognizes that the ability to make such a payment is subject to funds availability and allows that should such funds not be available, the payment may be deferred until funds are available. This lease is included in the schedule of future minimum lease payments above.

7. Accumulated Compensated Absences

The amount of vested accumulated absences payable based upon the Sheriff's annual leave and sick leave policy is reported as a liability in the statement of net assets in the County's basic financial statements. The following is a summary of changes in the compensated absences liability during fiscal year 2006:

Compensated absences, September 30, 2005	$ 30,718,380
Additions	27,178,078
Deletions	(25,894,131)
Compensated absences, September 30, 2006	$ 32,002,327

8. Retirement Plan

Defined Benefit Plan

Substantially all full-time Sheriff employees and temporary employees who have been working for longer than six months are members of the Florida Retirement System (the System), a cost-sharing, multiple-employer, public retirement system. The System, which is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement, covers approximately 948,000 full-time employees of various governmental units within the state of Florida.

The System provides for vesting of benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with six or more years' service. Early retirement is available after six years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based on age, average compensation and years of service credit where average compensation is computed as the average of an individual's five highest years of earnings. Special risk class employees (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life. Employees are not required to contribute to this retirement system. A post-employment health insurance subsidy is also provided to eligible retired employees through the FRS in accordance with *Florida Statutes*. During the fiscal year ended September 30, 2001, the Sheriff initiated a post-employment healthcare stipend for certain retirees prior to their eligibility for Medicare. The amounts expended under this program are not significant.

The Sheriff has no responsibility to the System other than to make the periodic contributions required by state statutes. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information of the System. The report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000.

8. Retirement Plan (continued)

Effective July 1, 1998, the Florida legislature established a Deferred Retirement Option Program (DROP). This program allows eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a system employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

Defined Contribution Plan

Beginning December 1, 2002, the system offered a second retirement plan option, the FRS Investment Plan. Under this plan, the employer pays all contributions which are a percentage of salary based on the System's Membership Class. The employer contributes to an account in the employee's name. The employee makes investment elections with the investment funds chosen by the Florida State Board of Administration. The retirement benefit is based on the account balance, and the benefit is vested after one year of service. If an employee leaves the job, he or she can keep the benefit in the System, or transfer his or her account to another retirement plan.

The employee can also elect to cash out the benefit when leaving but is subject to tax penalties for taking early withdrawal. An employee in this plan is not eligible for DROP. All employees in the System defined benefit pension plan were given a choice of switching to the FRS Investment Plan within a designated time period. As of September 30, 2006, 165 Sheriff employees had elected to participate in the defined contribution plan.

Contributions to Florida Retirement System

Participating employer contributions are based upon statewide rates established by the state of Florida. The rates are applied to employee salaries as follows: regular 7.83%; special risk 18.53%; administrative support 9.92%; elected county officers 15.23%; and senior management 10.45% from October 1, 2005 through June 30, 2006; and regular 9.85%; special risk 20.92%; administrative support 12.55%; elected county officers 16.53%; and senior management 13.12% from July 1, 2006 through September 30, 2006. During the fiscal year ended September 30, 2006, the Sheriff contributed to the plan an amount equal to 15.70% of covered payroll. The Sheriff's contributions to the FRS for the fiscal years ended September 30, 2004, 2005, and 2006 were $21,432,532, $23,071,693, and $25,538,161, respectively, which were equal to the required actuarially determined contributions for each fiscal year.

9. Deferred Compensation

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The plan, available to all full-time County employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

10. Risk Management

Workers' Compensation

For workers' compensation claims incurred prior to October 1, 1992, the Sheriff is covered by the County's self-insurance fund. The County established a self-insurance fund that is accounted for as an internal service fund in the basic financial statements of the County. Under this program, the County is substantially self-insured for workers' compensation claims as required by State statute. For such claims incurred prior to October 1, 1992, the County is self-insured up to a maximum of $450,000 per occurrence with unlimited excess coverage above the self-insurance cap. The Sheriff is insured by the Florida Sheriff's Association for workers' compensation claims incurred after October 1, 1992. Settlements for claims incurred after October 1, 1992, in excess of this coverage are funded through appropriations from the Board. For workers' compensation claims incurred beginning October 1, 2006, the Sheriff has established a self-insurance fund.

General Liability and Automobile

Although covered by the County's self-insurance plan for general liability and automobile for pre-1993 claims through an indemnification agreement with the Board, the Sheriff's office manages its general liability and automobile claims internally. The Sheriff is also self-insured against general liability and automobile claims per *Florida Statute* 768.28 with limited liability of $100,000 per person and $200,000 per occurrence. Negligence claims in excess of the statutory limits can only be recovered through an act of the State of Florida Legislature.

10. Risk Management (continued)

The Sheriff made no payments to the Board for insurance coverage during fiscal year 2006 and made payments of $7,385,247 to the Florida Sheriff's Association. Based on currently known information, no claims liability estimate is needed for claims in excess of the Sheriff's risk insurance coverage at September 30, 2006.

11. Litigation

The office of the Sheriff is involved as defendant in certain litigation and claims arising from the ordinary course of operations. The Sheriff, after considering advice of legal counsel, is of the opinion that the combined outcome of these suits will not have a materially adverse effect on the financial position of the Sheriff. The majority of damages arising from such claims are covered by the Sheriff's self-insurance plan.

Required Supplementary Information

Hillsborough County, Florida
Sheriff

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund (Budgetary Basis)

Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenues:				
Intergovernmental revenue	$ 313,616,929	$ 322,754,483	$ 322,754,483	$ –
Charges for services	–	–	5,159,155	5,159,155
Interest income	–	–	2,717,299	2,717,299
Miscellaneous income	–	–	2,038,495	2,038,495
Total revenues	313,616,929	322,754,483	332,669,432	9,914,949
Expenditures:				
Current:				
General government:				
Personal services	9,477,169	10,977,169	10,438,132	539,037
Operating	281,170	781,170	246,733	534,437
Capital outlay	13,200	13,200	–	13,200
Total general government	9,771,539	11,771,539	10,684,865	1,086,674
Public safety:				
Personal services	232,952,558	217,652,558	216,103,277	1,549,281
Operating	57,636,482	62,014,749	60,603,852	1,410,897
Capital outlay	13,256,350	31,315,637	18,314,638	13,000,999
Total public safety	303,845,390	310,982,944	295,021,767	15,961,177
Total expenditures	313,616,929	322,754,483	305,706,632	17,047,851
Excess of revenues over expenditures	–	–	26,962,800	26,962,800
Other financing uses:				
Transfers out:				
Distribution of excess revenues to the Board of County Commissioners	–	–	(26,962,800)	(26,962,800)
Net change in fund balances	–	–	–	–
Fund balance, beginning of year	–	–	–	–
Fund balance, end of year	$ –	$ –	$ –	$ –

See accompanying notes.

Hillsborough County, Florida
Sheriff

Notes to Required Supplementary Information

September 30, 2006

1. Budgetary Process and Requirement

- The Sheriff follows the procedures noted below in establishing the budgetary data reflected in the special-purpose financial statements:
- Prior to June 1, the Sheriff submits to the Board a tentative budget for the ensuing year;
- A public hearing is conducted to obtain taxpayer comments;
- At the public hearing, the Board may amend, modify, increase, or reduce the tentative budget;
- The Sheriff has 30 days to appeal budget changes;
- Prior to October 1, the budget is legally enacted through the passage of a resolution by the Board; and
- Formal budgetary control is maintained during the year for all governmental fund types.

Actual expenditures may not exceed budget appropriations at the fund level.

Appropriations lapse at the end of the fiscal year for governmental funds to the extent they have not been expended.

The budgetary basis differs from GAAP and is explained in the notes to the required supplementary information.

2. Budgetary Information

The budget of the Hillsborough County, Florida, Sheriff's (the Sheriff) is prepared on a basis of accounting that differs from accounting principles generally accepted in the United States (GAAP). Annual budgets are adopted for the General Fund. The differences between the budgetary basis of accounting and GAAP occur because, on a budgetary basis, operating grant revenues and expenditures are not budgeted.

2. Budgetary Information (continued)

The actual results of operations in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, presented as required supplementary information, are presented on a budgetary basis. Adjustments necessary to convert the results of operations at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows (and result because operating grant revenues and expenditures are not budgeted):

	Budgetary Basis	Reclassify Grants/ Contracts	GAAP Basis
General fund			
Revenues:			
Operating grants	$ –	$ 2,344,315	$ 2,344,315
Charges for services	5,159,155	741,603	5,900,758
Miscellaneous income	2,038,495	2,756	2,041,251
Expenditures:			
Public safety:			
Personal services	216,103,277	1,430,011	217,533,288
Operating expenses	60,603,852	744,376	61,348,228
Capital outlay	18,314,638	867,442	19,182,080
Other financing uses:			
Transfers out	26,962,800	46,845	27,009,645

Other Financial Information

Non-Major Special Revenue Funds

Child Protection Investigations Fund—The Child Protection Investigations Fund is a non-major special revenue fund used to account for revenues and expenditures for child protection investigations.

Jail Inmate Canteen Fund—The Jail Inmate Canteen Fund is a non-major special revenue fund used to account for revenue and expenditures related to the sale of sundry items, such as snacks and toiletry articles, from the jail's commissary to inmates and revenue from inmate phone calls used to fund inmate programs.

Special Use Fund—The Special Use Fund is used to account for specific revenue sources designated for law enforcement within the County

Hillsborough County, Florida
Sheriff

Special-Purpose Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Use Special Revenue Fund

Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	**Final**	**Amounts**	**(Negative)**
Revenues:				
Intergovernmental	$ 1,229,312	$ 2,003,427	$ 2,003,427	$ –
Charges for services	–	–	7,772,006	7,772,006
Operating grants	–	–	1,707,631	1,707,631
Interest income	–	–	131,915	131,915
Miscellaneous income	–	–	387,558	387,558
Fines and forfeits	–	–	1,287,207	1,287,207
Total revenues	1,229,312	2,003,427	13,289,744	11,286,317
Expenditures:				
Current:				
General government:				
Personal services				
Operating				
Capital outlay				
Total general government	–	–	–	–
Public safety:				
Personal services	–	906,530	6,036,310	5,129,780
Operating	–	472,782	3,340,119	2,867,337
Capital outlay	–	624,115	2,136,657	1,512,542
Total public safety	–	2,003,427	11,513,086	9,509,659
Total expenditures	–	2,003,427	11,513,086	9,509,659
Excess of revenues over expenditures		–	1,776,658	1,776,658
Other financing uses:				
Transfers out:				
Distribution of excess revenues to the Board of County Commissioners		–	(1,976,781)	(1,976,781)
Net change in fund balances	–	–	(200,123)	(200,123)
Fund balance, beginning of year	–	–	2,270,212	2,270,212
Fund balance, end of year	$ –	$ –	$ 2,070,089	$ 2,070,089

Hillsborough County, Florida
Sheriff

Special-Purchase Combining Balance Sheet – Non-Major Special Revenue Funds

September 30, 2006

	Child Protection Investigations	Jail Inmate Canteen	Other Special Use	Total
Assets				
Cash	$ 2,101,084	$ 1,825,560	$ 693,149	$ 4,619,793
Receivables	1,844	139,772	1,350	142,966
Due from other governments	–	–	4,706	4,706
Due from the Board of County Commissioners	–	–	86,000	86,000
Inventories	–	142,452	–	142,452
Total assets	$ 2,102,928	$ 2,107,784	$ 785,205	$ 4,995,917
Liabilities and fund balance				
Liabilities:				
Accounts payable	$ 115,030	$ 67,943	$ 3,816	$ 186,789
Wages and benefits payable	–	–	–	–
Due to other governments	–	12,421	530	12,951
Deferred revenue	1,945,229	–	150,000	2,095,229
Due to the Board of County Commissioners	–	–	630,859	630,859
Total liabilities	2,060,259	80,364	785,205	2,925,828
Fund balances:				
Reserved for child protection investigation	42,669	–	–	42,669
Reserved for canteen fund	–	1,884,968	–	1,884,968
Reserved for inventories	–	142,452	–	142,452
Total fund balances	42,669	2,027,420	–	2,070,089
Total liabilities and fund balance	$ 2,102,928	$ 2,107,784	$ 785,205	$ 4,995,917

See accompanying notes.

Hillsborough County, Florida
Sheriff

Special-Purpose Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Special Revenue Funds

Year Ended September 30, 2006

	Child Protection Investigations	Jail Inmate Canteen	Other Special Use	Total
Revenues				
Intergovernmental revenue	$ –	$ –	$ 2,003,427	$ 2,003,427
Charges for services	3,019,726	4,706,925	45,355	7,772,006
Operating grants	1,707,631	–	–	1,707,631
Interest income	40,121	91,794	–	131,915
Miscellaneous income	2,954	360,373	24,231	387,558
Fines and forfeits	–	–	1,287,207	1,287,207
Total revenues	4,770,432	5,159,092	3,360,220	13,289,744
Expenditures				
Public safety:				
Personal services	2,429,336	2,807,010	799,964	6,036,310
Operating	444,889	2,530,696	364,534	3,340,119
Capital outlay	1,853,538	64,178	218,941	2,136,657
Total expenditures	4,727,763	5,401,884	1,383,439	11,513,086
Excess of revenues over expenditures	42,669	(242,792)	1,976,781	1,776,658
Other financing uses:				
Transfers out:				
Distribution of excess revenues to the Board of County Commissioners	–	–	(1,976,781)	(1,976,781)
Net change in fund balances	42,669	(242,792)	–	(200,123)
Fund balances, beginning of year	–	2,270,212	–	2,270,212
Fund balances, end of year	$ 42,669	$ 2,027,420	$ –	$ 2,070,089

Hillsborough County, Florida
Sheriff

Combining Special-Purpose Statement of Changes in Assets and Liabilities – Agency Fund

September 30, 2006

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006
Assets				
Cash and investments	$ 4,024,798	$ 38,134,848	$ 37,557,696	**$ 4,601,950**
Accounts receivable	3,328	9,068	10,815	**1,581**
Due from other governmental agencies	6,442	4,158,566	4,141,716	**23,292**
Total assets	$ 4,034,568	$ 42,302,482	$ 41,710,227	**$ 4,626,823**
Liabilities				
Accounts payable	$ 1,536	$ 6,548,866	$ 6,550,402	**$ –**
Due to other governmental agencies	7,902	25,877	29,964	**3,815**
Deposits	4,025,130	23,972,461	23,374,583	**4,623,008**
Total liabilities	$ 4,034,568	$ 30,547,204	$ 29,954,949	**$ 4,626,823**

Other Reports

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Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Special-Purpose Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable David A. Gee
Sheriff
Hillsborough County, Florida

We have audited the special-purpose financial statements of the general fund and the aggregate remaining fund information of the Hillsborough County, Florida, Sheriff (the Sheriff) as of and for the year ended September 30, 2006, and have issued our report thereon dated December 6, 2006, which describes that such special-purpose financial statements have been prepared for the purpose of complying with Section 218.39, *Florida Statutes*, and Chapter 10.577(3), *Rules of the Auditor General for Local Governmental Entity Audits*. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the special-purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other internal control matters that we have reported to management in a separate letter dated December 6, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sheriff's special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of special-purpose 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*.

This report is intended for the information and use of the Sheriff, management, the Board of County Commissioners, and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

December 6, 2006

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Management Letter on Internal Control and State Reporting Requirements

The Honorable David A. Gee
Sheriff
Hillsborough County, Florida

We have audited the financial statements of the general fund and the aggregate remaining fund information of the Hillsborough County, Florida, Sheriff as of and for the year ended September 30, 2006, and have issued our report thereon dated December 6, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Special-Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*. Disclosures in that report, which is dated December 6, 2006, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Current Year Recommendations

The *Rules of the Auditor General* (Chapter 10.554(1)(h)3), require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. See discussion of these recommendations below.

Segregation of Duties

During the current fiscal year ended September 30, 2006, we noted during year end audit testing and internal control procedures that certain individuals performed incompatible duties from an internal control perspective. During fiscal year 2006, management did implement certain procedures and reassigned responsibilities to further segregate duties; however, we noted such instances where accounting staff were cross-trained in functions between payables and receivables. For instance, certain employees have the authority in the system to create payables, receive payments, and update the general ledger. We note that, due the lack of adequate staffing needs, a more traditional internal control processes that segregates responsibility for authorizing transactions, performing control activities related to recording and processing transactions,

monitoring these control activities, maintaining activities, and having physical custody of assets or key records may be precluded. As a result, there is increased opportunity for inaccurate accounting records and misappropriation of assets.

We recommend the accounting department and management consider the potential exposure to the Sheriff in these situations and consider the benefit and related costs of enacting further change, in reassigning duties or revising policies that could strengthen the internal control structure.

Management's Response:

Management concurs, but as discussed during the interim audit conducted in May 2006, which covered October 2005 through March 2006, those cross-training situations were held to an absolute minimum. No one person actually processed and approved their own work. We believe that providing personnel with the knowledge and training to backup key functions provide stability of operations while minimizing personnel costs. This cross-training between supervisors in payables and receivables is complete and management has implemented procedures that will prevent this situation from occurring in the future.

The duties have always been separated, however, the only weakness as noted was the approval process thru JDE. Job tasks were always separated and not compromised. This approval process has been corrected and higher level supervisors are approving all batches completed by subordinates. At the time of final audit we had implemented and revised policies affecting the approval process, limited individuals to only those accounting functions that relate to the area they work and thereby strengthened internal controls.

Supervisor Review – Manual Journal Entries

During our procedures, we noted certain individuals both prepared and authorized manual journal entries. Therefore, in order to enhance and improve the internal control structure, we recommend that the Sheriff establish a policy whereby such journal entries are formally approved by someone other than the preparer. We recommend reviewing the system access configuration to prohibit individuals from both preparing and approving journal entries. In addition, management consider potential exposure to the Sheriff in such situations and consider the benefit and related costs of enacting further changes in reassigning duties or revising policies to include a review of the manual journal entry procedures that could strengthen the Sheriff internal control structure.

Management's Response:

Management concurs. Although documentation was provided to show where this did occur, the magnitude of the situation was not addressed. Management implemented the procedure that requires the preparer to sign the paper copy of the journal entry and another higher level supervisor audit and approve the journal entry. This action will strengthen internal controls for our journal entry process.

Reporting

The requirements of the State Domestic Preparedness Equipment Support Program (the Program) grant (CFDA 97.004) require the Sheriff Department to submit a final Financial Claim Report and a Criminal Justice Contract Closeout Package within 45 days of the end of the contract. The grant also requires semi-annual performance reports due by January 10 and July 10 of every year.

Our testing indicated that the closeout report was submitted approximately two weeks late for the bomb disposal equipment grant within the Program. A due date was also missed for the semi-annual performance reports. Further, there was no evidence of a secondary review of the semi-annual performance reports.

We recommend that the department develop and implement a checklist to assist in tracking and ensuring compliance with reporting requirements. Also, we recommend a secondary reviewer review and sign-off on this checklist to attest to the timelines and adequacy of the report submissions.

Management's Response:

Management concurs. The Hillsborough County Bomb Disposal Team Grant – CFDA 97.004 ended 3/31/06. The Financial Claim report for March 2006 was submitted approximately April 5, 2006 which was within 45 days of the grant end date.

The Criminal Justice Contract Financial Closeout Package forms were not included in the Grant package received by the department. As a result, the submission of the Financial Closeout Package was overlooked and not submitted within the 45-day timeframe.

To ensure compliance with grant closeout requirements, a list of Grants ending in the current fiscal year will be prepared at the beginning of each fiscal year. This list will include the grant end date, financial reporting requirement, and report deadline date. The Grants Department's supervisor will sign off on the list as each grant ends and the required reports are submitted.

The programmatic requirement for performance reports will involve each Grant Program Manager. The Sheriff's Office is in the process of developing a centralized tracking system for compliance with grant reporting requirements.

Status of Prior Year Recommendations

The *Rules of the Auditor General* (Section 10.554(1)(h)(1) require that, unless otherwise required to be reported in the auditor's report on internal control over financial reporting and compliance and other matters, a management letter shall include a statement as to whether or not corrective action plans have been taken to address significant findings and recommendations made in the

preceding annual financial audit report. The recommendation made in the prior year related to physical inventory observation has been corrected. The recommendation provided to the client was implemented.

Required Disclosures

As required by the *Rules of the Auditor General* (Section 10.554(1)(h)2), the scope of our audit included a review of the provisions of Section 218.415, *Florida Statutes*, regarding the investments of public funds. In connection with our audit, we determined that the Sheriff complied with Section 218.415, *Florida Statutes*.

The *Rules of the Auditor General* (Section 10.554(1)(h)4), require disclosure in the management letter of the following matters, if not already addressed in the auditor's report internal control over financial reporting and compliance and other matters and are not clearly in consequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit discovered none of these matters.

The *Rules of the Auditor General* (Section 10.554(1)(h)5) also require that we report on the Sheriff's name or official title and legal authority. In that regard, the Hillsborough County, Florida, Sheriff was established by the Constitution of the State of Florida, Article VIII, Section 1(d).

This letter is intended solely for the information and use of the Sheriff and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

December 6, 2006