REPORT NO. 2013-131
MARCH 2013

HENDRY COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	District No.
Dwayne E. Brown	1
Dr. Sally Berg, Vice Chair to 11-21-11, Chair from 11-22-11	2
Patrick B. Langford	3
Matthew A. Beatty, Chair to 11-21-11	4
Ray Clinard, Vice Chair from 11-22-11	5

Richard A. "Rick" Murphy, Superintendent

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

The audit team leader was Claudia A. Salgado, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

HENDRY COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Migrant Education, Educational Technology Cluster, School Improvement Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Hendry 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. 2012-158.**

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, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 19 percent of the assets and 90 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Hendry Public Schools Foundation, Inc. (Foundation), which represents less than 1 percent of the assets, liabilities, revenues, and expenditures of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the Foundation, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Hendry County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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 11, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hendry 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, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- In total, net assets decreased $509,231, which represents a 0.8 percent decrease from the 2010-11 fiscal year.
- General revenues total $54,940,252, or 92.7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $4,317,798 or 7.3 percent.
- Expenses total $59,767,281. Only $4,317,798 of these expenses are offset by program specific charges, with the remainder being paid from general revenues. Total revenues were less than total expenses by $509,231.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totals $1,359,061 at June 30, 2012, or 3 percent of total General Fund revenues. As discussed in note 10 to the financial statements, the Board classifies amounts above the 3 percent threshold as committed for economic stabilization.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- 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 governmental 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 District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

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

- Blended component units – The District presents two separate legal entities in this report, which are the Hendry Public Schools Foundation, Inc. (Foundation), and the Hendry County School Board Leasing Corporation (Leasing Corporation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment for the District. Based on generally accepted accounting principles, as discussed in the notes to financial statements, these two entities have 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 rather than fund types. 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 the 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 near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

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

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

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services, and the District maintains an internal service fund, which is one type of proprietary fund. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service fund to account for self-insurance activity for dental, life, and disability employee benefits. Revenue is generated by insurance premiums contributed by the Board and program participants.

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

The District uses private-purpose trust funds to account for the Foundation, which is a separate not-for-profit corporation organized to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public prekindergarten through postsecondary education.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year

	Governmental Activities		
	6-30-12	6-30-11	Change
Current and Other Assets	$ 19,567,195	$ 18,403,019	$ 1,164,176
Capital Assets	54,822,849	56,711,230	(1,888,381)
Total Assets	74,390,044	75,114,249	(724,205)
Long-Term Liabilities	11,517,281	11,587,257	(69,976)
Other Liabilities	288,461	433,459	(144,998)
Total Liabilities	11,805,742	12,020,716	(214,974)
Net Assets:			
Invested in Capital Assets - Net of Related Debt	50,071,228	51,657,635	(1,586,407)
Restricted	6,820,263	7,034,336	(214,073)
Unrestricted	5,692,811	4,401,562	1,291,249
Total Net Assets	$ 62,584,302	$ 63,093,533	$ (509,231)

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		
	6-30-12	6-30-11	Change
Program Revenues:			
Charges for Services	$ 741,354	$ 770,238	$ (28,884)
Operating Grants and Contributions	3,291,647	4,636,149	(1,344,502)
Capital Grants and Contributions	284,797	728,238	(443,441)
General Revenues:			
Property Taxes, Levied for Operational Purposes	11,927,007	13,190,154	(1,263,147)
Property Taxes, Levied for Capital Projects	1,307,370	1,401,041	(93,671)
Grants and Contributions Not Restricted to Specific Programs	41,211,280	46,363,389	(5,152,109)
Unrestricted Investment Earnings	68,117	98,442	(30,325)
Miscellaneous	426,478	737,355	(310,877)
Total Revenues	59,258,050	67,925,006	(8,666,956)
Functions/Program Expenses:			
Instruction	32,094,553	30,122,131	1,972,422
Pupil Personnel Services	2,259,057	2,117,602	141,455
Instructional Media Services	731,878	646,433	85,445
Instruction and Curriculum Development Services	1,049,969	1,130,113	(80,144)
Instructional Staff Training Services	1,114,523	1,024,551	89,972
Instruction Related Technology	120,547	21,923	98,624
Board of Education	669,515	640,812	28,703
General Administration	847,891	692,246	155,645
School Administration	2,776,304	2,283,212	493,092
Facilities Acquisition and Construction	1,512,553	1,315,948	196,605
Fiscal Services	682,255	566,378	115,877
Food Services	3,356,903	3,545,840	(188,937)
Central Services	316,514	350,316	(33,802)
Pupil Transportation Services	2,866,021	2,567,043	298,978
Operation of Plant	4,177,731	3,898,372	279,359
Maintenance of Plant	1,314,365	1,087,043	227,322
Administrative Technology Services	779,823	676,417	103,406
Unallocated Interest on Long-Term Debt	92,514	107,656	(15,142)
Unallocated Depreciation Expense	2,968,971	3,050,048	(81,077)
Loss on Disposal of Capital Assets	35,394	38,468	(3,074)
Total Functions/Program Expenses	59,767,281	55,882,552	3,884,729
Increase (Decrease) in Net Assets	$ (509,231)	$ 12,042,454	$ (12,551,685)

The largest revenue source is the State of Florida (55.8 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Grants and contributions not restricted to specific programs decreased by $5,152,109 or 11.1 percent, primarily due to a decrease in Federal economic stimulus revenues. Property taxes levied decreased due to a small decrease in the millage rate and a decrease in assessed values.

Instruction expenses represent 53.7 percent of total governmental expenses for the 2011-12 fiscal year. Instruction expenses increased by $1,972,422, or 6.5 percent, from the previous fiscal year, due mainly to salary increases.

School administration also increased due to salary increases. Operation of plant increased due to utility increases and salary increases.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $1,359,061, while the total fund balance is $11,878,333. The total fund balance increased by $1,563,591 during the fiscal year, primarily due to careful budgeting.

The Special Revenue – Other and the Special Revenue – Federal Economic Stimulus Funds are used to account for Federal grant programs, and allowed expenditures are specified by grant agreements. Since the revenues in these funds are equal to amount expended, there are no ending fund balances. Revenues and expenditures for the Special Revenue – Federal Economic Stimulus Fund decreased from $6,537,489 each to $985,414 each due to the expiration of many of the Federal stimulus grants.

The Capital Projects – Local Capital Improvement Fund, used to account for ad valorem (property) tax levies authorized by the Board, has a total fund balance of $3,615,446, which is restricted for the acquisition, construction, and maintenance of capital assets. Fund balance decreased because property tax collections decreased as a result of lower valuations. At the same time, the District increased expenditures for maintaining and replacing facilities, furniture, equipment, and computer hardware.

It should be noted that $1,694,876 has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the fiscal year, the Board revised the District budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year. The second category includes changes in revenue estimates from the State for FEFP. Finally, the Board approved numerous self-balancing transfers between objects. Final budgeted revenues and expenditures were in line with original budget amounts.

The District's ending fund balance of $11,878,333 was more than the original and final budgets, because the District was aggressive in reducing expenditures, such as delaying mid-year hiring in noninstructional positions, and seeking other revenue sources to replace State funding.

CAPITAL ASSETS AND LONG-TERM DEBT

The District's long-term debt related to financing capital assets decreased by $302,335 during the 2011-12 fiscal year primarily from bond payments. The changes in capital assets were not significant.

OTHER MATTERS OF SIGNIFICANCE

For the past several fiscal years, approximately 66 to 72 percent of total General Fund revenues are grants from the State of Florida; therefore, economic conditions, which affect the economy both nationally and at the State level, will affect the general operating funds and activities of the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment may affect the State revenue streams, which, in turn, will affect District revenue streams.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the funds that it receives. If you have questions about this report or need further financial information, please contact the Superintendent's Office at 25 East Hickpoochee Avenue, LaBelle, Florida 33975.

BASIC FINANCIAL STATEMENTS

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2012

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	17,951,970
Investments		141,535
Accounts Receivable		1,088
Due from Other Agencies		229,128
Inventories		185,116
Restricted Cash		19,275
Restricted Investments		1,036,472
Deferred Charges		2,611
Capital Assets:		
Nondepreciable Capital Assets		1,278,483
Depreciable Capital Assets, Net		53,544,366
TOTAL ASSETS	$	74,390,044
LIABILITIES		
Accounts Payable	$	288,461
Long-Term Liabilities:		
Portion Due Within One Year		769,467
Portion Due After One Year		10,747,814
Total Liabilities		11,805,742
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		50,071,228
Restricted for:		
State Required Carryover Programs		374,007
Debt Service		1,443,181
Capital Projects		3,627,531
Food Service		1,375,544
Unrestricted		5,692,811
Total Net Assets		62,584,302
TOTAL LIABILITIES AND NET ASSETS	$	74,390,044

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$ 32,094,553	$	$	$	$ (32,094,553)
Pupil Personnel Services	2,259,057				(2,259,057)
Instructional Media Services	731,878				(731,878)
Instruction and Curriculum Development Services	1,049,969				(1,049,969)
Instructional Staff Training Services	1,114,523				(1,114,523)
Instruction Related Technology	120,547				(120,547)
School Board	669,515				(669,515)
General Administration	847,891				(847,891)
School Administration	2,776,304				(2,776,304)
Facilities Acquisition and Construction	1,512,553			50,160	(1,462,393)
Fiscal Services	682,255				(682,255)
Food Services	3,356,903	601,574	3,291,647		536,318
Central Services	316,514				(316,514)
Pupil Transportation Services	2,866,021	139,780			(2,726,241)
Operation of Plant	4,177,731				(4,177,731)
Maintenance of Plant	1,314,365				(1,314,365)
Administrative Technology Services	779,823				(779,823)
Unallocated Interest on Long-Term Debt	92,514				(92,514)
Unallocated Depreciation Expense	2,968,971			234,637	(2,734,334)
Loss on Disposal of Capital Assets	35,394				(35,394)
Total Governmental Activities	$ 59,767,281	$ 741,354	$ 3,291,647	$ 284,797	(55,449,483)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					11,927,007
Property Taxes, Levied for Capital Projects					1,307,370
Grants and Contributions Not Restricted to Specific Programs					41,211,280
Unrestricted Investment Earnings					68,117
Miscellaneous					426,478
Total General Revenues					54,940,252
Change in Net Assets					(509,231)
Net Assets - Beginning					63,093,533
Net Assets - Ending					$ 62,584,302

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

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HENDRY COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	$ 11,893,886	$ 1,636	$
Investments	41,776		
Accounts Receivable	1,088		
Due from Other Funds	11,415		
Due from Other Agencies	6,497	146,128	1,844
Inventory	167,118		
Restricted Cash			
Restricted Investments			
TOTAL ASSETS	$ 12,121,780	$ 147,764	$ 1,844
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	$ 243,447	$ 36,092	$ 1,686
Due to Other Funds		111,672	158
Total Liabilities	243,447	147,764	1,844
Fund Balances:			
Nonspendable:			
Inventory	167,118		
Restricted for:			
State Required Carryover Programs	374,007		
Debt Service			
Capital Projects			
Food Service			
Total Restricted Fund Balance	374,007		
Committed for Economic Stabilization	9,726,998		
Assigned for Purchase Commitments	251,149		
Unassigned Fund Balance	1,359,061		
Total Fund Balances	11,878,333		
TOTAL LIABILITIES AND FUND BALANCES	$ 12,121,780	$ 147,764	$ 1,844

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$ 3,554,647	$ 1,550,267	$ 17,000,436
65,680	34,079	141,535
		1,088
	108,002	119,417
	74,659	229,128
	17,998	185,116
	19,275	19,275
	1,036,472	1,036,472
$ 3,620,327	$ 2,840,752	$ 18,732,467
$ 4,881	$ 2,355	$ 288,461
	7,587	119,417
4,881	9,942	407,878
	17,998	185,116
		374,007
	1,443,181	1,443,181
3,615,446	12,085	3,627,531
	1,357,546	1,357,546
3,615,446	2,812,812	6,802,265
		9,726,998
		251,149
		1,359,061
3,615,446	2,830,810	18,324,589
$ 3,620,327	$ 2,840,752	$ 18,732,467

HENDRY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		$ 18,324,589
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.		54,822,849
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		2,611
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.		869,006
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Bonds Payable	$ 1,609,720	
Certificates of Participation	3,068,200	
Obligations Under Capital Lease	76,312	
Compensated Absences Payable	5,011,654	
Other Postemployment Benefits Payable	1,668,867	(11,434,753)
Total Net Assets - Governmental Activities		$ 62,584,302

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

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HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Through State and Local	$ 235,203	$ 7,284,098	$ 985,414
State	32,566,579		
Local:			
Property Taxes	11,927,007		
Charges for Services - Food Service			
Miscellaneous	573,256		
Total Local Revenues	12,500,263		
Total Revenues	45,302,045	7,284,098	985,414
Expenditures			
Current - Education:			
Instruction	27,169,697	4,118,799	698,165
Pupil Personnel Services	1,430,270	819,641	603
Instructional Media Services	696,266	28,455	2,830
Instruction and Curriculum Development Services	254,331	771,233	23,259
Instructional Staff Training Services	28,648	926,266	159,487
Instruction Related Technology	120,547		
School Board	668,343		
General Administration	640,629	202,574	1,554
School Administration	2,758,600		
Facilities Acquisition and Construction	62,852		
Fiscal Services	678,407		
Food Services			
Central Services	314,942		
Pupil Transportation Services	2,635,765	188,364	31,113
Operation of Plant	4,164,906	3,279	
Maintenance of Plant	1,307,587	271	
Administrative Technology Services	777,025		
Fixed Capital Outlay:			
Facilities Acquisition and Construction		132,170	
Other Capital Outlay	38,950	93,046	68,403
Debt Service:			
Principal			
Interest and Fiscal Charges	5,896		
Total Expenditures	43,753,661	7,284,098	985,414
Excess (Deficiency) of Revenues Over Expenditures	1,548,384		
Other Financing Sources (Uses)			
Transfers In			
Insurance Loss Recoveries	15,207		
Transfers Out			
Total Other Financing Sources (Uses)	15,207		
Net Change in Fund Balances	1,563,591		
Fund Balances, Beginning	10,314,742		
Fund Balances, Ending	$ 11,878,333	$ 0	$ 0

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$ 3,227,669	$ 11,732,384
	488,761	33,055,340
1,307,370		13,234,377
	601,574	601,574
14,717	31,195	619,168
1,322,087	632,769	14,455,119
1,322,087	4,349,199	59,242,843
		31,986,661
		2,250,514
		727,551
		1,048,823
		1,114,401
		120,547
		668,343
		844,757
		2,758,600
1,449,727	148,925	1,661,504
		678,407
	3,356,903	3,356,903
		314,942
		2,855,242
		4,168,185
		1,307,858
		777,025
516,746	45,000	693,916
	72,718	273,117
34,879	260,000	294,879
	93,713	99,609
2,001,352	3,977,259	58,001,784
(679,265)	371,940	1,241,059
	129,793	129,793
		15,207
(129,793)		(129,793)
(129,793)	129,793	15,207
(809,058)	501,733	1,256,266
4,424,504	2,329,077	17,068,323
$ 3,615,446	$ 2,830,810	$ 18,324,589

HENDRY 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, 2012

Net Change in Fund Balances - Governmental Funds			$ 1,256,266
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 depreciation in excess of capital outlays in the current fiscal year.			(1,852,987)
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.			(35,394)
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 repayments in the current fiscal year:			
Bonds Principal Repaid	$	267,455	
Capital Lease Principal Repaid		34,880	302,335
Deferred charges associated with long-term debt issued in the current fiscal year are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current fiscal year:			
Deferred Charges, June 30, 2012	$	2,611	
Deferred Charges, June 30, 2011		(2,972)	(361)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal 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 paid in the current fiscal year.			(113,951)
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.			(118,408)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities.			53,269
Change in Net Assets - Governmental Activities			$ (509,231)

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2012

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 951,534
LIABILITIES	
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	82,528
NET ASSETS	
Unrestricted	869,006
TOTAL LIABILITIES AND NET ASSETS	$ 951,534

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues from Board and Participants' Funds	$ 500,362
OPERATING EXPENSES	
Insurance Claims	399,850
Administration	47,243
Total Operating Expenses	447,093
Change in Net Assets	53,269
Net Assets - Beginning	815,737
Net Assets - Ending	$ 869,006

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board and Participants' Funds	$	500,362
Cash Payments for Insurance Claims		(399,850)
Cash Payments for Administration and Other		(47,243)
Net Cash Provided by Operating Activities		53,269
Net Increase in Cash and Cash Equivalents		53,269
Cash and Cash Equivalents, Beginning		898,265
Cash and Cash Equivalents, Ending	$	951,534

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

Operating Income	$	53,269
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
No Change in Assets and Liabilities		
Net Cash Provided by Operating Activities	$	53,269

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2012

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 12,176	$ 877,898
Prepaid Expenses	1,496	
TOTAL ASSETS	$ 13,672	$ 877,898
LIABILITIES		
Internal Accounts Payable		$ 877,898
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	13,672	
TOTAL LIABILITIES AND NET ASSETS	$ 13,672	

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Private-Purpose Trust Fund
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	$ 16,856
Investment Earnings:	
Interest, Dividends, and Other	39
Total Additions	16,895
DEDUCTIONS	
Program Services - Mini-grants for School Programs	8,365
Program Services - Other	7,219
Administrative Expenses	1,992
Total Deductions	17,576
Change in Net Assets	(681)
Net Assets - Beginning	14,353
Net Assets - Ending	$ 13,672

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- The Hendry County School Board Leasing Corp. (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the District 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.
- The Hendry Public Schools Foundation, Inc., (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of public prekindergarten through postsecondary education in the State in the form of money and other forms of property and services to the Board. Since the Foundation's governing body is substantively the same as Board, the financial activities of the Foundation are included in the accompanying basic financial statements. An annual postaudit of the Foundation's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office.

Basis of Presentation:

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

  Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense 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.

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

  The District reports the following major governmental funds:

  - General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
  - Special Revenue – Other Fund – to account for certain Federal grant program resources.
  - Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
  - Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

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

  - Internal Service Fund – to account for the District's employee benefits program.
  - Private-Purpose Trust Fund – to account for resources of the Foundation.
  - Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund are Board contributions for dental and disability insurance. Operating expenses include insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Deposits and Investments. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investments made locally consist of a United States instrumentality obligation in the form of a Federal Home Loan Mortgage Corporation (FHLMC) discount note held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZABs) financing arrangement (see note 6). Investments made locally are valued at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

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

Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $500 acquired through August 9, 2004, and $1,000 or more for assets acquired on or after August 10, 2004. 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.

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

Description	Estimated Lives
Improvements Other Than Buildings	10 and 20 years
Buildings and Fixed Equipment, Excluding Relocatables	20 and 50 years
Furniture, Fixtures, and Equipment	5 and 10 years
Motor Vehicles	4 and 10 years
Computer Software	3 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums and refunding costs.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of the FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting the 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 educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 Hendry County Tax Collector at fiscal year-end but not yet remitted to the District.

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	$ 186,443
Fund B	5.73 Year Average	110,234
Debt Service Accounts	6 Months	31,301
Certificates of Deposit (1)	November 2012 to September 2015	71,377
FHLMC Discount Note (2)	December 15, 2021	1,036,472
Total Investments		$ 1,435,827

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.
(2) This investment is held by a trustee under a paying agent agreement in connection with the QZABs financing arrangement (see note 6).

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.
- The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.
- The District's investment in Florida Prime is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in the FHLMC discount note is authorized under a forward delivery agreement with the QZAB paying agent. The forward delivery agreement authorizes the investment of available sinking fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and the FHLMC. The eligible securities must have a maturity date that is on or before December 15, 2021. The FHLMC discount note is unrated.
- The District's investments in certificates of deposit are in qualified public depositories.

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Custodial Credit Risk

- Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Restricted investments of $1,036,472 in a FHLMC discount note are held by the trustee for the QZABs in the District's name.

Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer. The District's QZAB investment of $1,036,472 in a FHLMC discount note represents 72 percent of total investments and 97 percent of investments in the other governmental funds.

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4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

GOVERNMENTAL ACTIVITIES	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 1,278,483	$	$	$ 1,278,483
Total Capital Assets Not Being Depreciated	1,278,483			1,278,483
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,690,914	11,931		3,702,845
Buildings and Fixed Equipment	82,804,448	626,905	110,817	83,320,536
Furniture, Fixtures, and Equipment	9,249,015	418,342	602,912	9,064,445
Motor Vehicles	5,092,625	49,600	43,011	5,099,214
Computer Software	871,876	9,206	13,628	867,454
Total Capital Assets Being Depreciated	101,708,878	1,115,984	770,368	102,054,494
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,055,477	200,916		3,256,393
Buildings and Fixed Equipment	31,739,864	1,736,537	87,175	33,389,226
Furniture, Fixtures, and Equipment	6,978,107	548,626	592,916	6,933,817
Motor Vehicles	3,648,681	470,633	43,010	4,076,304
Computer Software	854,002	12,259	11,873	854,388
Total Accumulated Depreciation	46,276,131	2,968,971	734,974	48,510,128
Total Capital Assets Being Depreciated, Net	55,432,747	(1,852,987)	35,394	53,544,366
Governmental Activities Capital Assets, Net	$ 56,711,230	$ (1,852,987)	$ 35,394	$ 54,822,849

The District's capital assets serve multiple functions; however, depreciation expense is not allocated to the various functions on the Statement of Activities, but is shown as unallocated depreciation expense.

The class of property under capital lease is presented in note 5.

HENDRY COUNTY
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5. OBLIGATION UNDER CAPITAL LEASE

The class and amount of property being acquired under capital lease is as follows:

	Asset Balances
Lighting Retrofit	$ 401,442

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

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 40,776	$ 37,020	$ 3,756
2014	40,776	39,292	1,484
Total Minimum Lease Payments	$ 81,552	$ 76,312	$ 5,240

The stated interest rate is 6 percent.

6. CERTIFICATES OF PARTICIPATION

On December 15, 2005, the District issued Certificates of Participation, Series 2005-QZABs, under a special program whereby the certificates will mature in full on December 15, 2021, for the original issue of $3,068,200. There is no interest cost for borrowing moneys under this program. The financing proceeds were used to acquire improvements at several designated schools, which are leased by the District from the Leasing Corporation. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of $158,133 for 16 consecutive years began December 16, 2006. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement in the event of cancellation or default.

The schools designated for technology-related equipment and improvements under the Series 2005-QZAB certificates include: Eastside Elementary School, Westside Elementary School, Central Elementary School and LaBelle High School.

The following is a schedule by years of future minimum lease payments for the Series 2005-QZAB certificates with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2022	$ 3,068,200	$ 3,068,200	$ 0

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7. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	$ 725,000	5.0	2016
Series 2005B, Refunding	275,000	5.0	2020
District Revenue Bonds:			
Series 1997	565,000	5.1 - 5.2	2017
Total Minimum Bond Payments	1,565,000		
Plus: Unamortized Premiums	82,844		
Less: Unamortized Costs on Refunding	(38,124)		
Total Bonds Payable	$ 1,609,720		

The various bonds were issued to finance capital outlay projects of the District. 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 are authorized by Chapter 69-1094, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hendry 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 (2001), now Section 212.20(6)(d)6.a., Florida Stautes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

  The District has pledged a total of $656,607 of sales tax revenues in connection with the District Revenue Bonds of 1997, described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling $143,300 and expended $111,295 (77.7 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on November 2017. Assuming a normal growth rate of 0 percent in the collection of sales tax funds, approximately 76.4 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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JUNE 30, 2012

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	$ 240,000	$ 190,000	$ 50,000
2014	240,500	200,000	40,500
2015	240,500	210,000	30,500
2016	245,000	225,000	20,000
2017	48,750	40,000	8,750
2018-2020	148,500	135,000	13,500
Total Minimum Bond Payments	1,163,250	1,000,000	163,250
Plus: Unamortized Premiums	82,844	82,844	
Less: Unamortized Costs on Refunding	(38,124)	(38,124)	
Total State School Bonds	1,207,970	1,044,720	163,250
District Revenue Bonds:			
2013	112,127	85,000	27,127
2014	112,620	90,000	22,620
2015	107,940	90,000	17,940
2016	108,130	95,000	13,130
2017	108,060	100,000	8,060
2018	107,730	105,000	2,730
Total District Revenue Bonds	656,607	565,000	91,607
Total	$ 1,864,577	$ 1,609,720	$ 254,857

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	$ 1,877,175	$	$ 267,455	$ 1,609,720	$ 275,000
Certificates of Participation Payable	3,068,200			3,068,200	
Obligation Under Capital Lease	111,192		34,880	76,312	37,020
Estimated Insurance Claims Payable	82,528	399,850	399,850	82,528	82,528
Compensated Absences Payable	4,897,703	488,870	374,919	5,011,654	374,919
Other Postemployment Benefits Payable	1,550,459	421,220	302,812	1,668,867	
Total Governmental Activities	$ 11,587,257	$ 1,309,940	$ 1,379,916	$ 11,517,281	$ 769,467

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For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the internal service fund, as discussed in note 16.

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 11,415	$
Special Revenue:		
Federal Economic Stimulus		158
Other		111,672
Nonmajor Governmental	108,002	7,587
Total	$ 119,417	$ 119,417

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
Capital Projects:		
Local Capital Improvement	$	$ 129,793
Nonmajor Governmental	129,793	
Total	$ 129,793	$ 129,793

Capital outlay ad valorem tax moneys were transferred from the Capital Projects – Local Capital Improvement Fund to the nonmajor Debt Service – QZAB Fund for debt service sinking fund deposits.

10. FUND BALANCE REPORTING

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

- Nonspendable

  The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

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- Restricted

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

- Committed

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. On September 6, 2011, the Board approved classifying all amounts over 3 percent of General Fund revenues of the unassigned fund balance as committed to be used for economic stabilization.

- Assigned

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

- Unassigned

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Florida Education Finance Program:	
Transportation	$ 1,357,530
Instructional Materials	513,953
Florida Teachers Lead	81,327
Other	22,318,027
Categorical Educational Program - Class Size Reduction	7,550,335
Workforce Development Program	390,145
Motor Vehicle License Tax (Capital Outlay and Debt Service)	284,797
School Recognition	139,174
Food Service Supplement	63,978
Mobile Home License Tax	34,162
Discretionary Lottery Funds	21,686
Miscellaneous	300,226
Total	$ 33,055,340

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

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.495	$ 9,630,269
Basic Discretionary Local Effort	0.748	1,310,903
Voted School Tax:		
Additional Millage	0.750	1,314,409
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.750	1,314,408
Total	7.743	$ 13,569,989

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13. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after 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 the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $3,100,438, $3,369,503, and $1,966,594, respectively, which were equal to the required contributions for each fiscal year.

There were 113 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $205,277, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the 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.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's four health hospitalization plans as well as its self-insured dental plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plans 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 future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees received insurance coverage at a lower (explicitly subsidized) premium rate than

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active employees prior to January 1, 2011. All of the District's employees may become eligible for those benefits if they reach normal retirement age. Effective January 1, 2011, the District allows retirees to retain health benefits at actual cost as quoted by the insurance vendor.

In addition, the Board contributes $23.50 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members 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 OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 59 retirees received postemployment care benefits. The District provided required contributions of $302,812 toward the annual OPEB cost, net of retiree contributions totaling $453,596, which represents 1.7 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	$ 221,074
Amortization of Unfunded Actuarial Accrued Liability	243,673
Annual Required Contribution	464,747
Interest on Net OPEB Obligation	46,514
Adjustment to Annual Required Contribution	(90,041)
Annual OPEB Cost (Expense)	421,220
Contribution Toward the OPEB Cost	(302,812)
Increase in Net OPEB Obligation	118,408
Net OPEB Obligation, Beginning of Year	1,550,459
Net OPEB Obligation, End of Year	$ 1,668,867

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 3,646,975	31.0%	$ 10,987,222
2010-11	(8,763,546)	(7.7)%	1,550,459
2011-12	421,200	71.9%	1,668,867

Funded Status and Funding Progress. As of January l, 2012, the most recent valuation date, the actuarial accrued liability for benefits was $4,134,396 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $4,134,396 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $26,473,426, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.6 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and 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. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of January 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent for the 2013 calender year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after seven years. The investment rate of return and payroll growth rate include a general price inflation rate of 3 percent. The unfunded actuarial accrued liability is being amortized as a

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level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 16 years.

15. OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2012:

Major Funds					
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 251,149	$ 204,098	$ 46,083	$ 1,694,876	$ 43,752	$ 2,239,958

16. 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; third party injuries and property damage; and natural disasters. The District is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which eight district school boards have established a public entity risk sharing pool for property, general liability, automobile liability, workers' compensation, governmental crime, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member contributions (premiums), and purchases insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents and finance directors or an authorized representative of all participating districts. Employers' Mutual, Inc., serves as the third-party administrator, insurance broker and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of $100,000 (except wind/hail/flood). The named wind/hail/hurricane deductible is 5 percent of replacement cost value with a minimum of $100,000 per occurrence. The deductible for all other wind events is $100,000. Special hazard flood area deductibles are $500,000 per building and $500,000 contents plus $100,000 time element per occurrence. The flood

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

deductible outside a special flood hazard area is $100,000. SCERMP's purchased excess property loss limit during the 2011-12 fiscal year was $100 million per tower (consisting of 4 members per tower), except for flood/earthquake of $75 million.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2011-12 fiscal year was $850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employer's liability is included subject to $2,000,000 per occurrence and $2,000,000 in the aggregate.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, as it is now written, as it may be amended by the Legislature in the future, which effectively limits the amount of liability of governmental entities for tort claims to $200,000 per claim and $300,000 per occurrence.

The District provides dental and disability coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2012.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2010-11	$ 82,528	$ 405,949	$ (405,949)	$ 82,528
2011-12	82,528	399,850	(399,850)	82,528

Health and hospitalization coverage is being provided by purchased commercial insurance through a minimum premium plan. The minimum premiums to be earned for all types of coverage are set forth in the contract. Premiums are payable monthly based on the total number of eligible employees. When earned premiums are greater than the sum of the incurred claims and a specified retention, the loss shall be paid to the plan up to the maximum due as set forth in the contract. Life insurance is purchased by the District for eligible employees. These transactions are accounted for in the governmental funds rather than the internal service fund.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in the past three fiscal years.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

HENDRY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Through State and Local	$ 160,000	$ 235,203	$ 235,203	$
State	32,320,247	32,555,780	32,566,579	10,799
Local:				
Property Taxes	12,003,388	11,642,760	11,927,007	284,247
Miscellaneous	699,596	959,299	573,256	(386,043)
Total Local Revenues	12,702,984	12,602,059	12,500,263	(101,796)
Total Revenues	45,183,231	45,393,042	45,302,045	(90,997)
Expenditures				
Current - Education:				
Instruction	30,000,755	29,215,809	27,169,697	2,046,112
Pupil Personnel Services	1,317,700	1,445,981	1,430,270	15,711
Instructional Media Services	455,224	697,025	696,266	759
Instruction and Curriculum Development Services	241,002	267,909	254,331	13,578
Instructional Staff Training Services	50,700	65,558	28,648	36,910
Instruction Related Technology	140,000	141,036	120,547	20,489
School Board	1,023,776	1,019,398	668,343	351,055
General Administration	706,904	726,793	640,629	86,164
School Administration	2,894,775	2,928,125	2,758,600	169,525
Facilities Acquisition and Construction	200	63,752	62,852	900
Fiscal Services	710,745	736,032	678,407	57,625
Central Services	400,635	419,121	314,942	104,179
Pupil Transportation Services	2,987,589	3,038,716	2,635,765	402,951
Operation of Plant	4,427,233	4,389,055	4,164,906	224,149
Maintenance of Plant	1,364,516	1,433,063	1,307,587	125,476
Administrative Technology Services	1,036,388	1,034,633	777,025	257,608
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		38,950	38,950	
Debt Service:				
Interest and Fiscal Charges	28,000	28,000	5,896	22,104
Total Expenditures	47,786,142	47,688,956	43,753,661	3,935,295
Excess (Deficiency) of Revenues Over Expenditures	(2,602,911)	(2,295,914)	1,548,384	3,844,298
Other Financing Sources				
Insurance Loss Recoveries		15,207	15,207	
Total Other Financing Sources		15,207	15,207	
Net Change in Fund Balances	(2,602,911)	(2,280,707)	1,563,591	3,844,298
Fund Balances, Beginning	10,314,742	10,314,742	10,314,742	
Fund Balances, Ending	$ 7,711,831	$ 8,034,035	$ 11,878,333	$ 3,844,298

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 8,818,812	$ 9,899,408	$ 7,284,098	$ (2,615,310)	$ 1,691,497	$ 2,636,764	$ 985,414	$ (1,651,350)
8,818,812	9,899,408	7,284,098	(2,615,310)	1,691,497	2,636,764	985,414	(1,651,350)
4,709,160	5,457,356	4,118,799	1,338,557	1,118,402	1,776,263	698,165	1,078,098
879,987	936,445	819,641	116,804		10,138	603	9,535
70,479	74,870	28,455	46,415		7,871	2,830	5,041
955,923	1,002,955	771,233	231,722	8,233	128,606	23,259	105,347
1,516,477	1,554,448	926,266	628,182	509,440	350,181	159,487	190,694
3	3		3				
297,136	279,924	202,574	77,350	22,422	222,245	1,554	220,691
5,953	1,953		1,953	33,000	24,000		24,000
2,000	150		150				
369,852	357,240	188,364	168,876		49,057	31,113	17,944
11,842	8,577	3,279	5,298				
	271	271					
	132,170	132,170					
	93,046	93,046			68,403	68,403	
8,818,812	9,899,408	7,284,098	2,615,310	1,691,497	2,636,764	985,414	1,651,350
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
January 1, 2009	$ 0	$ 40,817,828	$ 40,817,828	0.0%	$ 31,419,038	129.9%
January 1, 2009 (2)	0	9,717,244	9,717,244	0.0%	31,639,539	30.7%
January 1, 2012	0	4,134,396	4,134,396	0.0%	26,473,426	15.6%

Notes: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.
(2) The District obtained an updated January 1, 2009, actuarial valuation after changing certain OPEB Plan provisions.

HENDRY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2012, unfunded actuarial accrued liability of $4,134,396 was significantly less than the January 1, 2009, liability of $9,717,244, as a result of changes in liabilities and costs as discussed below:

- The total cost of coverage per employee on January 1, 2012, was much lower than projected, decreasing cost and liability.
- The number of retirees receiving postemployment healthcare benefits decreased from 165 to 59, decreasing cost and liability.
- The assumed rate of coverage lapsing at age 65 has been revised from 80 percent to 90 percent. Further, retirees electing to continue coverage migrated from more generous plan options to less expensive options. These changes decreased cost and liability.
- The liability amortization period was shortened from 30 years to 16 years. The change has no impact on the liability, but increases the annual OPEB cost as the expense recognition is spread over fewer years.
- The discount rate on the unfunded liability was decreased from 4 percent to 3 percent, increasing cost and liability.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HENDRY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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	$ 272,208
National School Lunch Program	10.555	300	985,147
Summer Food Service Program for Children	10.559	323	126,176
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	364,853
National School Lunch Program	10.555 (2)	300	1,478,790
Total Child Nutrition Cluster			3,227,174
Florida Department of Financial Services:			
Schools and Roads - Grants to States	10.665	None	1,764
Total United States Department of Agriculture			3,228,938
United States Department of Justice:			
Indirect:			
JAG Program Cluster:			
Hendry County Board of County Commissioners:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-JAGC-HEND-2-B2-254	74,849
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	2010-ARRC-HEND-2-W7-340	30,024
Total United States Department of Labor			104,873
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,556,873
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	10,911
Total Title I, Part A Cluster			2,567,784
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,909,511
Special Education - Preschool Grants	84.173	267	3,362
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	19,253
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	2,209
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	218,234
Special Education - Preschool Grants	84.173	None	27,951
Total Special Education Cluster			2,180,520
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	2,224
ARRA - Education Technology State Grants, Recovery Act	84.386	121	111,214
Total Educational Technology State Grants Cluster			113,438
School Improvement Grants Cluster:			
Florida Department of Education:			
School Improvement Grants	84.377	126	115,344
ARRA - School Improvement Grants, Recovery Act	84.388	126	391,395
Total School Improvement Grants Cluster			506,739
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	57,795
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	14,518
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	1,500
Total State Fiscal Stabilization Fund Cluster			73,813
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	131,184
Migrant Education - State Grant Program	84.011	217	1,284,218
Career and Technical Education - Basic Grants to States	84.048	161	153,252
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	472
Rural Education	84.358	110	138,934
English Language Acquisition Grants	84.365	102	55,989
Improving Teacher Quality State Grants	84.367	224	579,452
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RS611	378,120
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	6,325
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	737
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	7,250
Total United States Department of Education			8,178,227
Total Expenditures of Federal Awards			$ 11,512,038

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

(2) Noncash Assistance - National School Lunch Program. Includes $208,443 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL
STATE OF FLORIDA

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

PHONE: 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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes 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 Hendry Public Schools Foundation, Inc., as described in our report on the Hendry County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

Our **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*** 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 11, 2013

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

PHONE: 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 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Hendry County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing

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

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
March 11, 2013

HENDRY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Migrant Education – State Grant Program (CFDA No. 84.011); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.389); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388); and State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395)
Dollar threshold used to distinguish between Type A and Type B programs:	$345,361
Auditee qualified as low-risk auditee?	Yes

HENDRY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide for differentiated pay based on district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for athletic coaches and club or activity sponsors. The instructional personnel salary schedule and union contract also provided consideration of critical shortage areas as instructors who obtained reading endorsements to their teacher certifications were eligible for a bonus of $1,000 and, during the 2011-12 fiscal year, 14 instructors were paid the bonus. In addition, the salary schedule and union contract provided for an additional 1 percent supplement if an instructor taught in a Board-approved critical shortage area; however, District records did not identify the Board-approved critical shortage areas nor were any payments made for this supplement. To assist in establishing these areas, the District could document to the Board the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining instructional personnel. District personnel indicated that they considered the school demographics and level of job performance difficulties of instructional personnel by paying instructors for teaching during their planning period at high schools; however, neither the salary schedule nor the union contract evidenced this consideration, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-091 and 2012-158.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts 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, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 32,739 adult general education instructional contact hours for 253 students enrolled in 26 classes. We tested 2,285 contact hours reported for 25 students enrolled in 25 classes and noted that the District inadvertently reported hours based on scheduled hours instead of actual attendance, resulting in 62 overreported hours for 6 students in 5 classes and 3 underreported hours for 1 student in 1 class.

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

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general education hours misreported for the 2011-12 fiscal year and contact the FDOE for proper resolution.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective action for findings included in previous audit reports, except that current Finding No. 1 was also noted as Finding Nos. 4 and 3 in our report Nos. 2011-091 and 2012-158, respectively.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

HENDRY COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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
2012-158		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

Hendry County School Board

Paul K. Puletti
Superintendent

District Office
Hendry Co. Courthouse
P. O. Box 1980
LaBelle, Florida 33975-1980
(863) 674-4642
FAX (863) 674-4090 SUNCOM 744-4642

Sub-Office
475 East Osceola Avenue
Clewiston, Florida 33440-3140
(863) 902-4244
FAX (863) 902-4247 SUNCOM 744-4244

March 11, 2013

Mr. David W. Martin, Auditor General
Office of the Auditor General
G47 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to the provisions of Section 11.45 (4) (d), Florida Statutes herewith is the submitted statement of explanation for proposed action concerning all the findings of the preliminary and tentative audit findings of the Hendry County District School Board for the fiscal year ending June 30, 2012.

Compensation and Salary Schedules

The District will establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Adult General Education Classes

The District will enhance its controls to ensure accurate reporting of instructional contract hours for adult general education classes to the FDOE. The District will also determine the extent of adult general education hours misreported for the 2011-12 fiscal year and contact the FDOE for proper resolution.

Sincerely yours,

Paul K. Puletti
Superintendent

PKP:bt

cc: Michael J. Yanosik, Chief Financial Officer