

HERNANDO COUNTY DISTRICT SCHOOL BOARD

Financial and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Hernando County District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
John K. Sweeney, Vice Chair from 11-18-08	1
Charles Patrick Fagan	2
Dianne Bonfield, Chair from 11-18-08	3
James B. Malcolm to 11-17-08, Vice Chair	4
James C. Yant from 11-18-08	4
Sandra K. Nicholson, Chair to 11-17-08	5

Dr. Wayne S. Alexander, 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 Brian Werthmiller, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Danielle Alvarez, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

HERNANDO COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operations that we consider to be significant deficiencies as summarized below and in Finding Nos. 1 and 2 of our operational report No. 2010-036. However, these significant deficiencies are not considered to be material weaknesses.

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements are needed in District procedures to ensure that certain account balances and transactions are properly reported on the financial statements.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: District records disclosed that seven teachers, assigned to a Title I schoolwide project school, did not meet the requirements to be highly qualified, contrary to Federal regulations.

Federal Awards Finding No. 2: Improvements could be made in procedures to provide the required contractual provisions for expenditures funded with Federal moneys.

Audit Objectives and Scope

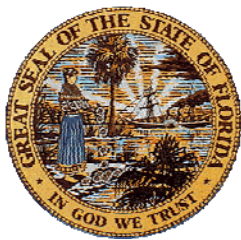
Our audit objectives were to determine whether the Hernando County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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; and
- 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.

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, 2009. 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. The results of our operational audit of the District are included in our report No. 2010-036.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hernando County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 9 percent of the assets and 69 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Hernando County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 52 through 56) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
November 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hernando County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-2009 fiscal year are as follows:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$321,287,636.
- The District's total net assets increased by \$4,242,430, which represents a 1.34 percent increase from the 2007-2008 fiscal year.
- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of \$162,763,672, a decrease of \$41,003,956 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$9,808,942, or 6.36 percent of total General Fund revenues, and is available for spending at the District's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The government activities of the District include such functions as instruction, pupil personnel services, administration, pupil transportation, maintenance, and other items.

The government-wide financial statements include not only the District itself (known as the primary government), but also the Hernando County Education Direct Support Organization, Inc., for which the District is financially accountable and the Gulf Coast Academy of Science and Technology, Inc., a Charter School, both of which the District is required to report as component units. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10 through 13 of this report.

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

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

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

The District maintains 12 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and three capital project funds that are considered to be major funds. Data from the other eight 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 Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements and the budgetary comparison schedule presented as required supplementary information can be found on pages 14 through 20 and 52 through 54 of this report.

- **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 scholarship funds established by private donors. The District uses agency funds to account for resources held for student activities and groups.

The basic fiduciary funds financial statements can be found on pages 21 through 22 of this report.

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. The notes to financial statements can be found on pages 23 through 51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$321,287,636 at the close of the most recent fiscal year.

The following is a summary of the District's net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

	Governmental Activities	
	June 30, 2009	June 30, 2008
Current and Other Assets	\$ 172,807,357	\$ 215,802,960
Capital Assets	377,010,579	338,427,022
Total Assets	549,817,936	554,229,982
Long-Term Liabilities	223,195,381	229,297,466
Other Liabilities	5,334,919	7,887,310
Total Liabilities	228,530,300	237,184,776
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	244,788,425	211,125,761
Restricted	74,596,072	106,441,480
Unrestricted (Deficit)	1,903,139	(522,035)
Total Net Assets	\$ 321,287,636	\$ 317,045,206

By far the largest portion of the District's net assets, \$244,788,425 reflects its investment in capital assets (e.g., land, buildings, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to educate the students of Hernando County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets, \$74,596,072 represents resources that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the District is able to report positive balances in all categories of net assets. The remaining balance of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

	Governmental Activities	
	June 30, 2009	June 30, 2008
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,035,114	\$ 3,151,364
Operating Grants and Contributions	11,545,815	11,510,662
Capital Grants and Contributions	6,732,775	28,693,243
General Revenues:		
Property Taxes	85,834,125	88,581,797
Other Taxes	7,558,751	7,950,810
Grants and Contributions Not Restricted to Specific Programs	94,316,939	100,724,798
Unrestricted Investment Earnings	(931,032)	6,493,112
Miscellaneous	3,760,426	2,014,386
Total Revenues	<u>211,852,913</u>	<u>249,120,172</u>
Functions/Program Expenses:		
Instruction	103,745,430	104,620,004
Pupil Personnel Services	9,659,517	9,358,470
Instructional Media Services	2,405,268	2,228,490
Instruction and Curriculum Development Services	3,416,775	3,597,622
Instructional Staff Training Services	3,172,689	2,912,419
Instruction Related Technology	1,056,421	1,559,473
Board of Education	481,247	483,014
General Administration	751,679	694,464
School Administration	10,317,777	9,653,650
Facility Services - Non-Capitalized	7,902,932	6,927,176
Fiscal Services	810,278	797,447
Food Services	9,802,355	8,632,568
Central Services	1,938,922	1,831,782
Pupil Transportation Services	9,230,050	9,077,198
Operation of Plant	14,714,540	14,779,400
Maintenance of Plant	4,548,453	4,688,615
Administrative Technology Services	1,804,846	1,564,077
Community Services	67,495	124,926
Interest on Long-Term Debt	9,341,317	9,863,723
Unallocated Depreciation Expense	12,442,492	11,560,613
Total Functions/Program Expenses	<u>207,610,483</u>	<u>204,955,131</u>
Increase in Net Assets	4,242,430	44,165,041
Net Assets, Beginning	<u>317,045,206</u>	<u>272,880,165</u>
Net Assets, Ending	<u>\$ 321,287,636</u>	<u>\$ 317,045,206</u>

The total governmental net assets increased by \$4,242,430 during the current year, as compared to a net increase of \$44,165,041 in the previous year. The slowdown in the growth of net assets can be attributed primarily to State revenue shortfalls and declining general economic conditions. Total revenues decreased by \$37,267,259, primarily due to a \$20,742,259 decrease in State Class Size Reduction Construction and Public Education Capital Outlay funding, a \$7,055,073 decrease in Florida Education Finance Program funding and a \$7,424,144 decrease in investment earnings. While total revenues declined 15 percent, the District was able to hold total expenses to a modest 1.3 percent increase over the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$162,763,672, a decrease of \$41,003,956 in comparison with the prior year. Unreserved fund balances of \$101,035,151 represent 62.07 percent of the ending fund balances and are available to meet the District's short-term spending needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) liquidate contracts and purchase orders outstanding at year-end, totaling \$41,273,795; 2) fund State categorical programs in the amount of \$557,545; 3) retirement of debt in the near term totaling \$9,659,154; and 4) investments in funds not available for appropriation totaling \$10,238,027.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund is \$9,808,942, while the total fund balance reached \$12,098,122. The fund balance of the District's General Fund increased by \$3,980,265 during the current fiscal year. The increase occurred primarily due to the Board planning for State reductions that are expected over the next couple of fiscal years. This was accomplished by increasing transfers in from Capital Projects Funds to cover allowable maintenance and capital expenditures in the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total revenues. Unreserved fund balance represents 6.36 percent of total General Fund revenues, while total fund balance represents 7.85 percent of that same amount.

The major capital project funds have a combined total fund balance of \$136,756,697, all of which is set aside for capital projects. The fund balance for the Capital Projects – Public Education Capital Outlay Fund, decreased by \$18,308,236 to \$25,794,948. The net decrease is primarily due to the reduction of State funding for Class Size Reduction Construction. The fund balance of the Capital Projects – Local Capital Improvement Fund decreased by \$2,260,597 to \$17,009,495. The net decrease is a result of the reduction in ad valorem tax receipts. The fund balance for the Capital Projects – Other Fund decreased by \$15,951,651 to \$93,952,254. The net decrease reflects the timing difference between revenues and expenditures on construction projects accounted for in this fund. It should be noted that \$37,628,021 of the total fund balance has been encumbered for specific construction projects in progress at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year, the District received \$6,915,432 less in State revenues than the original budget. The decrease in State revenues is due to a decline of 433 students from the initial full-time equivalent student enrollment of 23,069 students and the fourth Florida Education Finance Program (FEFP) calculation of 22,623 students, excluding adult education students. The District also received a reduction of \$86 in the base student allocation from \$3,972 to \$3,886. The State revenue shortfall was

due, in part, to an unexpectedly long housing slowdown. The reduction in revenue is partially offset by increases in some local revenues, such as tax collections that were \$1,037,270 more than the original budget and miscellaneous local revenues that were \$369,666 more than the original budget. The original budget for the expenditure functions was reduced as a result of lower student enrollment and cuts made during the fiscal year as directed by the Superintendent and Board. The actual ending fund balance was more than the original budget estimate by \$2,722,862.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets. The District's investment in capital assets for governmental activities as of June 30, 2009, amounts to \$377,010,579 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital leases; and construction in progress. The total increase of \$38,583,557 in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 11.40 percent.

	Governmental Activities	
	June 30, 2009	June 30, 2008
Land	\$ 10,381,399	\$ 10,384,474
Improvements Other Than Buildings	15,536,996	14,740,466
Buildings and Fixed Equipment	316,291,201	297,660,808
Furniture, Fixtures, and Equipment	3,516,870	4,653,985
Motor Vehicles	5,017,752	4,434,732
Construction in Progress	15,857,036	3,678,898
Property Under Capital Leases	10,409,325	2,873,659
Total Capital Assets	<u>\$ 377,010,579</u>	<u>\$ 338,427,022</u>

Additional information on the District's capital assets can be found in Notes 4 and 17 on pages 35 and 50, respectively, of this report.

Long-Term Debt. At the end of the current fiscal year, the District has total long-term debt outstanding of \$207,911,226, which excludes compensated absences payable and postemployment healthcare benefits payable. This amount is comprised of a note payable of \$12,406,134, \$6,585,904 of obligations under capital lease agreements, \$144,468,846 in Certificates of Participation, and \$44,450,342 in bonded debt, \$5,576,805 of which is backed by the full faith and credit of the State of Florida.

On October 7, 2009, in the course of a routine surveillance, Fitch Ratings upgraded the District's ratings on the outstanding General Obligation (GO) bonds to an 'A' from an 'A-' and on outstanding Certificates of Participation (COPs) to an 'A-' from 'BBB+'. The ratings outlook is stable for the District.

During the current fiscal year, the District paid \$15,849,019 for principal payments on long-term debt as follows:

State School Bonds	\$ 410,000
Other Debt Service:	
District Revenue Bonds	65,000
General Obligation Bonds	3,750,000
Certificates of Participation	2,970,000
Sales Tax Revenue Bonds	5,165,000
Note Payable	916,256
Obligations Under Capital Leases	<u>2,572,763</u>
Total Principal Payments	<u>\$ 15,849,019</u>

Additional information on the District's long-term debt can be found in Notes 5 through 10 on pages 36 through 43 of this report.

ECONOMIC FACTORS AND FORECAST

For fiscal year 2008-2009, the District experienced an 8.35 percent decrease in State education funding over the prior fiscal year. As of June 2009, the unemployment rate for Hernando County is currently 13.10 percent, which is an increase from the rate of 7.50 percent a year ago. This compares to the State's average unemployment rate of 10.60 percent. These factors were considered in preparing the District budget for the 2009-2010 fiscal year.

On November 10, 2009, the Board of County Commissioners of Hernando County voted to reduce impact fees by an average of 43 percent to 2001 levels and provides the option to pay the fee at the time of certificate of occupancy rather than at the time of the initial permit. The impact fee ordinance amendment is effective December 1, 2009, and will sunset after a time period of twelve months. As a result, the District expects a decline in revenues of \$800,000 and has adjusted budgeted revenue for these fees for the 2009-2010 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Hernando County District School Board, 919 North Broad Street, Brooksville, Florida, 34601.

BASIC FINANCIAL STATEMENTS

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA STATEMENT OF NET ASSETS June 30, 2009

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 17,575,479	\$ 197,877
Investments	120,957,477	
Accounts Receivable	12,084	
Prepaid Items	38,099	
Due from Other Agencies	28,444,074	22,227
Capital Credits Receivable	2,633,210	
Deferred Charges	2,075,556	
Inventories	1,071,378	
Capital Assets:		
Nondepreciable Capital Assets	26,238,435	
Depreciable Capital Assets, Net	350,772,144	171,617
TOTAL ASSETS	\$ 549,817,936	\$ 391,721
LIABILITIES		
Salaries and Benefits Payable	\$ 10,389	\$ 1,752
Accounts Payable	2,740,751	2,880
Construction Contracts Payable - Retainage	1,256,284	
Due to Other Agencies	8,188	5,060
Deposits Payable	61,021	
Unearned Revenue	1,258,286	1,919
Long-Term Liabilities:		
Due Within One Year	13,823,190	14,240
Due in More Than One Year	209,372,191	20,374
Total Liabilities	228,530,300	46,225
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	244,788,425	137,003
Restricted for:		
State Categorical Programs	557,545	
Debt Service	9,659,154	
Capital Projects	63,793,763	
Special Revenue - Food Service Operations	585,610	
Other Purposes		27,655
Unrestricted	1,903,139	180,838
Total Net Assets	321,287,636	345,496
TOTAL LIABILITIES AND NET ASSETS	\$ 549,817,936	\$ 391,721

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

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DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Instruction	\$ 103,745,430	\$ 3,216	\$	\$
Pupil Personnel Services	9,659,517			
Instructional Media Services	2,405,268			
Instruction and Curriculum Development Services	3,416,775			
Instructional Staff Training Services	3,172,689			
Instruction Related Technology	1,056,421			
Board of Education	481,247			
General Administration	751,679			
School Administration	10,317,777			
Facility Services - Non-Capitalized	7,902,932			6,065,479
Fiscal Services	810,278			
Food Services	9,802,355	2,957,657	6,423,508	
Central Services	1,938,922			
Pupil Transportation Services	9,230,050	74,241	5,122,307	
Operation of Plant	14,714,540			
Maintenance of Plant	4,548,453			
Administrative Technology Services	1,804,846			
Community Services	67,495			
Interest on Long-Term Debt	9,341,317			667,296
Unallocated Depreciation Expense	12,442,492			
Total Primary Government	\$ 207,610,483	\$ 3,035,114	\$ 11,545,815	\$ 6,732,775
Component Units				
Educational Foundation/Charter School	\$ 1,074,232	\$ 9,552	\$ 87,477	\$ 61,995

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Debt Service

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues**Change in Net Assets**

Net Assets - Beginning

Net Assets - Ending

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

(Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
	Governmental Activities	Component Units
\$	(103,742,214)	\$
	(9,659,517)	
	(2,405,268)	
	(3,416,775)	
	(3,172,689)	
	(1,056,421)	
	(481,247)	
	(751,679)	
	(10,317,777)	
	(1,837,453)	
	(810,278)	
	(421,190)	
	(1,938,922)	
	(4,033,502)	
	(14,714,540)	
	(4,548,453)	
	(1,804,846)	
	(67,495)	
	(8,674,021)	
	(12,442,492)	
	(186,296,779)	
		(915,208)
	63,936,956	
	2,571,651	
	19,325,518	
	7,558,751	
	94,316,939	95,755
	(931,032)	5,979
	3,760,426	774,746
	190,539,209	876,480
	4,242,430	(38,728)
	317,045,206	384,224
\$	321,287,636	\$ 345,496

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	\$ 6,113,754	\$ 22,861	\$ 1,525,176
Investments	4,814,739	189,096	15,776,205
Accounts Receivable	10,686		
Prepaid Items			
Due from Other Funds	400,073		
Due from Other Agencies	458,419	26,669,561	128,708
Inventories	964,721		
TOTAL ASSETS	\$ 12,762,392	\$ 26,881,518	\$ 17,430,089
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 10,389	\$	\$
Accounts Payable	617,600	121,051	311,901
Construction Contracts Payable - Retainage		218,783	108,693
Due to Other Funds		746,736	
Due to Other Agencies	8,188		
Deposits Payable	2,015		
Deferred Revenue	26,078		
Total Liabilities	664,270	1,086,570	420,594
Fund Balances:			
Reserved for State Categorical Programs	557,545		
Reserved for Encumbrances	479,015	1,579,126	1,554,650
Reserved for Debt Service			
Reserved for Investments in SBA Fund B Surplus Funds Trust Fund	403,870	61,632	234,024
Reserved for Investments in Reserve Fund	848,750		
Unreserved, Reported in:			
General Fund	9,808,942		
Special Revenue Funds		24,154,190	15,220,821
Capital Projects Funds			
Total Fund Balances	12,098,122	25,794,948	17,009,495
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,762,392	\$ 26,881,518	\$ 17,430,089

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

(Continued)

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 9,077,650	\$ 836,038	\$ 17,575,479
87,164,684	13,012,753	120,957,477
	1,398	12,084
38,099		38,099
746,177		1,146,250
586,812	600,574	28,444,074
	106,657	1,071,378
<u>\$ 97,613,422</u>	<u>\$ 14,557,420</u>	<u>\$ 169,244,841</u>
\$	\$	\$
1,500,152	190,047	10,389
928,808		2,740,751
	399,514	1,256,284
		1,146,250
		8,188
	59,006	61,021
1,232,208		1,258,286
<u>3,661,168</u>	<u>648,567</u>	<u>6,481,169</u>
		557,545
37,628,021	32,983	41,273,795
	9,659,154	9,659,154
2,338,787	66,629	3,104,942
3,366,698	2,917,637	7,133,085
		9,808,942
	585,610	585,610
50,618,748	646,840	90,640,599
<u>93,952,254</u>	<u>13,908,853</u>	<u>162,763,672</u>
<u>\$ 97,613,422</u>	<u>\$ 14,557,420</u>	<u>\$ 169,244,841</u>

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total Fund Balances - Governmental Funds \$ 162,763,672

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.

Nondepreciable Capital Assets	\$ 26,238,435	
Depreciable Capital Assets, Net	<u>350,772,144</u>	377,010,579

Capital credits to be received in future years are not available to liquidate liabilities in governmental funds, but are accrued in the government-wide statements.	2,633,210
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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.	2,075,556
---	-----------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ 44,450,342	
Certificates of Participation Payable	144,468,846	
Obligations Under Capital Leases	6,585,904	
Note Payable	12,406,134	
Postemployment Healthcare Benefits Payable	2,481,264	
Compensated Absences Payable	<u>12,802,891</u>	<u>(223,195,381)</u>

Total Net Assets - Governmental Activities \$ 321,287,636

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

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DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	General Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 474,613	\$	\$
Federal Through State and Local	371,140		
State	87,145,608	4,606,635	
Local:			
Property Taxes Levied for Operational Purposes	63,936,956		
Property Taxes Levied for Debt Services			
Property Taxes Levied for Capital Projects			19,325,518
Local Sales Tax			
Charges for Service - Food Services			
Impact Fees			
Miscellaneous	2,195,214	(17,039)	577,816
Total Revenues	<u>154,123,531</u>	<u>4,589,596</u>	<u>19,903,334</u>
Expenditures			
Current:			
Instruction	97,114,631		
Pupil Personnel Services	7,095,672		
Instructional Media Services	2,352,336		
Instruction and Curriculum Development Services	1,754,791		
Instructional Staff Training Services	1,569,908		
Instruction Related Technology	705,749		
Board of Education	477,287		
General Administration	507,900		
School Administration	10,199,144		
Facility Services - Non-Capitalized	845,895	1,251,034	3,981,341
Fiscal Services	803,075		
Food Services	21,662		
Central Services	1,896,059		
Pupil Transportation Services	8,871,253		
Operation of Plant	14,375,961		
Maintenance of Plant	4,450,916		
Administrative Technology Services	1,751,858		
Community Services	67,009		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	256,973	21,215,430	2,681,089
Other Capital Outlay	6,985	178,452	10,994,521
Debt Service:			
Principal			
Interest and Fiscal Charges			
Dues and Fees			
Total Expenditures	<u>155,125,064</u>	<u>22,644,916</u>	<u>17,656,951</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,001,533)</u>	<u>(18,055,320)</u>	<u>2,246,383</u>
Other Financing Sources (Uses)			
Transfers In	4,933,981		
Inception of Capital Leases			7,998,320
Insurance Loss Recoveries	114,059	12,400	
Transfers Out	(66,242)	(265,316)	(12,505,300)
Total Other Financing Sources (Uses)	<u>4,981,798</u>	<u>(252,916)</u>	<u>(4,506,980)</u>
Net Change in Fund Balances	3,980,265	(18,308,236)	(2,260,597)
Fund Balances, Beginning	<u>8,117,857</u>	<u>44,103,184</u>	<u>19,270,092</u>
Fund Balances, Ending	<u>\$ 12,098,122</u>	<u>\$ 25,794,948</u>	<u>\$ 17,009,495</u>

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

(Continued)

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 241,547	\$	\$ 716,160
114,089	17,105,316	17,476,456
	1,234,703	93,101,035
		63,936,956
	2,571,651	2,571,651
		19,325,518
7,558,751		7,558,751
	2,957,657	2,957,657
1,301,878		1,301,878
(759,498)	45,603	2,042,096
8,456,767	23,914,930	210,988,158
	4,266,277	101,380,908
	2,388,784	9,484,456
		2,352,336
	1,633,210	3,388,001
	1,588,641	3,158,549
	335,723	1,041,472
		477,287
	239,994	747,894
	3,684	10,202,828
2,004,380	46,384	8,129,034
		803,075
	9,733,102	9,754,764
	2,425	1,898,484
	149,514	9,020,767
	22,197	14,398,158
		4,450,916
	17,769	1,769,627
		67,009
16,576,446	164,896	40,894,834
392,628	51,465	11,624,051
455,499	15,393,520	15,849,019
15,050	9,145,543	9,160,593
	99,036	99,036
19,444,003	45,282,164	260,153,098
(10,987,236)	(21,367,234)	(49,164,940)
21,643	12,888,935	17,844,559
		7,998,320
	36,205	162,664
(4,986,058)	(21,643)	(17,844,559)
(4,964,415)	12,903,497	8,160,984
(15,951,651)	(8,463,737)	(41,003,956)
109,903,905	22,372,590	203,767,628
\$ 93,952,254	\$ 13,908,853	\$ 162,763,672

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
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, 2009

Net Change in Fund Balances - Governmental Funds

\$ (41,003,956)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays and donations in excess of depreciation expense in the current period.

Capital Outlay - Facilities and Construction - Governmental Funds	\$	40,894,834	
Capital Outlay - Other Capital Outlay - Governmental Funds		11,624,051	
Donated and Other Items		232,959	
Less: Depreciation Expense		<u>(14,168,287)</u>	38,583,557

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period.

7,850,699

Premiums and debt issuance costs are reported in the governmental funds in the year debt is issued, but are capitalized and amortized over the life of the debt in the statement of activities.

Unamortized Premium:			
Prior Year	\$	1,394,592	
Less: Current Year		<u>(1,324,188)</u>	
Decrease in Unamortized Premiums			70,404
Deferred Charges:			
Prior Year		(2,227,648)	
Less: Current Year		<u>2,075,556</u>	
Decrease in Deferred Charges		<u>(152,092)</u>	(81,688)

Capital credits to be received in future years are accrued in the government-wide statements, but the credits do not provide current financial resources and are not recognized in the governmental funds.

Current Year Accruals		2,633,210	
Less: Prior Year		<u>(1,920,374)</u>	
Net Increase in Capital Assets Receivable			712,836

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.

(671,366)

Postemployment healthcare benefits costs are recorded in the governmental funds under the pay-as-you-go method, but under the full accrual method in the government-wide statements. This is the net increase in the postemployment healthcare benefits liability for the current period.

(1,147,652)**Change in Net Assets - Governmental Activities**\$ 4,242,430

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2009

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$	\$ 1,431,110
Investments	62,316	
Accounts Receivable		10,585
TOTAL ASSETS	\$ 62,316	\$ 1,441,695
LIABILITIES		
Accounts Payable	\$	\$ 5,076
Internal Accounts Payable		1,436,619
Total Liabilities		\$ 1,441,695
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	62,316	
TOTAL LIABILITIES AND NET ASSETS	\$ 62,316	

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2009

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Investment Earnings:	
Interest Income	\$ 4,220
	<u> </u>
DEDUCTIONS	
Scholarship Payments	<u>7,200</u>
Change in Net Assets	(2,980)
Net Assets, Beginning	<u>65,296</u>
Net Assets, Ending	<u><u>\$ 62,316</u></u>

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

• **Reporting Entity**

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

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

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

- Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the Hernando County Education Direct Support Organization, Inc. (Foundation), and the Gulf Coast Academy of Science and Technology, Inc. (Charter School).

The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the District. The Foundation is considered to be a component unit of the District because of the nature and significance of its relationship to the District.

The Charter School is a separate not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School operates under a charter of the sponsoring School District and is considered a component unit since it is fiscally dependent on the District to levy taxes for its support.

On October 17, 2006, the District extended the original Charter School contract fifteen more years, until June 30, 2023. At the end of the term of a charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the charter school in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event the charter school is dissolved or terminated, any unencumbered funds and all charter school property purchased with public funds

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown.

Annual postaudits of the Foundation's and the Charter School's financial statements are conducted by independent certified public accountants and are filed in the District's administrative office.

- **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's motor vehicles is allocated to the applicable functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental 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.
- **Capital Projects – Public Education Capital Outlay Fund** – to account for financial resources generated by Legislative appropriation through the Public Education

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

Capital Outlay program (PECO). The State allocates PECO money to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Florida Department of Education. PECO proceeds are to be used for specific educational capital outlay needs as specified within the original appropriation.

- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on lease-purchase agreements for educational facilities.
- Capital Projects – Other Fund – to account for the financial resources generated by the local voted sales tax and the impact fees levied by the Hernando County Board of County Commissioners. The sales tax is to be used for new school construction. The impact fees may be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments.

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Fund – to account for resources of the Hernando High School Renaissance Scholarship Endowment Fund which are used for student scholarships.
- Agency Funds – to account for resources of the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities.

- **Basis of Accounting**

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

The government-wide financial statements are prepared using the accrual basis of accounting, as are the 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.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

The District considers property taxes, sales taxes, and interest to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made.

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

Revenues can be classified into two kinds of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal value and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange. Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place.

Revenues resulting from nonexchange transactions are further classified into (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government-mandated nonexchange transactions, and (d) voluntary nonexchange transactions. Derived tax revenues (e.g., sales tax) are recorded when the exchange transaction occurs. Imposed nonexchange transactions (e.g., property taxes) are recorded when use of the resource is required or first permitted by time requirements (e.g., for property taxes, the period for which they are levied). Government-mandated and voluntary nonexchange transactions, (e.g., Federal mandates, grants, and donations) are recorded when all eligibility requirements have been met. 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.

The Gulf Coast Academy of Science and Technology, Inc., shown as a discretely presented component unit, is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

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

- **Deposits and Investments**

The District's cash and cash equivalents are considered to be demand deposits. On June 30, 2009, the carrying amount of the District's bank deposit accounts was \$19,006,589.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The Agency Funds consider cash as those accounts used as demand deposit

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

accounts and considers cash equivalents as those amounts invested in certificates of deposit.

Investments consist of amounts placed in State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in the Local Government Surplus Funds Trust Fund Investment Pool (LGIP) which, effective July 1, 2009, is known as Florida PRIME, and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments, and 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 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

SBA Fund B Legal Issue – On December 4, 2007, SBA restructured LGIP to establish Fund B. The restructure was necessary because several securities held by LGIP had defaulted and caused many investors to pull out of LGIP creating liquidity issues. The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (in addition to overnight instruments temporarily holding fund earnings). SBA asserts that JP Morgan and Lehman Brothers (which is now in liquidation) sold SBA certain unregistered secured notes that were not exempt from registration under the Securities Act of 1933. These notes (or the collateral distributed upon liquidation of the notes) are now being held in Fund B. As of June 30, 2009, the outstanding par value of the notes is \$705,399,761, \$187,662,303 of which was sold by JP Morgan and \$517,737,457 of which was sold by Lehman.

According to a letter from SBA, JP Morgan and SBA have entered into an Agreement to Extend Tolling Period (the "Extension") effective as of June 17, 2009, to facilitate further discussions between JP Morgan, and SBA and its external counsel, the law firm of Berman DeValerio Pease Tabacco Burt & Pucillo, regarding a potential resolution of the dispute. The Lehman Trustee has not yet responded to SBA's creditor claim on behalf of Fund B as to whether the Lehman estate will have any assets available for recovery.

The Reserve Primary Fund Valuation – On September 18, 2008, the net asset value of the Reserve Primary Fund was 97 cents, which is the date that the Reserve Primary Fund ceased calculating net asset value.

The Reserve Primary Fund Legal Issue – The Securities and Exchange Commission filed action on May 5, 2009, against Reserve Management Company, Inc., Reserve Partners, Inc., Bruce Brent Sr. and Bruce Brent II, seeking, inter alia, injunctive relief regarding the

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

future distribution of assets from Relief Defendant, the Reserve Primary Fund. Based on the action filed on May 5, 2009, the Securities Exchange Commission contends that if all remaining Primary Fund assets were distributed on a pro rata basis to all unpaid shareholders, investors would recover approximately 98.4 cents per share.

The District is reserving a portion of fund balances because, as a result of these events, the funds are not considered available for appropriation.

Investments made locally consist of certificates of deposit, money market mutual funds, and government securities and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost, except for transportation and food service inventories which are stated at last invoice, which approximates the first-in, first-out basis. 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 \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Fixed Equipment	50 years
Improvements Other than Buildings	25 years
Furniture, Fixtures, and Equipment	7 years
Motor Vehicles	10 years

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

- **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 bond premium or discount.

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

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

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

- **State Revenue Sources**

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

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

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

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

- **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 16, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **Local Sales Tax**

On March 9, 2004, the voters of Hernando County approved a one-half cent school capital outlay sales tax on sales in Hernando County for ten years, effective January 1, 2005, to pay for the construction of certain educational facilities and other related costs, in accordance with Section 212.055(6), Florida Statutes.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

- **Educational Impact Fees**

The District receives educational impact fees based on an ordinance adopted by the Hernando County Commission on October 28, 1986. The fees are collected by the County and each municipality within the County for most new residential construction based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to: land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness necessitated by new residential development. Because the educational impact fee is similar to a capital-type special assessment, it is reported as program revenue in the government-wide financial statements.

- **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds except that no budget appropriation is made for capital leases in the year of inception.
- 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.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

3. **INVESTMENTS**

Cash and Cash Equivalents and Investment Portfolio. Section 218.415, Florida Statutes, limits the types of investments that the District can invest in unless specifically authorized in the District's investment policy. The District's policy allows for the following investments: SBA Local Government Surplus Funds Trust Fund Investment Pool (LGIP), United States Government Securities, United States Government Agencies, Federal Instrumentalities, Interest Bearing Time Deposit or Saving Accounts, Registered Investment Companies (Mutual Funds), and other investments permitted by Section 218.415, Florida Statutes.

The District maintains a common cash and investment pool for the use of all funds. In addition, cash and investments are separately held by the District's general, special revenue, debt service, capital projects, and trust funds.

Investment Portfolio. Investment holdings consist of \$121,019,793 in direct obligations of the United States Treasury Securities, LGIP, Registered Investment Companies (Mutual Funds), and Interest Bearing Time Deposits, which are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

As of June 30, 2009, the District has the following investments and maturities:

<u>Security Type</u>	<u>Fair Value</u>	<u>Weighted or Effective Average Maturity (Years)</u>
State Board of Administration:		
Local Government Surplus Funds Trust Fund Investment Pool	\$ 9,073,114	0.13
Fund B Surplus Funds Trust Fund (1)	3,105,100	6.87
Debt Service Accounts	137,240	0.05
Money Market Funds:		
Federated Government Obligations Fund	66,122,123	0.13
Reserve Primary Fund (2)	7,136,440	N/A
First American Prime Obligations Fund (3)	35,160,303	0.12
Bank of America Certificates of Deposit	226,670	1.73
U.S. Treasury Bonds	58,803	13.44
Total	<u>\$ 121,019,793</u>	<u>0.30</u>

Notes: (1) Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding its WAL. At June 30, 2009, investments totaling \$1,284,935 are held under trust agreements in connection with Certificates of Participation, Series 1997, 2003, and 2005 financing agreements (See Note 7).

(2) Investments mature on or before October 15, 2009. However, according to the Fund's website, final resolution of fund asset entitlements "may require protracted negotiated agreements with Distributees, court proceedings and/or regulatory relief, any of which may take a long period of time." At June 30, 2009, investments totaling \$1,541,728 are held under trust agreements in connection with Certificates of Participation, Series 1997, 2003, and 2005 financing agreements (See Note 7).

(3) At June 30, 2009, investments totaling \$35,160,303 are held under trust agreements in connection with Certificates of Participation, Series 1997, 2003, and 2005 financing agreements (See Note 7).

Interest Rate Risk. The District's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of short-term funds will have maturities of no longer than twelve (12) months. Investments of bond reserves, construction funds, and other nonoperating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but should not exceed five (5) years. In the case of moneys which are construction proceeds of tax exempt debt issues, such investments shall not exceed three (3) years.

Although the District has investments held in SBA Fund B with an average maturity of 6.87 years, which is beyond the five-year maximum established by District policy, participation in Fund B is strictly involuntary. The Hernando High School Renaissance Scholarship Endowment Fund, a Private-Purpose Trust Fund, has investments in U.S. Treasury Bonds with

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

an average maturity of 13.44 years. These bonds were purchased prior to the establishment of the District's investment policy in February 2000.

Credit Risk. The District's investment policy permits investments which are limited to credit quality ratings from nationally recognized rating agencies as follows:

- Mutual funds shall be rated "AAm" or "AAm-G" or better by Standard & Poor's or the equivalent by another national rating agency.
- Money market mutual funds shall be rated "AAAm" or "AAAm-G" or better by Standard & Poor's or the equivalent by another national rating agency.

As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.

The District's investments in SBA Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this investment.

The Federated Government Obligations Money Market Fund and the First American Prime Obligations Money Market Fund are rated AAAm by Standard & Poor's. The Reserve Primary Money Market Fund is not rated.

The District has \$226,670 invested in Certificate of Deposits in a qualified public depository, as required by Chapter 280, Florida Statutes.

Custodial Credit Risk. The District's investment policy pursuant to Section 218.415(18), Florida Statutes, requires securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and is doing business in the State of Florida. Certificates of Deposit will be placed in the provider's safekeeping department for the term of the deposit.

As of June 30, 2009, the only District investment subject to custodial credit risk is the U.S. Treasury Bonds of \$58,803. The bonds are held by the counterparty, but not in the name of the District.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 10,384,474	\$ 15,955	\$ 19,030	\$ 10,381,399
Construction in Progress	3,678,898	36,293,705	24,115,567	15,857,036
Total Capital Assets Not Being Depreciated	14,063,372	36,309,660	24,134,597	26,238,435
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	22,996,086	1,787,889		24,783,975
Buildings and Fixed Equipment	354,720,077	26,249,510	13,743	380,955,844
Furniture, Fixtures, and Equipment	23,818,386	2,232,247	2,472,174	23,578,459
Motor Vehicles	15,233,298	2,308,815	284,150	17,257,963
Property Under Capital Leases	3,568,017	7,998,320		11,566,337
Total Capital Assets Being Depreciated	420,335,864	40,576,781	2,770,067	458,142,578
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	8,255,620	991,359		9,246,979
Buildings and Fixed Equipment	57,059,269	7,619,117	13,743	64,664,643
Furniture, Fixtures, and Equipment	19,164,401	3,369,362	2,472,174	20,061,589
Motor Vehicles	10,798,566	1,725,795	284,150	12,240,211
Property Under Capital Leases	694,358	462,654		1,157,012
Total Accumulated Depreciation	95,972,214	14,168,287	2,770,067	107,370,434
Total Capital Assets Being Depreciated, Net	324,363,650	26,408,494		350,772,144
Governmental Activities Capital Assets, Net	\$338,427,022	\$ 62,718,154	\$ 24,134,597	\$377,010,579

The classes of property under capital leases are presented in Note 5.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

Depreciation expense was charged to functions as follows:

Function	Amount
Governmental Activities	
Instruction	\$ 1,207,699
Pupil Personnel Services	88,240
Instructional Media Services	29,253
Facility Services - Non-Capitalized	10,519
Food Services	269
Central Services	23,579
Pupil Transportation Services	110,322
Operation of Plant	178,777
Maintenance of Plant	55,351
Administrative Technology Services	21,786
Unallocated	12,442,492
Total Depreciation Expense - Governmental Activities	<u>\$14,168,287</u>

5. OBLIGATIONS UNDER CAPITAL LEASES

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

	Asset Balance
Relocatable Classrooms	\$ 2,429,578
Chiller Plant	1,138,439
Data Processing Equipment	7,998,320
Total	<u>\$11,566,337</u>

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
2010	\$ 2,306,300	\$ 2,045,949	\$260,351
2011	2,142,046	1,960,776	181,270
2012	2,142,047	2,040,800	101,247
2013	559,883	538,379	21,504
Total Minimum Lease Payments	<u>\$ 7,150,276</u>	<u>\$ 6,585,904</u>	<u>\$564,372</u>

The imputed interest rates range from 3.48 to 5.01 percent.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

6. NOTE PAYABLE

Note payable is comprised of the following:

	Balance at June 30, 2009
<u>Banc of America Public Capital Corp</u>	
\$14,419,695, Borrowed 3-16-07. Under Provisions of Section 1013.23, Florida Statutes. Interest Rate of 3.83 percent. Proceeds Used to Refinance the Purchase of Energy Savings Equipment. Matures 2-28-20. Repayment of the Loan is Expected to be Extended Over the Next Eleven Years.	
	<u>\$ 12,406,134</u>

Amounts payable for the planned extended repayment of the Section 1013.23, Florida Statutes, financing agreement are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 1,413,189	\$ 951,837	\$ 461,352
2011	1,413,189	988,800	424,389
2012	1,413,189	1,027,198	385,991
2013	1,413,189	1,067,087	346,102
2014	1,413,189	1,108,526	304,663
2015-2019	7,065,946	6,222,762	843,184
2020	1,059,222	1,039,924	19,298
Total	<u>\$ 15,191,113</u>	<u>\$ 12,406,134</u>	<u>\$ 2,784,979</u>

7. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on November 1, 1991, which was characterized as a lease-purchase agreement, with the Florida School Boards Association, Inc., whereby the District secured financing of various educational facilities in the total amount of \$21,745,000 for the Certificates of Participation, Series 1991; \$11,435,000 for the Certificates of Participation, Series 1993; \$16,715,000 for the Certificates of Participation, Series 1997; \$30,000,000 for the Certificates of Participation, Series 2003A; \$7,175,000 for the Certificates of Participation, Series 2003B; and \$106,670,000 for the Certificates of Participation, Series 2005. The Certificates of Participation, Series 1997, were used to advance refund the portion of the outstanding Certificates of Participation, Series 1991, maturing on or after July 1, 2002. The Certificates of Participation, Series 2003B, were used to advance refund the outstanding Certificates of Participation, Series 1993, maturing on or after July 1, 2004. The financings were accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given ground leases on District property to the Florida School Boards Association, Inc., with a rental fee of \$10 per year. The initial term of four leases is 20 years commencing on November 1, 1991, April 1, 1993,

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
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June 30, 2009

November 1, 1997, and November 1, 2003, and they are referred to as the Series 1991 Project, the Series 1993 Project, the Series 1997 Project, and the Series 2003A Project, respectively. The term for the lease referred to as the Series 2005 Project, commencing on January 1, 2006, is 30 years. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be up to 35 years from the date of inception of the arrangements.

The District properties included in the ground leases under this arrangement include land on which the projects have been constructed. The projects related to the ground leases are as follows:

Series 1997 Certificates of Participation (Refunded Series 1991)

Improvements and Additions to Hernando High School
School Distribution Center
Maintenance Facility
West Hernando Middle School

Series 2003B Certificates of Participation (Refunded Series 1993)

Additions to Westside Elementary School
New District Transportation Complex
Suncoast Elementary School

Series 2003A Certificates of Participation

Challenger K-8 School Science and Mathematics (formerly Elementary "I")

Series 2005 Certificates of Participation

Explorer K-8 School (formerly Elementary "J")
Elementary "K"
Grade Specific Additions at Pine Grove Elementary School, West Hernando Middle School, and Central High School
Improvements and Additions to Hernando High School
Improvements and Additions to Springstead High School
Improvements and Additions to Spring Hill Elementary School

The lease payments for the 1997, 2003, and 2005 Series are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2.875 to 5.0 percent.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 9,663,103	\$ 3,085,000	\$ 6,578,103
2011	9,665,665	3,215,000	6,450,665
2012	9,665,905	3,355,000	6,310,905
2013	9,666,403	3,500,000	6,166,403
2014	9,667,168	3,630,000	6,037,168
2015-2019	48,330,338	20,370,000	27,960,338
2020-2024	48,326,444	25,295,000	23,031,444
2025-2029	48,328,125	31,630,000	16,698,125
2030-2034	48,323,675	40,110,000	8,213,675
2035	9,664,650	9,220,000	444,650
Total Minimum Lease Payments	251,301,476	143,410,000	107,891,476
Unamortized COP Premiums	1,058,846	1,058,846	
Total	<u>\$ 252,360,322</u>	<u>\$ 144,468,846</u>	<u>\$ 107,891,476</u>

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

8. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

<u>Bond Type</u>	<u>Original Debt Issue Amount</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:				
Series 1999A	\$ 855,000	\$ 405,000	4.25 - 4.75	2019
Series 2003A	670,000	520,000	3.00 - 4.25	2023
Series 2004A	460,000	370,000	3.350 - 4.625	2024
Series 2005A	545,000	455,000	4.00 - 5.00	2025
Series 2005B, Refunding	3,885,000	3,565,000	5.00	2018
Subtotal	6,415,000	5,315,000		
Unamortized Premium	378,165	261,805		
State School Bonds	6,793,165	5,576,805		
District Revenue Bonds:				
Series 2001, Refunding	3,290,000	2,795,000	4.100 - 5.125	2031
Sales Tax Revenue Bonds:				
Series 2006	45,000,000	35,270,000	3.50 - 4.25	2014
Unamortized Bond Premium	5,304	3,537		
Sales Tax Revenue Bonds	45,005,304	35,273,537		
District General Obligation Bonds:				
Series 1995, Refunding	8,375,000	805,000	5.40	2010
Total Bonds Payable	\$ 63,463,469	\$ 44,450,342		

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

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**

Refunding and Capital Improvement Revenue Bonds, Series 2001. These bonds were issued in June 2001 to refund the Refunding and Improvement Revenue Bonds, Series 1992, and to finance the costs of various capital improvements within the school district. These bonds were authorized by Chapter 79-471, Laws of Florida, which provides that the bonds be secured from racetrack funds and jai alai fronton funds accruing annually to the District 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). The annual distribution is remitted by the Florida Department of Financial Services to the District.

- **Sales Tax Revenue Bonds**

Sales Tax Revenue Bonds, Series 2006. These bonds are authorized by Chapters 1001 and 212, Florida Statutes. Principal and interest on these bonds are payable solely from and secured by a lien upon and pledge of proceeds from the levy and collection of the one-half cent local capital outlay sales surtax pursuant to Section 212.055(6), Florida Statutes. The bonds were issued for the principal purpose of acquiring, construction, and equipping a new high school.

- **District General Obligation Bonds**

General Obligation Refunding Bonds, Series 1995. These bonds are authorized by Chapter 1011 and Sections 132.33 through 132.47, Florida Statutes, and other applicable provisions of law, and secured by a pledge of property taxes levied, pursuant to Chapter 1011, Florida Statutes. The bonds, and the interest on the bonds, do not constitute a new debt, but merely constitute a renewal and continuation of the original existing indebtedness evidenced by the refunded bonds and the interest due thereon. The sinking fund required by the bond resolution has been established and adequate resources have been maintained.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2010	\$ 677,186	\$ 425,000	\$ 252,186
2011	672,049	440,000	232,049
2012	676,104	465,000	211,104
2013	678,829	490,000	188,829
2014	670,260	505,000	165,260
2015-2019	2,862,356	2,430,000	432,356
2020-2024	593,346	520,000	73,346
2025	41,700	40,000	1,700
Unamortized Bond Premium	261,805	261,805	
Total State School Bonds	<u>7,133,635</u>	<u>5,576,805</u>	<u>1,556,830</u>
District Revenue Bonds:			
2010	206,028	70,000	136,028
2011	208,018	75,000	133,018
2012	204,830	75,000	129,830
2013	206,458	80,000	126,458
2014	207,785	85,000	122,785
2015-2019	1,025,355	475,000	550,355
2020-2024	1,017,813	600,000	417,813
2025-2029	1,016,922	770,000	246,922
2030-2032	609,203	565,000	44,203
Total District Revenue Bonds	<u>4,702,412</u>	<u>2,795,000</u>	<u>1,907,412</u>
Sales Tax Revenue Bonds:			
2010	6,555,915	5,370,000	1,185,915
2011	6,554,640	5,560,000	994,640
2012	6,540,434	5,750,000	790,434
2013	6,572,038	5,995,000	577,038
2014	6,532,049	6,180,000	352,049
2015	6,531,775	6,415,000	116,775
Unamortized Bond Premium	3,537	3,537	
Total Sales Tax Revenue Bonds	<u>39,290,388</u>	<u>35,273,537</u>	<u>4,016,851</u>
General Obligation Bonds:			
2010	848,470	805,000	43,470
Total	<u>\$ 51,974,905</u>	<u>\$ 44,450,342</u>	<u>\$ 7,524,563</u>

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

9. DEFEASED DEBT

In prior years, the Board defeased in substance certain outstanding bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the District's financial statements. On June 30, 2009, bonds considered defeased in substance are as follows:

Bond Issues	Amount Outstanding
Capital Improvement Revenue Bonds, Series 1979A	\$ 325,000
General Obligation Bonds, Series 1990	865,000
Refunding and Capital Improvement Revenue Bonds, Series 1992	1,440,000
Total Defeased Debt	<u>\$ 2,630,000</u>

10. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 53,575,000	\$	\$ 9,390,000	\$ 44,185,000	\$ 6,670,000
Unamortized Premium	295,021		29,679	265,342	29,679
Total Bonds Payable	<u>53,870,021</u>		<u>9,419,679</u>	<u>44,450,342</u>	<u>6,699,679</u>
Certificates of Participation Payable	146,380,000		2,970,000	143,410,000	3,085,000
Unamortized Premium	1,099,571		40,725	1,058,846	40,725
Total Certificates of Participation Payable	<u>147,479,571</u>		<u>3,010,725</u>	<u>144,468,846</u>	<u>3,125,725</u>
Obligations Under Capital Leases	1,160,347	7,998,320	2,572,763	6,585,904	2,045,949
Note Payable	13,322,390		916,256	12,406,134	951,837
Postemployment Healthcare Benefits Payable	1,333,612	1,274,871	127,219	2,481,264	
Compensated Absences Payable	12,131,525	1,478,711	807,345	12,802,891	1,000,000
Total Governmental Activities	<u>\$ 229,297,466</u>	<u>\$ 10,751,902</u>	<u>\$ 16,853,987</u>	<u>\$ 223,195,381</u>	<u>\$ 13,823,190</u>

For the governmental activities, compensated absences and postemployment benefits are generally liquidated with resources of the General Fund.

11. RESERVE FOR ENCUMBRANCES

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

likewise encumbered. The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-2010 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major Funds:		
General	\$ 400,073	\$
Capital Projects:		
Public Education Capital Outlay		746,736
Other	746,177	
Nonmajor Governmental		399,514
Total Governmental Funds	<u>\$ 1,146,250</u>	<u>\$ 1,146,250</u>

Interfund receivables and payables are temporary loans of cash between funds allowable under Section 1011.09, Florida Statutes, for a period of less than 13 months. The temporary loans do not restrict, impede, or limit implementation or fulfillment of the original purposes for which the moneys were received in the fund providing the advancement.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 4,933,981	\$ 66,242
Capital Projects:		
Public Education Capital Outlay		265,316
Local Capital Improvement		12,505,300
Other	21,643	4,986,058
Nonmajor Governmental	12,888,935	21,643
Total Governmental Funds	<u>\$ 17,844,559</u>	<u>\$ 17,844,559</u>

Interfund transfers represent permanent transfers of moneys between funds. In general, funds are transferred from the General Fund and Capital Projects Funds to the Debt Service Funds for annual debt payments and from the Capital Projects Funds to the General Fund to assist in financing maintenance operations of the District and payment of property-casualty insurance premiums.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

13. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2008-2009 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 53,730,728
Categorical Educational Programs:	
Class Size Reduction	22,839,350
Transportation	5,122,307
Instructional Materials	2,146,294
School Recognition Funds	1,156,514
Florida Teachers Lead	323,619
Excellent Teaching	313,157
Voluntary Prekindergarten	126,308
Gross Receipts Tax (Public Education Capital Outlay)	4,537,560
Motor Vehicle License Tax (Capital Outlay and Debt Service)	884,388
Discretionary Lottery Funds	545,122
Workforce Development Program	533,992
Food Service Supplement	143,886
Charter School Capital Outlay	69,075
Interest on Investment of Bond Reserves	8,949
Miscellaneous	619,786
Total	<u>\$ 93,101,035</u>

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

14. **PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-2009 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.086	\$ 58,411,555
Basic Discretionary Local Effort	0.498	5,719,417
Supplemental Discretionary Local Effort	0.213	2,446,257
<u>DEBT SERVICE FUNDS</u>		
Voted Tax:		
Interest and Sinking	0.232	2,664,467
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	20,098,353
Total	<u>7.779</u>	<u>\$89,340,049</u>

15. **FLORIDA RETIREMENT SYSTEM**

Florida Retirement System. The Florida Retirement System (FRS) covers all regular employees of the District. FRS offers employees a defined benefit retirement plan and a defined contribution program. The District is required to make contributions in accordance with rates established by the Florida Legislature. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS.

Defined Benefit Plan. Most employees working for the District are covered by a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan) under FRS. Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision but imposes a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

A Deferred Retirement Option Program (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 a 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.

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Defined Contribution Plan. Pursuant to Section 121.4501, Florida Statutes, the Florida Legislature created a defined contribution program called the Public Employee Optional Retirement Program (PEORP). Employees in PEORP vest after one year of service. District employees participating in DROP are not eligible to participate in PEORP. This program is administered by FRS as an option to the defined benefit plan, and is self-directed by the employee. The employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave FRS. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 278 District participants in PEORP during the 2008-2009 fiscal year. Required contributions made to PEORP totaled \$1,451,788.

Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2008-2009 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (a)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(b)	(b)

Notes:

- (a) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.
- (b) Contribution rates are dependent upon the 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 for the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$8,793,220, \$9,331,531, and \$9,306,238, respectively, which were equal to the required contributions for each fiscal year.

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

16. **POSTEMPLOYMENT HEALTHCARE BENEFITS**

Plan Description. The Postemployment Healthcare Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District and eligible dependents, may continue to participate in the District's fully insured group health plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Benefit provisions for the Postemployment Healthcare Benefits Plan are pursuant to provisions of Section 112.081, Florida Statutes, and are amended through negotiations between the District and the respective unions.

The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the plan is financed on a pay-as-you-go basis. For the 2008-2009 fiscal year, 105 retirees received postemployment group healthcare benefits. The District's contribution to the OPEB obligation is the implicit subsidy for the retirees, which was \$127,219. Plan members receiving benefits contributed \$657,292, through their required contributions ranging from \$434 to \$462 per month for retiree-only coverage and from \$830 to \$878 for retiree and spouse coverage, depending on the health plan selected.

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

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 922,731
Amortization of Unfunded Actuarial Accrued Liability	<u>349,757</u>
Annual Required Contribution	1,272,488
Interest on Net OPEB Obligation	53,344
Adjustment to Annual Required Contributic	<u>(50,961)</u>
Annual OPEB Cost (Expense)	<u>1,274,871</u>
Contribution Toward the OPEB Cost	<u>(127,219)</u>
Increase in Net OPEB Obligation	1,147,652
Net OPEB Obligation, Beginning of Year	<u>1,333,612</u>
Net OPEB Obligation, End of Year	<u>\$ 2,481,264</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009, and the preceding year, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, 7-1-07	\$ -		\$ -
2007-2008	1,436,429	7.20%	1,333,612
2008-2009	1,274,871	10.00%	2,481,264

Funded Status and Funding Progress. As of July 1, 2008, the most recent actuarial valuation date, the accrued liability for benefits was \$9,152,972, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$9,152,972 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$103,207,238 for the 2008-2009 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.9 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 schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of funding progress can be found on page 55 of this report.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of the assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of July 1, 2008, used the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of June 30, 2009, and to estimate the District's 2008-2009 annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumption included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3 percent annually and an annual healthcare cost trend of 11 percent for the 2007-2008 fiscal year, reduced by 0.05 percent to 1 percent per year, to an ultimate rate of 5 percent after eight years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009, was 30 years.

17. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
New High School "EEE":			
Architect	\$ 1,942,935	\$ 1,810,547	\$ 132,388
Contractor	37,705,216	8,472,889	29,232,327
New Elementary "K" K-8 at US 19:			
Architect	912,600	393,118	519,482
Total	<u>\$ 40,560,751</u>	<u>\$ 10,676,554</u>	<u>\$ 29,884,197</u>

18. MEMBERSHIP IN NONPROFIT CORPORATION

The District participated in a nonprofit electric cooperative, the Withlacoochee River Electric Cooperative, Inc., established under the provisions of Chapter 425, Florida Statutes. In accordance with this statute, revenues in excess of operating expenses, unless determined by a vote of the membership, are distributed by the Cooperative on a pro rata basis to its members. The policy of the Cooperative is to credit the excess revenues to members' accounts. Capital credits are distributed only after the Cooperative attains a certain margin of profit required by the Rural Electrification Administration. At June 30, 2009, the accumulated credits to the District's account are \$2,633,210. During the 2008-2009 fiscal year, the District received \$109,623 in capital credits.

19. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hernando County District School Board is a participating district of the North East Florida Educational Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009

performance, boiler and machinery, and other coverage deemed necessary by the members and participants of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member and participant assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess property coverage of up to \$50 million during the 2008-2009 fiscal year, which is the same excess property coverage provided during the 2007-2008 fiscal year. The Board of Directors for the Consortium is composed of superintendents of all member districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Health and hospitalization coverage is being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND For the Fiscal Year Ended June 30, 2009

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 162,034	\$ 474,613	\$ 474,613	\$
Federal Through State and Local	291,896	371,140	371,140	
State	94,061,040	87,145,608	87,145,608	
Local:				
Property Taxes Levied for Operational Purposes	62,899,686	63,936,956	63,936,956	
Miscellaneous	1,825,548	2,195,214	2,195,214	
Total Revenues	159,240,204	154,123,531	154,123,531	
Expenditures				
Current:				
Instruction:				
Salaries	68,706,382	68,771,129	68,771,129	
Employee Benefits	20,796,911	21,058,662	21,058,662	
Purchased Services	1,884,132	1,501,049	1,501,049	
Energy Services	200	791	791	
Materials and Supplies	4,748,133	3,862,170	3,862,170	
Capital Outlay	65,270	317,374	317,374	
Other Expenses	1,542,323	1,603,456	1,603,456	
Total Instruction	97,743,351	97,114,631	97,114,631	
Pupil Personnel Services:				
Salaries	5,255,549	5,072,169	5,072,169	
Employee Benefits	1,504,386	1,480,532	1,480,532	
Purchased Services	826,469	449,296	449,296	
Energy Services	4,500	4,663	4,663	
Materials and Supplies	66,489	63,229	63,229	
Capital Outlay		3,319	3,319	
Other Expenses		22,464	22,464	
Total Pupil Personnel Services	7,657,393	7,095,672	7,095,672	
Instructional Media Services:				
Salaries	1,603,681	1,586,138	1,586,138	
Employee Benefits	473,744	482,487	482,487	
Purchased Services	12,629	23,269	23,269	
Energy Services	100	160	160	
Materials and Supplies	32,347	38,049	38,049	
Capital Outlay	139,941	216,455	216,455	
Other Expenses	2,411	5,778	5,778	
Total Instructional Media Services	2,264,853	2,352,336	2,352,336	
Instruction and Curriculum Development Services:				
Salaries	1,620,119	1,194,816	1,194,816	
Employee Benefits	433,761	323,748	323,748	
Purchased Services	131,466	168,400	168,400	
Materials and Supplies	94,035	36,197	36,197	
Capital Outlay		24,994	24,994	
Other Expenses	4,214	6,636	6,636	
Total Instruction and Curriculum Development Services	2,283,595	1,754,791	1,754,791	
Instructional Staff Training Services:				
Salaries	1,022,883	1,154,913	1,154,913	
Employee Benefits	274,002	322,751	322,751	
Purchased Services	82,000	52,894	52,894	
Energy Services		56	56	
Materials and Supplies	4,000	11,564	11,564	
Capital Outlay	1,200	180	180	
Other Expenses	1,117	27,550	27,550	
Total Instructional Staff Training Services	1,385,202	1,569,908	1,569,908	
Instruction Related Technology:				
Salaries	414,450	545,817	545,817	
Employee Benefits	121,835	157,423	157,423	
Materials and Supplies		358	358	
Other Expenses		2,151	2,151	
Total Instruction Related Technology	536,285	705,749	705,749	
Board of Education:				
Salaries	320,219	316,575	316,575	
Employee Benefits	90,853	86,693	86,693	
Purchased Services	151,950	40,092	40,092	
Materials and Supplies	4,357	2,637	2,637	
Other Expenses	33,958	31,290	31,290	
Total Board of Education	601,337	477,287	477,287	

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
For the Fiscal Year Ended June 30, 2009

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures				
Current (Continued)				
General Administration:				
Salaries	336,314	360,601	360,601	
Employee Benefits	101,042	101,568	101,568	
Purchased Services	22,502	27,603	27,603	
Materials and Supplies	22,880	16,218	16,218	
Other Expenses	1,600	1,910	1,910	
Total General Administration	484,338	507,900	507,900	
School Administration:				
Salaries	7,717,603	7,838,729	7,838,729	
Employee Benefits	2,223,545	2,287,188	2,287,188	
Purchased Services	18,820	31,502	31,502	
Materials and Supplies	16,602	18,464	18,464	
Capital Outlay		85	85	
Other Expenses	11,560	23,176	23,176	
Total School Administration	9,988,130	10,199,144	10,199,144	
Facility Services - Non-Capitalized:				
Salaries	601,209	610,213	610,213	
Employee Benefits	171,302	173,274	173,274	
Purchased Services	15,392	43,832	43,832	
Materials and Supplies	13,500	9,980	9,980	
Capital Outlay		7,524	7,524	
Other Expenses	565	1,072	1,072	
Total Facilities Services - Non-Capitalized	801,968	845,895	845,895	
Fiscal Services:				
Salaries	514,023	528,537	528,537	
Employee Benefits	156,221	161,699	161,699	
Purchased Services	79,250	51,890	51,890	
Materials and Supplies	6,000	5,855	5,855	
Other Expenses	67,100	55,094	55,094	
Total Fiscal Services	822,594	803,075	803,075	
Food Services:				
Salaries		19,731	19,731	
Employee Benefits		1,931	1,931	
Total Food Services		21,662	21,662	
Central Services:				
Salaries	1,087,366	1,039,436	1,039,436	
Employee Benefits	340,429	340,900	340,900	
Purchased Services	271,734	353,536	353,536	
Energy Services		81	81	
Materials and Supplies	101,000	147,353	147,353	
Capital Outlay		7,294	7,294	
Other Expenses	9,272	7,459	7,459	
Total Central Services	1,809,801	1,896,059	1,896,059	
Pupil Transportation Services:				
Salaries	4,643,682	4,737,907	4,737,907	
Employee Benefits	1,610,444	2,003,269	2,003,269	
Purchased Services	353,486	265,899	265,899	
Energy Services	3,012,250	1,235,029	1,235,029	
Materials and Supplies	560,350	451,284	451,284	
Capital Outlay		420	420	
Other Expenses	150,159	177,445	177,445	
Total Pupil Transportation Services	10,330,371	8,871,253	8,871,253	
Operation of Plant:				
Salaries	4,572,431	4,345,678	4,345,678	
Employee Benefits	1,705,890	1,684,771	1,684,771	
Purchased Services	2,898,362	2,620,946	2,620,946	
Energy Services	5,275,992	4,935,530	4,935,530	
Materials and Supplies	681,953	590,626	590,626	
Capital Outlay		4,009	4,009	
Other Expenses	136,205	194,401	194,401	
Total Operation of Plant	15,270,833	14,375,961	14,375,961	

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
 For the Fiscal Year Ended June 30, 2009

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures				
Current (Continued)				
Maintenance of Plant:				
Salaries	2,600,200	2,656,322	2,656,322	
Employee Benefits	857,352	814,131	814,131	
Purchased Services	527,298	484,438	484,438	
Energy Services	250,000	169,955	169,955	
Materials and Supplies	536,350	265,519	265,519	
Capital Outlay	225,000	30,098	30,098	
Other Expenses	4,100	30,453	30,453	
Total Maintenance of Plant	5,000,300	4,450,916	4,450,916	
Administrative Technology Services:				
Salaries	1,297,335	1,139,513	1,139,513	
Employee Benefits	367,793	340,676	340,676	
Purchased Services	84,090	49,314	49,314	
Energy Services	3,350	2,352	2,352	
Materials and Supplies	41,043	40,108	40,108	
Capital Outlay	305,950	175,293	175,293	
Other Expenses	2,225	4,602	4,602	
Total Administrative Technology Services	2,101,786	1,751,858	1,751,858	
Community Services:				
Salaries	10,850	10,850	10,850	
Employee Benefits	7,228	7,630	7,630	
Purchased Services	34,152	45,911	45,911	
Materials and Supplies	1,708	2,618	2,618	
Capital Outlay	300			
Total Community Services	54,238	67,009	67,009	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		256,973	256,973	
Other Capital Outlay		6,985	6,985	
Total Fixed Capital Outlay		263,958	263,958	
Total Expenditures	159,136,375	155,125,064	155,125,064	
Excess (Deficiency) of Revenues Over Expenditures	103,829	(1,001,533)	(1,001,533)	
Other Financing Sources (Uses)				
Transfers In	3,250,000	4,933,981	4,933,981	
Insurance Loss Recoveries		114,059	114,059	
Transfers Out	(2,096,436)	(66,242)	(66,242)	
Total Other Financing Sources (Uses)	1,153,564	4,981,798	4,981,798	
Net Change in Fund Balances	1,257,393	3,980,265	3,980,265	
Fund Balances, July 1, 2008	8,117,867	8,117,857	8,117,857	
Fund Balances, June 30, 2009	\$ 9,375,260	\$ 12,098,122	\$ 12,098,122	\$

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POSTEMPLOYMENT BENEFITS PLAN
 For the Fiscal Year Ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2006	\$ 0.00	\$ 8,161,669	\$ 8,161,669	0.0%	\$ 79,177,114	10.3%
July 1, 2008	0.00	9,152,972	9,152,972	0.0%	103,207,238	8.9%

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2009

1. GAAP TO BUDGET COMPARISON

There is no GAAP reconciliation required between budgetary inflows and outflows and generally accepted accounting principles revenues and expenditures since both reflect the modified accrual basis of accounting.

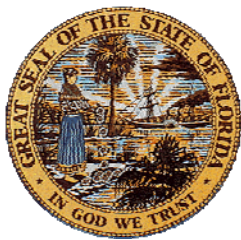
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DISTRICT SCHOOL BOARD OF HERNANDO COUNTY, FLORIDA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	\$ 1,147,781	\$
National School Lunch Program	10.555	300	4,450,218	
Summer Food Service Program for Children	10.559	323	142,750	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555	(2)	537,990	
Total United States Department of Agriculture			6,278,739	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262,263	4,063,854	
Special Education - Preschool Grants	84.173	267	163,100	
Total Special Education Cluster			4,226,954	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191,193	210,874	
Title I Grants to Local Educational Agencies	84.010	212,222,223,226,228	4,477,228	
Career and Technical Education - Basic Grants to States	84.048	151,161	189,388	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	None	96,000	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	55,664	
Charter Schools	84.282	298	66,483	66,483
State Grants for Innovative Programs	84.298	113	31,083	
Education Technology State Grants	84.318	121,122	245,143	
English Language Acquisition Grants	84.365	102	104,307	
Improving Teacher Quality State Grants	84.367	224	892,505	
School Improvement Grants	84.377	126	39,984	
Hernando County Anti-Drug Coalition:				
Safe and Drug-Free Schools and Communities - State Grants	84.186	2008-DFC-HERN-1-T6-037	10,436	
Washington County District School Board:				
Reading First State Grants	84.357	None	2,001	
Total United States Department of Education			10,648,050	66,483
United States Department of Homeland Security:				
Indirect:				
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039	(3)	838,625	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	66,027	
Total United States Department of Homeland Security			904,652	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	115,509	
Navy Junior Reserve Officers Training Corps	None	N/A	145,176	
Total United States Department of Defense			260,685	
Total Expenditures of Federal Awards			\$ 18,092,126	\$ 66,483

Notes:

- (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2008-2009 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 - Expenditures are for cash-in-lieu of commodities totaling \$537,990.
- (3) Noncash Assistance - Hazard Mitigation Grant - Of the \$838,625, \$726,125 represents the Federally-paid portion of two emergency shelter generators.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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FAX: 850-488-6975

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hernando County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Hernando 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 *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial

statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting. In addition, we consider Finding Nos. 1 and 2, of our operational audit report No. 2010-036, to be significant deficiencies in internal control over financial reporting. In the operational findings, we noted that the District's management of information technology access privileges and controls over the expenditure of capital outlay millage levy and Public Education Capital Outlay proceeds needed improvement.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report and Finding Nos. 1 and 2 of our operational audit report No. 2010-036 is a material weakness.

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 matters that we reported to District management in our operational audit report No. 2010-036.

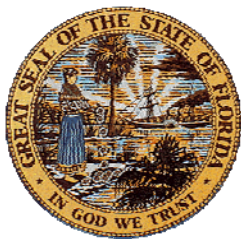
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
November 23, 2009



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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

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

Compliance

We have audited the Hernando County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

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

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

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

Respectfully submitted,



David W. Martin, CPA
November 23, 2009

**HERNANDO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 material weakness(es)? Yes

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 material weakness(es)? Yes

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs

Any audit findings disclosed that are required to be reported
in accordance with Section __.510(a) of OMB *Circular A-133*? Yes

Identification of major programs:

Title I Grants to Local Educational
Agencies (CFDA No. 84.010) and Hazard
Mitigation Grant (CFDA No. 97.039)

Dollar threshold used to distinguish between
Type A and Type B programs: \$542,763

Auditee qualified as low-risk auditee? Yes

**HERNANDO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, indicated that enhancements in procedures could be made for reporting certain account balances on the financial statements. For example:

- Due to oversight, the District did not properly identify and report expenditures and other financing sources, totaling approximately \$8 million each, in the Capital Projects – Local Capital Improvement Fund for obligations under capital leases entered into during the 2008-09 fiscal year.
- On the government-wide statement of net assets, District personnel mistakenly overstated invested in capital assets, net of related debt by approximately \$7.9 million because the District's calculation of this balance included incorrect amounts for bonds payable and unspent debt proceeds. In addition, significant unspent debt proceeds were not considered when calculating the net assets - restricted for capital projects balance, resulting in the balance being overstated by approximately \$67.6 million. As a result of these misstatements, unrestricted net assets was understated by \$75.5 million.

We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the account balances.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that account balances and transactions are properly reported on the financial statements.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Special Tests and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, Code of Federal Regulations, requires that school districts ensure that teachers who teach core academic subjects in a program supported with Title I funds, such as a Title I schoolwide program, be highly qualified (HQ). Title 34, Section 200.56,

Code of Federal Regulations, stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be HQ.

Our review of District records disclosed seven teachers, who taught a core academic subject at a Title I schoolwide program school, did not meet the requirements to be HQ for the core academic subject they were teaching. The District indicated that due to the limited number of qualified staff in the County, it was difficult to properly fill these positions. According to District personnel, a plan is in place to assist teachers in becoming highly qualified by the beginning of the 2010-11 school year, and that certain nonhighly qualified teachers have been reassigned. Having highly qualified staff would enhance the District's ability to provide the required instructional services to Title I students and contribute toward meeting the adequate yearly progress standards set by the United States Department of Education.

Recommendation: **The District should continue its efforts to ensure that all teachers hired to teach core academic subjects in Title I funded schools are highly qualified.**

District Contact Person: Diane Dannemiller, Supervisor of Federal Programs

Federal Awards Finding: No. 2

Federal Agency: Department of Homeland Security, Federal Emergency Management Agency

Pass-Through Entity: Florida Division of Emergency Management

Program: Hazard Mitigation Grant Program (CFDA No. 97.039)

Finding Type: Noncompliance

Questioned Costs: Not Applicable

Procurement – Contract Administration. Improvements were needed in District procedures to provide written contracts and the required contractual provisions for expenditures funded with Federal moneys. Title 44, Section 13.36(i), Code of Federal Regulations (CFR), requires District contracts involving Federal funds to contain certain provisions, including the following:

- An equal employment opportunity provision for construction contracts in excess of \$10,000.
- Compliance with the Copeland “Anti-Kickback” Act.
- Access to records of the contractor which are directly pertinent to the contract.
- Retention of all required records for three years after the grantee or subgrantee makes the final payment and all other pending matters are closed.

We selected both vendor contracts related to this program to determine whether the contracts contained Federally-required contract provisions. The review disclosed that both contracts, totaling \$146,932, each in excess of \$10,000, and involving the Hazard Mitigation Grant program, excluded the above required language. Failure to enter into a written contract which includes the required Federal contract provisions could limit the District's actions if disputes with the vendor arose and could result in disallowance of grant expenditures by the grantor.

Recommendation: **The District should ensure that future contracts involving Federal funds contain the required provisions.**

District Contact Person: Barry Crowley, Manager of Safety and Security

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HERNANDO COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009*

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
2009-054		No prior Federal audit findings.		

EXHIBIT A MANAGEMENT'S RESPONSE

The School Board of Hernando County, Florida

919 North Broad Street
Brooksville, Florida 34601
(352) 797-7001

SunCom 619-7001
Fax (352) 797-7101



Superintendent

Sonya L. Jackson

Chairperson

John K. Sweeney

Vice Chairperson

Sandra Nicholson

Members

Dianne Bonfield

Charles "Pat" Fagan

James C. Yant

November 13, 2009

The Honorable David W. Martin, CPA
Auditor General
Office of the Auditor General
G74 Claude Pepper Building
111 West Madison
Tallahassee, FL 32399-1450

Re: Hernando County District School Board Preliminary and Tentative Audit Findings for the Fiscal Year
Ended June 30, 2009

Dear Mr. Martin:

Please accept the following written response concerning the preliminary and tentative audit findings for the Hernando County District School Board's 2008-2009 fiscal year financial and federal audit. The District will implement these recommendations to increase accountability and promote effective and efficient operations throughout the District.

Finding No. 1: Financial Reporting

Improvements are needed in District procedures to ensure that certain accounts and transactions are properly reported on the financial statements.

Response:

Upon discovery of the oversights, the District made immediate corrections to the financial statements. In order to prevent this from occurring in the future, the District Finance Department will implement an internal peer review process to ensure the accuracy and completeness of the annual financial report.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 1: Special Tests and Provisions – Highly Qualified Teachers

District records disclosed that seven teachers assigned to a Title I schoolwide project school did not meet the requirements to be highly qualified, contrary to Federal regulations.

Response:

The Human Resources Department has updated its screening procedures to ensure that employees who are placed in teaching assignments meet the necessary requirements regarding Highly-Qualified status.

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Education: the vehicle for exploring the past and conquering our future.*

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Page 2
Audit Response
November 13, 2009

Finding No. 2: Procurement – Contract Administration

Improvements could be made in procedures to provide the required contractual provisions for expenditures funded with Federal moneys.

Response:

The District implemented procedures to ensure that all future bids contain the required Federal language, which will be included in the general terms and conditions section of the bid documents.

We would like to compliment your staff for the courteous and competent manner in which they conducted the Fiscal Year 2008-2009 audit. They should be commended for their consideration of District staff's time and workloads. We greatly appreciate their concern and helpfulness.

Sincerely,



Sonya L. Jackson
Superintendent

SLJ/drh

cc: School Board Members
Heather Martin, Executive Director of Business Services