

HAMILTON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Damon Deas, Vice Chair from 11-18-08	1
Lynn Roberson to 11-17-08, Vice Chair	2
Gary Godwin from 11-18-08	2
J.T. Simon to 11-17-08	3
Jeanie Daniels from 11-18-08	3
Joyce Shaw	4
Don J. Fenneman, Chair	5
Harry J. Pennington, Superintendent to 11-17-08	
Martha W. Butler, Superintendent from 11-18-08	

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 Edward A. Waller, and the audit was supervised by Cathy L. Bandy, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

HAMILTON 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 a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness as summarized below.

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

MATERIAL WEAKNESS

Finding No. 1: Improvements are needed in District procedures to ensure that major funds are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: The District could strengthen its procedures to provide for complete annual physical inventories of all tangible personal property, appropriately follow-up on items not located, and reconcile the inventory results to subsidiary records.

Finding No. 3: Enhancements are needed in District procedures over transportation, maintenance, and janitorial inventories.

Finding No. 4: The District did not conduct a review and evaluation of the reasons for collection of social security numbers or prepare written statements notifying individuals of the purpose for collection of the numbers, contrary to Section 119.071(5)(a), Florida Statutes.

Finding No. 5: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 6: The District had not classified its data according to sensitivity or level of significance and had not maintained documentation of IT user access authorization.

Finding No. 7: The District had not implemented procedures to review logs of changes to sensitive or critical IT tables, files, and transactions.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: Improvements could be made in procedures to provide the required contractual provisions for expenditures funded with Federal funds.

Federal Awards Finding No. 2: Procedural improvements are needed to ensure amounts paid for purchased services are adequately supported at the time of payment.

Federal Awards Finding No. 3: Contrary to registration requirements for Federal awards, the District did not timely register with the Central Contractor Registration database.

Audit Objectives and Scope

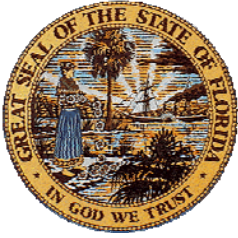
Our audit objectives were to determine whether the Hamilton County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2009-140.

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.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hamilton 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 53 percent of the assets and 89 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Hamilton County Public Schools Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Hamilton 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 Hamilton 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 38 through 40) are not required parts 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
January 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Hamilton County has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis 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 found on pages 10 through 36

FINANCIAL HIGHLIGHTS

- The District's total net assets decreased by \$588,617 (or 1.8 percent), from \$33,565,171 at June 30, 2008, to \$32,976,554 at June 30, 2009.
- During the 2008-09 fiscal year, General Fund expenditures exceeded revenues by \$484,089. This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$216,787.
- The General Fund's unreserved, undesignated fund balance decreased from \$753,090 as of June 30, 2008, to \$538,330 (or 3.6 percent of expenditures) as of June 30, 2009.
- The District's student enrollment decreased by 66 students (or 3.5 percent) from the preceding fiscal year. The student ending enrollment was 1,844 for the 2008-09 fiscal year. See **OTHER MATTERS OF SIGNIFICANCE** for a further evaluation of enrollment changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements present the School District as a whole and by the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or school district to school district), and enhance the School District's accountability. The basic financial statements consist of three components:

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

In addition, this report presents certain required supplementary information such as management's discussion and analysis.

Government-Wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component unit – The District presents one separate legal entity in this report, the Hamilton County Public Schools Foundation, Inc. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

Fund Financial Statements

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental funds statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section is used to present condensed financial information from the government-wide statements that compares the current year to the prior year.:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 3,191,245	\$ 3,356,581
Capital Assets	32,050,144	32,210,875
Total Assets	35,241,389	35,567,456
Long-Term Liabilities	1,914,541	1,930,113
Other Liabilities	350,294	72,172
Total Liabilities	2,264,835	2,002,285
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	31,630,144	31,755,875
Restricted	1,390,165	1,570,497
Unrestricted (Deficit)	(43,755)	238,799
Total Net Assets	\$ 32,976,554	\$ 33,565,171

The largest portion of the District’s net assets (95.9 percent) reflects its investment in capital assets (e.g., land, buildings, furniture, fixtures, and equipment, etc.), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The deficit in the unrestricted net assets is due, in part, to the District’s implementation of Government Accounting Standards Board Statement No. 45, which requires the District to report a liability representing its obligation for postemployment healthcare benefits of retirees. The liability for these benefits is \$51,780, which is an implied amount, and no amount is budgeted to fund it.

The following schedule summarizes revenues and expenses for the current and prior years:

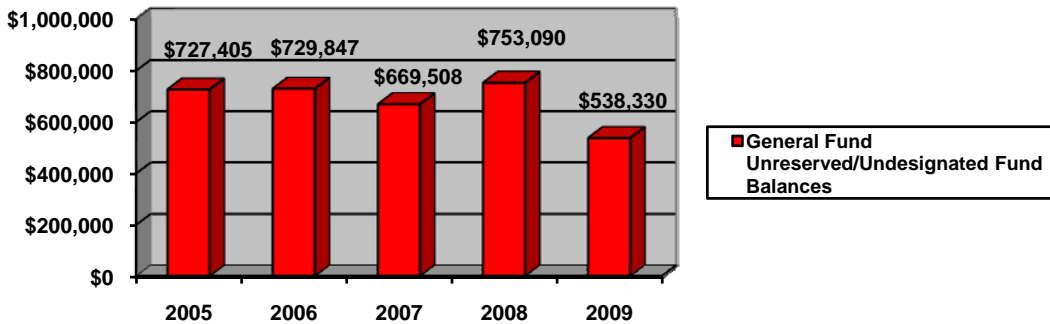
	Operating Results for the Year	
	Governmental Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 233,238	\$ 268,195
Operating Grants and Contributions	1,263,620	1,232,474
Capital Grants and Contributions	253,533	1,182,223
General Revenues:		
Property Taxes, Levied for Operational Purposes	4,293,742	4,060,698
Property Taxes, Levied for Capital Projects	1,262,980	1,417,390
Grants and Contributions Not Restricted to Specific Programs	11,965,233	12,783,980
Unrestricted Investment Earnings	41,438	126,171
Miscellaneous	379,530	319,939
Total Revenues	19,693,314	21,391,070
Functions/Program Expenses:		
Instruction	9,757,788	9,520,161
Pupil Personnel Services	1,003,642	1,073,001
Instructional Media Services	178,522	219,008
Instruction and Curriculum Development Services	912,144	941,672
Instructional Staff Training Services	302,659	183,177
Instruction Related Technology	66,613	66,618
Board of Education	242,767	240,853
General Administration	857,169	871,782
School Administration	827,934	914,920
Facilities Acquisition and Construction	590,452	1,257,592
Fiscal Services	294,133	306,293
Food Services	1,089,766	1,157,865
Central Services	104,825	103,336
Pupil Transportation Services	1,131,679	1,267,060
Operation of Plant	1,500,285	1,407,270
Maintenance of Plant	209,044	354,145
Administrative Technology Services	33,317	32,336
Community Services	155,793	143,076
Interest on Long-Term Debt	22,826	33,776
Unallocated Depreciation Expense	1,000,573	1,089,588
Total Functions/Program Expenses	20,281,931	21,183,529
Increase (Decrease) in Net Assets	\$ (588,617)	\$ 207,541

The largest revenue source is the State of Florida (48.7 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Revenues decreased approximately \$1.7 million, due primarily to a reduction in FEFP and Classrooms for Kids funding reflected in grants and contributions not restricted to specific programs and capital grants and contributions, respectively. Expenses decreased approximately \$0.9 million due primarily to the completion of a large capital project in the previous fiscal year.

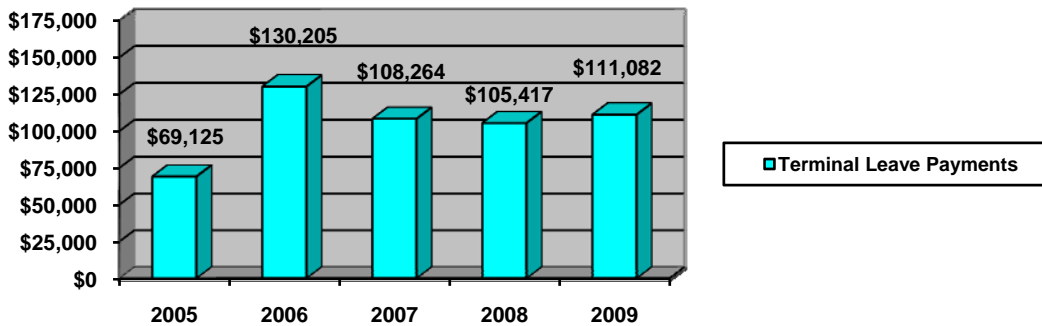
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the balances and transactions of individual funds. The analysis addresses the reasons for significant changes in fund balances and the effect of the availability of fund resources for future use.

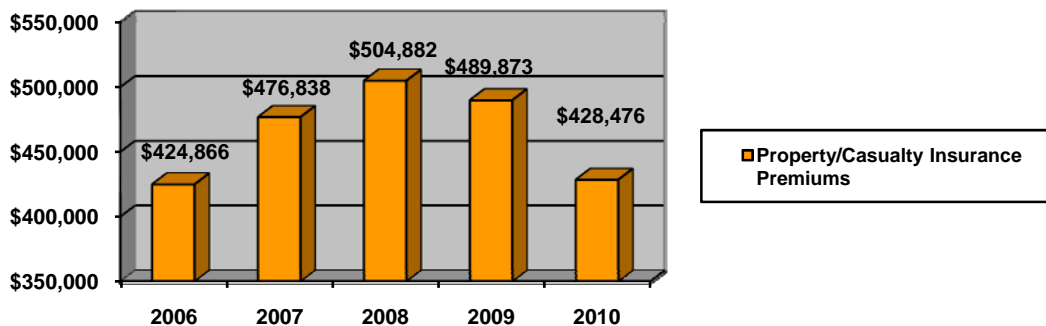
General Fund Unreserved, Undesignated Fund Balances. The unreserved, undesignated fund balances of the General Fund decreased in the 2008-09 fiscal year by \$214,760, primarily due to declining State revenues of \$1.4 million offset by declining expenditures of \$0.8 million due to a reduction in staff, supplies, and capital outlay expenditures. The following chart reflects these fund balances over the past five years.



➤ **Terminal Leave Payments.** The General Fund pays terminal leave payments to retirees. Terminal payments increased by \$5,665 in the 2008-09 fiscal year. The following chart reflects these payments over the past five years.



➤ **Property/Casualty Insurance Premium Increases.** The following graph depicts historical and estimated property/casualty insurance premiums of the District. The District is anticipating a 12.5 percent decrease in property/casualty insurance premiums for the 2009-10 fiscal year. The anticipated premium is \$428,476.



- **Major Special Revenue Funds.** The Special Revenue – Other and Special Revenue – ARRA Funds are used to account for Federal grant programs, and allowed expenditures are specified by grant agreements. Since the revenues in these Funds are equal to amounts expended, there are no ending fund balances.
- **Major Capital Projects Funds.** The Capital Projects – Local Capital Improvement Fund and the Capital Projects – Public Education Capital Outlay Fund have total fund balances of \$599,775 and \$244,098, respectively, all of which is restricted for capital outlay related expenditures. The fund balance of the Capital Projects – Local Capital Improvement Fund decreased by \$22,665 due primarily to an increase in motor vehicles purchased and a decrease in local property tax revenues as a result of a decline in the millage rate from 2.0 to 1.75 mills. The fund balance of the Capital Projects – Public Education Capital Outlay Fund decreased by \$187,224 due primarily to a decrease in State appropriations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Significant variances between the original, final, and actual appropriations and expenditures were primarily the result of State funding reductions, declining enrollment, and accompanying reductions from planned expenditure levels.

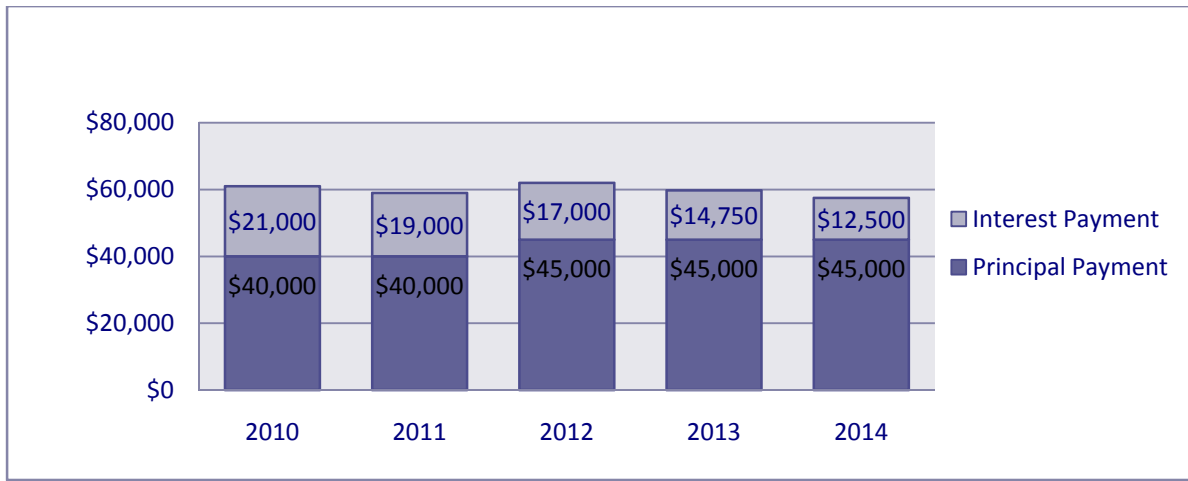
CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets.

The District did not have any major projects during the 2008-09 fiscal year.

Long-Term Debt.

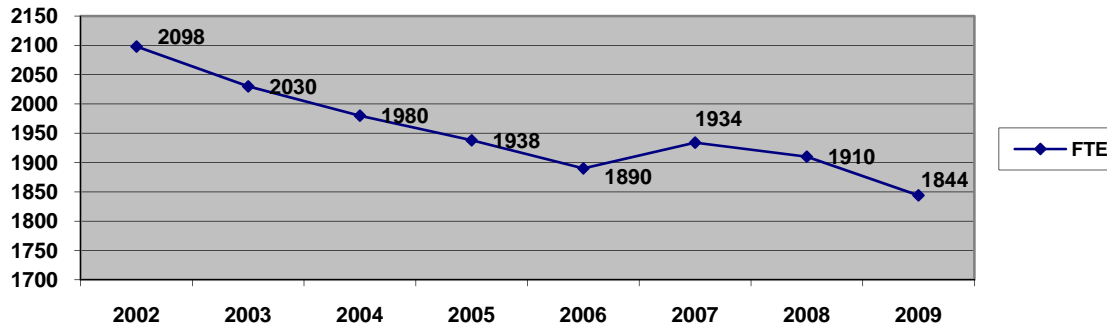
The District did not issue any new long-term debt during the 2008-09 fiscal year, and at this time, there are no plans for issuing any new debt. The following chart reflects an estimate of the debt service requirements of the District over the next five years.



OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding.

In the General Fund, revenues from State sources comprise 64.7 percent of total available resources of the District. 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. As shown in the following chart, the District has experienced a significant decline over the past several years.



REQUESTS FOR INFORMATION

This 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: Bonnie Penner, Director of Business Services, Hamilton County School Board, 4280 SW County Road 152, Jasper, FL 32052.

BASIC FINANCIAL STATEMENTS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2009**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
ASSETS		
Cash and Cash Equivalents	\$ 2,463,840.31	\$ 25,626.00
Investments	15,258.58	
Accounts Receivable		6,838.00
Due from Other Agencies	514,645.01	
Inventories	197,500.95	
Capital Assets:		
Nondepreciable Capital Assets	490,000.00	
Depreciable Capital Assets, Net	31,560,144.05	
TOTAL ASSETS	<u>\$ 35,241,388.90</u>	<u>\$ 32,464.00</u>
LIABILITIES		
Salaries and Benefits Payable	\$ 13,175.62	\$ 1,000.00
Accounts Payable	138,245.66	
Due to Other Agencies	154.95	
Deferred Revenue	198,718.00	
Long-Term Liabilities:		
Portion Due Within One Year:		
Bonds Payable	40,000.00	
Compensated Absences Payable	158,578.97	
Portion Due After One Year:		
Bonds Payable	380,000.00	
Compensated Absences Payable	1,284,182.12	
Postemployment Healthcare Benefits Payable	51,780.00	
Total Liabilities	<u>2,264,835.32</u>	<u>1,000.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	31,630,144.05	
Restricted for:		
State Categorical Programs	134,575.58	
Debt Service	14,204.30	
Capital Projects	863,045.54	
Other Purposes	378,338.66	
Unrestricted	(43,754.55)	31,464.00
Total Net Assets	<u>32,976,553.58</u>	<u>31,464.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,241,388.90</u>	<u>\$ 32,464.00</u>

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

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**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
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	\$ 9,757,787.68	\$	\$	\$
Pupil Personnel Services	1,003,642.59			
Instructional Media Services	178,522.08			
Instruction and Curriculum Development Services	912,143.85			
Instructional Staff Training Services	302,658.81			
Instruction Related Technology	66,612.72			
Board of Education	242,766.60			
General Administration	857,168.80			
School Administration	827,934.13			
Facilities Acquisition and Construction	590,452.04			197,033.24
Fiscal Services	294,132.78			
Food Services	1,089,765.70	219,781.88	852,733.49	
Central Services	104,825.35			
Pupil Transportation Services	1,131,678.58		410,887.00	
Operation of Plant	1,500,285.50			
Maintenance of Plant	209,044.06			
Administrative Technology Services	33,316.94			
Community Services	155,793.39	13,456.00		
Interest on Long-Term Debt	22,826.59			56,499.29
Unallocated Depreciation Expense	1,000,573.27			
Total Primary Government	\$ 20,281,931.46	\$ 233,237.88	\$ 1,263,620.49	\$ 253,532.53
Component Unit				
Hamilton County Public Schools Foundation, Inc.	\$ 1,018.00	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

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.

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (9,757,787.68)	\$
(1,003,642.59)	
(178,522.08)	
(912,143.85)	
(302,658.81)	
(66,612.72)	
(242,766.60)	
(857,168.80)	
(827,934.13)	
(393,418.80)	
(294,132.78)	
(17,250.33)	
(104,825.35)	
(720,791.58)	
(1,500,285.50)	
(209,044.06)	
(33,316.94)	
(142,337.39)	
33,672.70	
<u>(1,000,573.27)</u>	
<u>(18,531,540.56)</u>	
	<u>(1,018.00)</u>
4,293,742.24	
1,262,980.16	
11,965,233.11	13,422.00
41,437.79	
<u>379,529.81</u>	
<u>17,942,923.11</u>	<u>13,422.00</u>
(588,617.45)	12,404.00
<u>33,565,171.03</u>	<u>19,060.00</u>
<u>\$ 32,976,553.58</u>	<u>\$ 31,464.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,788,049.93	\$ 11,143.17	\$
Investments	1,054.28		
Due from Other Funds			
Due from Other Agencies	81,855.97	25,276.83	1,820.00
Inventories	160,385.24		
TOTAL ASSETS	\$ 2,031,345.42	\$ 36,420.00	\$ 1,820.00
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$	\$ 13,175.62	\$
Accounts Payable	87,618.66	23,089.43	1,820.00
Due to Other Funds	20,000.00		
Due to Other Agencies		154.95	
Deferred Revenue			
Total Liabilities	107,618.66	36,420.00	1,820.00
Fund Balances:			
Reserved for State Categorical Programs	134,575.58		
Reserved for Encumbrances	67,916.28		
Reserved for Inventories	160,385.24		
Reserved for Other Purposes	378,338.66		
Reserved for Debt Service			
Unreserved:			
Designated, Reported in General Fund:			
Designated for Employee Terminal Pay	644,180.88		
Undesignated, Reported in:			
General Fund	538,330.12		
Special Revenue Funds			
Capital Projects Funds			
Total Fund Balances	1,923,726.76		
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,031,345.42	\$ 36,420.00	\$ 1,820.00

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 51,507.42	\$ 593,138.09	\$ 20,001.70	\$ 2,463,840.31
	20,000.00	14,204.30	15,258.58
391,413.89		14,278.32	20,000.00
		37,115.71	514,645.01
<u>442,921.31</u>	<u>613,138.09</u>	<u>85,600.03</u>	<u>3,211,244.85</u>
\$ 105.72	\$ 13,363.27	\$ 12,248.58	\$ 13,175.62
			138,245.66
198,718.00			20,000.00
			154.95
<u>198,823.72</u>	<u>13,363.27</u>	<u>12,248.58</u>	<u>198,718.00</u>
			370,294.23
4,768.29	52,246.76		134,575.58
		37,115.71	124,931.33
		14,204.30	197,500.95
			378,338.66
			14,204.30
			644,180.88
			538,330.12
239,329.30	547,528.06	2,858.31	2,858.31
		19,173.13	806,030.49
<u>244,097.59</u>	<u>599,774.82</u>	<u>73,351.45</u>	<u>2,840,950.62</u>
<u>\$ 442,921.31</u>	<u>\$ 613,138.09</u>	<u>\$ 85,600.03</u>	<u>\$ 3,211,244.85</u>

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

Total Fund Balances - Governmental Funds	\$ 2,840,950.62
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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.	32,050,144.05
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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	\$ 420,000.00	
Compensated Absences Payable	1,442,761.09	
Postemployment Healthcare Benefits Payable	51,780.00	(1,914,541.09)

Total Net Assets - Governmental Activities	\$ 32,976,553.58
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 149,606.11	\$	\$
Federal Through State and Local	248,986.12	2,663,794.86	1,820.00
State	9,313,047.11		
Local:			
Property Taxes	4,293,742.24		
Charges for Services - Food Service			
Miscellaneous	378,282.31		
Total Revenues	14,383,663.89	2,663,794.86	1,820.00
Expenditures			
Current - Education:			
Instruction	8,481,919.82	1,246,303.84	
Pupil Personnel Services	583,757.78	419,884.81	
Instructional Media Services	178,522.08		
Instruction and Curriculum Development Services	376,168.74	535,975.11	
Instructional Staff Training Services	38,710.31	262,128.50	1,820.00
Instruction Related Technology	66,612.72		
Board of Education	242,766.60		
General Administration	792,084.31	66,077.69	
School Administration	830,891.08		
Facilities Acquisition and Construction	10,596.93		
Fiscal Services	294,284.83		
Food Services	10,921.37		
Central Services	104,825.35		
Pupil Transportation Services	895,712.81	37,593.12	
Operation of Plant	1,494,458.08	5,827.42	
Maintenance of Plant	210,490.18		
Administrative Technology Services	33,316.94		
Community Services	156,243.11		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	65,470.01	90,004.37	
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	14,867,753.05	2,663,794.86	1,820.00
Excess (Deficiency) of Revenues Over Expenditures	(484,089.16)		
Other Financing Sources (Uses)			
Transfers In	271,355.03		
Transfers Out	(34,115.00)		
Total Other Financing Sources (Uses)	237,240.03		
Net Change in Fund Balances	(246,849.13)		
Fund Balances, Beginning	2,170,575.89		
Fund Balances, Ending	\$ 1,923,726.76	\$ 0.00	\$ 0.00

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		830,066.49	149,606.11
176,745.00		98,320.44	3,744,667.47
	1,262,980.16		9,588,112.55
		219,781.88	5,556,722.40
1,954.74	49,225.46	4,961.09	219,781.88
<u>178,699.74</u>	<u>1,312,205.62</u>	<u>1,153,129.90</u>	<u>434,423.60</u>
			19,693,314.01
			9,728,223.66
			1,003,642.59
			178,522.08
			912,143.85
			302,658.81
			66,612.72
			242,766.60
			858,162.00
64,688.88	515,166.23		830,891.08
			590,452.04
			294,284.83
		1,082,024.51	1,092,945.88
			104,825.35
			933,305.93
			1,500,285.50
			210,490.18
			33,316.94
			156,243.11
172,060.00	150,000.00		322,060.00
	561,638.50		717,112.88
		35,000.00	35,000.00
		22,826.59	22,826.59
<u>236,748.88</u>	<u>1,226,804.73</u>	<u>1,139,851.10</u>	<u>20,136,772.62</u>
<u>(58,049.14)</u>	<u>85,400.89</u>	<u>13,278.80</u>	<u>(443,458.61)</u>
	34,115.00		305,470.03
<u>(129,174.37)</u>	<u>(142,180.66)</u>		<u>(305,470.03)</u>
<u>(129,174.37)</u>	<u>(108,065.66)</u>		
<u>(187,223.51)</u>	<u>(22,664.77)</u>	<u>13,278.80</u>	<u>(443,458.61)</u>
<u>431,321.10</u>	<u>622,439.59</u>	<u>60,072.65</u>	<u>3,284,409.23</u>
<u>\$ 244,097.59</u>	<u>\$ 599,774.82</u>	<u>\$ 73,351.45</u>	<u>\$ 2,840,950.62</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Net Change in Fund Balances - Governmental Funds	\$ (443,458.61)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period.	(160,730.65)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period.	35,000.00
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current period.	32,351.81
Postemployment healthcare benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the postemployment healthcare benefits liability for the current fiscal year.	(51,780.00)
Change in Net Assets - Governmental Activities	\$ (588,617.45)

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2009**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 98,025.00
LIABILITIES	
Internal Accounts Payable	\$ 98,025.00

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
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 Hamilton County School District is considered part of the Florida system of public education. The governing body of the school district is the Hamilton County District School Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Hamilton County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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 unit is included within the District School Board's reporting entity:

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the Hamilton County Public Schools Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit. The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2009. The audit reports are filed in the District's administrative offices.

➤ **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 unit.

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

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriations of gross receipts taxes for the District. These funds are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, maintenance, repairs, and site improvements.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.
- **Basis of Accounting**

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time 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 healthcare benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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 Hamilton County Public Schools Foundation, Inc., 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 cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, and amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. The 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. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 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.

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 last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end physical inventories.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	40 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 8, 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 Hamilton County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Federal Revenue Sources**

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP); any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices, and the policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash equivalents, with a fair value of \$2,138,198.29 at June 30, 2009, are in SBA LGIP with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The District's investment in LGIP is rated AAAm by Standard & Poor's.

Investments with a fair value of \$1,054.28 at June 30, 2009, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with 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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District’s investment in Fund B is unrated.

In addition, the District reports investments totaling \$14,204.30 at June 30, 2009, in the SBA Debt Service accounts to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District relies on policies developed by SBA for managing credit risk for this account.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 490,000.00	\$	\$	\$ 490,000.00
Construction in Progress	150,000.00		150,000.00	
Total Capital Assets Not Being Depreciated	640,000.00		150,000.00	490,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,861,455.90	472,060.00		2,333,515.90
Buildings and Fixed Equipment	32,359,824.85			32,359,824.85
Furniture, Fixtures, and Equipment	3,897,870.88	258,813.48	151,726.41	4,004,957.95
Motor Vehicles	2,329,394.82	455,957.45	213,814.00	2,571,538.27
Audio Visual Materials and Computer Software	852,259.68	2,341.95	44,290.00	810,311.63
Total Capital Assets Being Depreciated	41,300,806.13	1,189,172.88	409,830.41	42,080,148.60
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	409,421.56	54,587.90		464,009.46
Buildings and Fixed Equipment	3,766,264.54	647,196.50		4,413,461.04
Furniture, Fixtures, and Equipment	3,420,404.42	256,917.02	151,726.41	3,525,595.03
Motor Vehicles	1,336,846.31	199,330.26	213,814.00	1,322,362.57
Audio Visual Materials and Computer Software	796,994.60	41,871.85	44,290.00	794,576.45
Total Accumulated Depreciation	9,729,931.43	1,199,903.53	409,830.41	10,520,004.55
Total Capital Assets Being Depreciated, Net	31,570,874.70	(10,730.65)		31,560,144.05
Governmental Activities Capital Assets, Net	\$ 32,210,874.70	\$ (10,730.65)	\$ 150,000.00	\$ 32,050,144.05

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 199,330.26
Unallocated	1,000,573.27
Total Depreciation Expense - Governmental Activities	\$ 1,199,903.53

5. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2005B, Refunding	<u>\$ 420,000</u>	5.0	2018

These 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.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 61,000.00	\$ 40,000.00	\$ 21,000.00
2011	59,000.00	40,000.00	19,000.00
2012	62,000.00	45,000.00	17,000.00
2013	59,750.00	45,000.00	14,750.00
2014	57,500.00	45,000.00	12,500.00
2015-2018	<u>231,000.00</u>	<u>205,000.00</u>	<u>26,000.00</u>
Total State School Bonds	<u>\$ 530,250.00</u>	<u>\$ 420,000.00</u>	<u>\$ 110,250.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 455,000.00	\$	\$ 35,000.00	\$ 420,000.00	\$ 40,000.00
Compensated Absences Payable	1,475,112.90	78,730.06	111,081.87	1,442,761.09	158,578.97
Postemployment Healthcare Benefits Payable		173,987.00	122,207.00	51,780.00	
Total Governmental Activities	<u>\$ 1,930,112.90</u>	<u>\$ 252,717.06</u>	<u>\$ 268,288.87</u>	<u>\$ 1,914,541.09</u>	<u>\$ 198,578.97</u>

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$	\$ 20,000.00
Capital Projects:		
Local Capital Improvement	20,000.00	
Total	<u>\$ 20,000.00</u>	<u>\$ 20,000.00</u>

Interfund receivables and payables represent temporary loans to cover anticipated deficit cash balances in pooled accounts. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 271,355.03	\$ 34,115.00
Capital Projects:		
Public Education Capital Outlay		129,174.37
Local Capital Improvement	34,115.00	142,180.66
Total	<u>\$ 305,470.03</u>	<u>\$ 305,470.03</u>

Interfund transfers were to move restricted capital outlay revenues to offset eligible maintenance and capital outlay expenditures made in the General Fund and to reimburse the Local Capital Improvement Fund for prior years' questioned costs.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

8. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$39,131.56 at June 30, 2009.

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2008-09 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 6,157,910.00
Categorical Educational Programs:	
Class Size Reduction	1,804,051.00
Transportation	410,887.00
Instructional Materials	181,119.00
Other	66,717.00
Gross Receipts Tax (Public Education Capital Outlay)	176,745.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	76,787.53
Workforce Development Program	76,136.00
Discretionary Lottery Funds	43,385.00
Food Service Supplement	22,667.00
Mobile Home License Tax	9,913.67
Miscellaneous	561,794.35
Total	<u><u>\$ 9,588,112.55</u></u>

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

10. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.210	\$ 3,982,347.92
Basic Discretionary Local Effort	0.498	380,653.96
Supplemental Discretionary Local Effort	0.250	191,091.35
 CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.750	1,337,639.42
Total	7.708	\$5,891,732.65

11. FLORIDA RETIREMENT SYSTEM

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

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 29 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$117,573.90.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 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
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 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 ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$978,269.08, \$993,289.38, and \$980,972.18, respectively, which were equal to the required contributions for each fiscal year.

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

12. POSTEMPLOYMENT HEALTHCARE BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$1,937,109 at the

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

March 1, 2009, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment healthcare benefits liability at the date of transition.

Plan Description. The Postemployment 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 are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval each year. Under this retirement incentive, retirees receive a \$50 per month rate subsidy until the retiree reaches age 65. Retirees are assumed 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. For the Postemployment Healthcare Benefits Plan, contribution requirements of the District and plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 38 retirees received postemployment healthcare benefits. The District provided required contributions of \$122,207 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees net of retiree contributions totaling \$223,259, which represents 3.3 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of 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 if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for postemployment healthcare benefits:

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Amount
Normal Cost (service cost for one year)	\$107,176
Amortization of Unfunded Actuarial Accrued Liability	64,570
Interest on Normal Cost and Amortization	2,241
Annual Required Contribution	173,987
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	173,987
Annual OPEB Cost (Expense)	173,987
Contribution Toward the OPEB Cost	122,207
Increase in Net OPEB Obligation	51,780
Net OPEB Obligation, Beginning of Year	51,780
Net OPEB Obligation, End of Year	\$ 51,780

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 (year of implementation), were as follows:

Year	OPEB Cost	Annual OPEB Cost Contributed	Obligation
Beginning Balance, 7-1-08	\$		\$ 0
2008-09	173,987	70.2%	51,780

Funded Status and Funding Progress. As of March 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$1,937,109, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,937,109 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$6,793,522 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.5 percent.

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

The District's initial OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2009 and the 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.7 percent initially for the 2008-09 fiscal year, reduced gradually over 60 years to an ultimate rate of 4.9 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

13. 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 Hamilton County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management 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 performance, boiler and machinery, and other coverage deemed necessary by the members 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 assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Settled claims resulting from these risks have not exceeded commercial 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.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
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	\$ 150,000.00	\$ 175,300.00	\$ 149,606.11	\$ (25,693.89)
Federal Through State and Local State	89,665.45 10,125,497.09	241,039.26 9,279,291.25	248,986.12 9,313,047.11	7,946.86 33,755.86
Local:				
Property Taxes	4,311,078.00	4,362,769.91	4,293,742.24	(69,027.67)
Miscellaneous	238,688.11	388,267.31	378,282.31	(9,985.00)
Total Revenues	14,914,928.65	14,446,667.73	14,383,663.89	(63,003.84)
Expenditures				
Current - Education:				
Instruction	9,611,915.03	9,441,983.71	8,481,919.82	960,063.89
Pupil Personnel Services	610,014.32	599,728.23	583,757.78	15,970.45
Instructional Media Services	200,700.74	180,776.19	178,522.08	2,254.11
Instruction and Curriculum Development Services	386,172.86	385,041.97	376,168.74	8,873.23
Instructional Staff Training Services	43,770.20	47,719.41	38,710.31	9,009.10
Instruction Related Technology	67,189.20	66,612.72	66,612.72	
Board of Education	248,133.00	242,766.60	242,766.60	
General Administration	886,923.53	825,123.29	792,084.31	33,038.98
School Administration	872,203.41	854,079.54	830,891.08	23,188.46
Facilities Acquisition and Construction	24,614.00	26,202.02	10,596.93	15,605.09
Fiscal Services	320,471.64	308,661.91	294,284.83	14,377.08
Food Services		10,921.37	10,921.37	
Central Services	124,951.10	111,125.35	104,825.35	6,300.00
Pupil Transportation Services	1,260,947.40	989,681.86	895,712.81	93,969.05
Operation of Plant	1,585,262.95	1,517,066.50	1,494,458.08	22,608.42
Maintenance of Plant	330,759.79	286,716.17	210,490.18	76,225.99
Administrative Technology Services	33,264.60	33,316.94	33,316.94	
Community Services	175,320.02	214,160.67	156,243.11	57,917.56
Fixed Capital Outlay:				
Other Capital Outlay		65,470.01	65,470.01	
Total Expenditures	16,782,613.79	16,207,154.46	14,867,753.05	1,339,401.41
Deficiency of Revenues Under Expenditures	(1,867,685.14)	(1,760,486.73)	(484,089.16)	1,276,397.57
Other Financing Sources (Uses)				
Transfers In	270,000.00	280,580.66	271,355.03	(9,225.63)
Transfers Out	(120,000.00)	(34,115.00)	(34,115.00)	
Total Other Financing Sources (Uses)	150,000.00	246,465.66	237,240.03	(9,225.63)
Net Change in Fund Balances	(1,717,685.14)	(1,514,021.07)	(246,849.13)	1,267,171.94
Fund Balances, Beginning	2,170,575.89	2,170,575.89	2,170,575.89	
Fund Balances, Ending	\$ 452,890.75	\$ 656,554.82	\$ 1,923,726.76	\$ 1,267,171.94

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,236,160.08	\$ 3,671,535.59	\$ 2,663,794.86	\$ (1,007,740.73)	\$	\$ 591,204.40	\$ 1,820.00	\$ (589,384.40)
<u>2,236,160.08</u>	<u>3,671,535.59</u>	<u>2,663,794.86</u>	<u>(1,007,740.73)</u>	<u></u>	<u>591,204.40</u>	<u>1,820.00</u>	<u>(589,384.40)</u>
992,647.72	1,795,394.58	1,246,303.84	549,090.74		103,002.00		103,002.00
425,285.66	479,702.53	419,884.81	59,817.72		70,933.00		70,933.00
470,595.31	624,902.96	535,975.11	88,927.85		10,000.00		10,000.00
245,537.42	523,582.82	262,128.50	261,454.32		348,807.00	1,820.00	346,987.00
75,701.12	102,881.78	66,077.69	36,804.09		14,636.00		14,636.00
					43,826.40		43,826.40
14,684.88	47,147.14	37,593.12	9,554.02				
11,707.97	7,919.41	5,827.42	2,091.99				
	90,004.37	90,004.37					
<u>2,236,160.08</u>	<u>3,671,535.59</u>	<u>2,663,794.86</u>	<u>1,007,740.73</u>	<u></u>	<u>591,204.40</u>	<u>1,820.00</u>	<u>589,384.40</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN
For the Fiscal Year Ended June 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
March 1, 2009	\$ 0	\$ 1,937,109	\$ 1,937,109	0.0%	\$ 6,793,522	28.5%

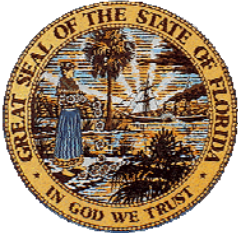
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 197,881.48
National School Lunch Program	10.555	300	537,583.19
Summer Food Service Program for Children	10.559	323	50,768.88
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	<u>50,974.26</u>
Total United States Department of Agriculture			<u>837,207.81</u>
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	957,653.36
Special Education - Preschool Grants	84.173	266, 267	128,696.30
ARRA - Special Education Grants to States, Recovery Act	84.391	263	1,820.00
Columbia County District School Board:			
Special Education - Grants to States	84.027	None	<u>11,766.57</u>
Total Special Education Cluster			1,099,936.23
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	41,893.12
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,080,616.15
Migrant Education - State Grant Program	84.011	217	4,577.00
Career and Technical Education - Basic Grants to States	84.048	151,161	74,298.90
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	11,732.01
Education for Homeless Children and Youth	84.196	127	45,942.81
State Grants for Innovative Programs	84.298	113	2,025.08
Education Technology State Grants	84.318	121	4,861.97
Reading First State Grants	84.357	211	49,389.04
Rural Education	84.358	110	82,633.61
English Language Acquisition Grants	84.365	102	7,333.31
Improving Teacher Quality State Grants	84.367	224	158,496.58
School Improvement Grants	84.377	126	13,645.62
Alachua County District School Board:			
Migrant Education - State Grant Program	84.011	None	36,093.00
Florida State University:			
Comprehensive School Reform Demonstration	84.332	None	<u>34,543.00</u>
Total United States Department of Education			<u>2,748,017.43</u>
United States Department of Health and Human Services:			
Direct:			
Drug-Free Communities Support Program Grants	93.276	N/A	95,857.90
Indirect:			
Florida Department of Children and Families:			
Florida State University:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	None	<u>14,031.66</u>
Total United States Department of Health and Human Services			<u>109,889.56</u>
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	<u>47,023.58</u>
Total Expenditures of Federal Awards			<u>\$ 3,742,138.38</u>

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

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food used during the fiscal year. Commodities are valued at fair value as determined at the time of donation.



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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hamilton 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 discretely presented component unit, as described in our report on the Hamilton County District School Board's financial statements. For the discretely presented component unit, this report does not include the results of the auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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 the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report 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 additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

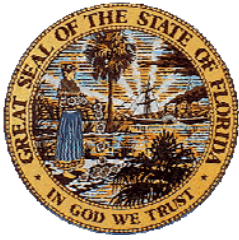
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
January 30, 2010



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 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 Hamilton 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, 2, and 3.

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.

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.

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.

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

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
January 30, 2010

**HAMILTON 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?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section ____510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

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

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Our review of the District’s 2008-09 fiscal year annual financial report, provided for audit, disclosed that procedural improvements could be made in financial reporting. For example, preparation of fund financial statements pursuant to generally accepted accounting principles requires an analysis to determine the major funds that must have separate columnar presentation. The District is required to report a fund as major when the fund’s assets and liabilities represent at least 10 percent of the total governmental funds assets and liabilities, respectively. However, District personnel overlooked separately reporting the Capital Projects – Public Education Capital Outlay (PECO) Fund as a major fund, although the assets and liabilities of the PECO Fund comprised approximately 14 and 54 percent of total governmental fund assets and liabilities, respectively. The assets and liabilities of the PECO Fund totaled \$442,921.31, and \$198,823.72, respectively.

Separately reporting major funds allows financial statement users to readily identify the District’s most significant funds and their related balances and transactions, ensures compliance with generally accepted accounting principles, and ensures that all major funds receive the appropriate level of audit attention. We extended our audit procedures to determine the adjustments and corrections necessary, and District personnel accepted the recommended changes. A similar finding was noted in our report No. 2009-140.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that major funds are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Tangible Personal Property

Chapter 274, Florida Statutes, and Department of Financial Services Rule 69I-73, Florida Administrative Code, require that the District maintain adequate records of tangible personal property in its custody and that the property be inventoried annually, compared to the property records, and that all discrepancies be reconciled. Any property items found during the inventory meeting the capitalization requirements must be included in the inventory records, and items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. In addition, based on the results of the investigation, the District is required to file a report with the appropriate law enforcement agency of items not located.

The District reported approximately \$6.6 million in tangible personal property (furniture, fixtures, and equipment, and motor vehicles) at June 30, 2009. Our review of District controls over tangible personal property (TPP) disclosed the following deficiencies:

- During the 2008-09 fiscal year, the District inspected its TPP inventory, but did not perform a reconciliation of the inventory taken to the detailed subsidiary property records. For example, the property subsidiary for one cost center used to maintain surplus property totaled \$190,710.47. Although the Board approved the list of property for auction, we noted \$162,266.15 of property items on this list that were not located during the physical inventory and, for which, no records were provided to indicate that the items had been properly disposed of. We also noted that no reports were filed with law enforcement agencies for the property items that were missing. According to District personnel, police reports are not routinely filed for missing property unless there is evidence of criminal or illegal circumstances.
- We reviewed the TPP inventory records for 2,850 property items and noted 237 items, listed primarily at three locations, which were not marked as found during the annual physical inventory. We selected 10 of these items to determine whether the items physically existed and located 5 items in a warehouse, while the other 5 items, including various computer equipment with a recorded value of approximately \$14,000, could not be located. We also identified numerous items in the warehouse that were not recorded in the property records.

Failure to perform a complete annual inventory and notify law enforcement agencies of missing property limits the District's assurance of accurate accountability for its property. Similar findings were noted in our report No. 2009-140.

Recommendation: To improve accountability and safeguarding of the District's assets, the District should strengthen procedures to provide for appropriate follow-up for items not located during annual physical inventories and appropriately reconcile the inventory results to the subsidiary records. After a thorough investigation, District personnel should timely report items not located to the appropriate law enforcement agency and to the Board for appropriate disposition.

Finding No. 3: Inventories

The District reported transportation, maintenance, and janitorial inventories totaling \$160,385.24 at June 30, 2009, in the General Fund. The reported balances were based on a physical count conducted by District personnel of the inventories on hand at fiscal year-end. We noted that enhancements are needed in the District's inventory procedures, as discussed below:

- The custodian of the inventory has unlimited access to the inventory and maintains the perpetual inventory records, resulting in an inadequate separation of duties. This employee physically receives the inventory items; receives requisitions from, and delivers the items to, the cost centers; and records receipts and deletions into the perpetual inventory system. Without proper separation of duties, or other compensating controls to ensure the accountability of inventories, there is an increased risk that errors or fraud, should they occur, would not be timely detected.
- District personnel did not always perform the physical inventory counts properly. Our tests of 29 inventory items disclosed 12 items that had errors in the quantity on hand resulting in a net understatement of \$2,592.
- District personnel did not ensure that all items physically present had the proper inventory value recorded. We noted 95 inventory categories that had individual positive quantities, totaling 1,162 items, that had no inventory values, and 36 inventory categories that had individual negative quantities, totaling 409 items, that had no inventory values. In addition, District records did not evidence any efforts to determine the basis for these inventory quantities or values.

The lack of accurate inventory quantities and values may be attributed, in part, to personnel who had other job priorities and because an independent review of the inventory records was not performed. While we were able to

satisfy ourselves through alternative auditing procedures that the potential financial impact of the errors would not have a material effect on the District's financial statements, our procedures do not substitute for the District's responsibility to maintain accurate records to substantiate its reported inventory values. Similar findings were noted in our report No. 2009-140.

Recommendation: The District should provide for an adequate separation of duties associated with inventories and enhance procedures to ensure the accuracy of year-end physical inventory counts and reported inventory values.

Finding No. 4: Collection of Social Security Numbers

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

Section 119.071(5)(a), Florida Statutes, provides, in part, that the District:

- may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or it is imperative for the performance of the District's duties and responsibilities as prescribed by law;
- must provide the individual with a copy of the written statement indicating the purpose for collecting the SSN;
- may not use SSNs collected for any purpose other than the purpose provided in the written statement; and
- shall review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District collects SSNs from students, employees and prospective employees, and certain contracted vendors for record keeping and tax related purposes. However, contrary to the above law, the District did not conduct the required review and evaluation of the reasons for collection of the SSNs or prepare written statements notifying individuals of the purpose for collection of the numbers. According to District personnel, attempts will be made to locate all forms that request SSNs, and appropriate language will be added to communicate the reasons for obtaining SSNs. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2009-140.

Recommendation: The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes, by implementing a SSN policy to address the collection of SSNs from all individuals, such as students, employees, and vendors, and properly notifying individuals of the need for and use of SSNs.

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

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

As similarly noted in our report No. 2009-140, the District lacked written policies and procedures for the following IT functions:

- Administering vendor-supplied identification codes (IDs), user IDs, administrative passwords, Guest accounts, and security devices (such as firewalls and routers).
- Granting least privilege for service and application accounts.
- Defining network, system, and database administration responsibilities.
- Prohibiting administrator rights on the workstations of end users.
- Defining access privileges and responsibilities of end-user support staff.
- Resetting user passwords, including positive identification of the user.
- Defining termination procedures, including timely notification of terminations and reassignments and revoking the access privileges of former or transferred employees, consultants, and vendors.

Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations. In response to audit inquiry, the District drafted certain policies and procedures.

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

Finding No. 6: Information Technology – Application Access and Authorization Controls

Application access and authorization controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Key elements of a comprehensive plan for application access and authorization controls include data classification and access authorization documentation. Data owners are generally the managers of the programs supported by applications and are in the best position to classify data and determine access needs of users.

As also noted in our report No. 2009-140, the District had not classified its data according to sensitivity or level of significance and had not maintained access authorization documentation. Maintaining access authorization documentation in a secure, centralized location ensures that appropriate staff can access the documentation when needed.

The lack of data classification and documentation of authorization for user access rights to data and application functions increases the risk of inappropriate access and unauthorized user, disclosure, or modification of data and IT resources.

Recommendation: The District should classify its data and maintain documentation of user access authorization.

Finding No. 7: Information Technology – Review of Logs

Reviewing changes to sensitive or critical tables, files, or transactions helps ensure the confidentiality, integrity, and availability of data and IT resources. The District used a journaling function to record detailed change information for data files and security tables; however, the journalized information was not reviewed, as similarly noted in our report No. 2009-140. Failure to review logs increases the risk that unauthorized, erroneous, or fraudulent modifications to the District’s data and IT resources will not be timely detected.

Recommendation: The District should implement procedures to review logs of changes to sensitive or critical tables, files, and transactions.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education - Grants to States (CFDA No. 84.027)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Procurement – Contract Administration. Improvements should be made in District procedures to include required provisions in agreements funded with Federal moneys. Title 34, Section 80.36(i), Code of Federal Regulations, requires District contracts involving Federal funds to contain certain provisions, including the following:

- For contracts in excess of \$10,000, a provision for termination for cause and for convenience, including the manner by which it will be effected and the basis for settlement;
- Retention of all required records for three years after the grantee or subgrantee makes final payment and all other pending matters are closed, and
- Access to records of the contractor which are directly pertinent to the contract.

The District had expenditures totaling approximately \$1.1 million for the Special Education program, including payments, totaling \$68,379.27, made pursuant to three therapy contracts, each in excess of \$10,000. However, we noted that these three contracts lacked certain required provisions, as follows:

- \$43,478.00 paid pursuant to a contract that lacked the access to records and retention of records provisions;
- \$13,325.02 paid pursuant to a contract that lacked the access to records provision; and
- \$11,576.25 paid pursuant to a contract that lacked all three of the required provisions mentioned above.

Failure to include the required contract provisions could limit the District’s actions if disputes arose with the contractors and could result in disallowance of grant expenditures by the grantor.

Recommendation: The District should enhance its procedures to ensure that future contracts involving Federal funds contain the required provisions.

District Contact Person: Regina Jordan, Coordinator of Exceptional Student Education

Federal Awards Finding No. 2:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education – Grants to States (CFDA No. 84.027)****Finding Type: Noncompliance****Questioned Costs: Not Applicable**

Allowable Costs/Cost Principles. The United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. The District recorded expenditures, totaling approximately \$1.1 million, for the Special Education program, and we performed tests of expenditures, totaling approximately \$384,000, to determine their propriety and allowability. Our tests disclosed that District records did not evidence that the District verified that it received 410 hours of physical therapy services from one vendor paid approximately \$13,000 from the Special Education program. Subsequent to our inquiry, the District obtained time records from each of the cost centers that evidenced that the vendor provided services for the payments made. However, when District personnel do not properly and timely monitor Federal charges to ensure services are received before payments are made, the risk increases that payments may be made for services not performed in accordance with grant terms and District intentions.

Recommendation: The District should enhance its preaudit procedures to ensure that verifications are timely received and reviewed to evidence that services were performed consistent with grant terms before payments for such services are made.

District Contact Person: Regina Jordan, Coordinator of Exceptional Student Education

Federal Awards Finding No. 3:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Programs: ARRA: Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 83.389); Special Education, Grants to States, Recovery Act (CFDA No. 84.391); Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund – Education State Grants, Recovery Act (CFDA No. 84.394); and State Fiscal Stabilization Fund – Government Services, Recovery Act (CFDA No. 84.397)****Finding Type: Noncompliance****Questioned Costs: Not applicable**

Reporting and Special Tests and Provisions. The American Recovery and Reinvestment Act (ARRA) provides funding, in part, to school districts, with the overall goals of improving schools and achievement and producing better results for students. To support the most effective use of the funds and measure results, recipients are required to report certain information tied to the assurance, principles, and strategies associated with ARRA Federal programs. The United States Federal Government maintains a database, known as the Central Contractor Registration (CCR), to collect, validate, store, and disseminate information relating to Federal awards, including ARRA Federal programs. Both current and potential Federal recipients are required to register in CCR in order to receive Federal grant awards. Recipients are required to initially register in CCR to provide basic information relevant to procurement and financial transactions, and must update or renew their registration at least once per year to maintain an active status.

The Florida Department of Education (FDOE) approved ARRA Federal funding for the District to administer, as shown in the table below:

Grant (CFDA Number)	Award Amount
ARRA – Title I (84.389)	\$ 560,606
ARRA – Special Education (84.391)	465,127
ARRA – Special Education, Preschool (84.392)	14,646
ARRA – State Fiscal Stabilization (84.394)	563,682
ARRA – State Fiscal Stabilization (84.397)	26,044

However, our review of District records and inquiry with District personnel disclosed that the District was not initially aware of these requirements, and had not registered in the CCR system. Subsequent to our inquiries, the District designated the Director of Business Services to monitor the District’s Federal reporting requirements, and registered in CCR as of December 14, 2009. Without timely registration in the CCR system, the District may be limited in its eligibility to receive ARRA Federal funds.

Recommendation: **The District should continue its efforts to ensure timely registration at the Central Contractor Registration Web site on an annual basis as required.**

District Contact Person: Bonnie Penner, Director of Business Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-140.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HAMILTON 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
2007-097 (1), 2008-102 (3), and 2009-140 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Program Administration	The District's food service program experienced a declining financial condition, due in part to certain control deficiencies.	Corrected	
2008-102 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Eligibility	Based on applications and other documentation on file, five students should have been denied reduced price meals and one student should have been denied free meals, resulting in questioned costs totaling \$1,820.70.	Partially corrected	Questioned costs pending final determination by grantor agency.
2009-140 (1)	Special Education Cluster (CFDA No. 84.027) / Allowable Costs/Cost Principles - Compensation of Personnel Services	The District did not properly document the time and effort allocation of two employees, necessary to support salary expenditures charged to the grants.	Corrected	

EXHIBIT A
MANAGEMENT'S RESPONSE

Hamilton County School District

School Board Members
Damon Deas - District 1
Gary Godwin - District 2
Jeanie Daniels - District 3

Martha W. Butler, Superintendent
4280 SW County Road 152
Jasper, Florida 32052
Phone: (386) 792-1228 Fax: (386) 792-3681

School Board Members
Joyce Shaw - District 4
Don Fenneman - District 5

January 19, 2010

Mr. David Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Auditor General:

The management of the Hamilton County School District has reviewed the preliminary and tentative audit findings and offers the following in response:

Finding No. 1: District personnel will take appropriate care in applying accounting rules to ensure all major funds are reported correctly.

Finding No. 2: The inventory process for tangible personal property items will be strengthened to see that a thorough count is completed and reconciled.

Finding No. 3: Procedures will be reviewed for the supplies inventories at the Maintenance and Transportation department and controls will be added.

Finding No. 4: The District will work toward compliance with Statute regarding the collection of social security numbers.

Finding No. 5: Written policies have been drafted and will be finalized to cover IT functions.

Finding No. 6: Documentation of user authorization and approval is being retained and periodic reviews of authorization levels are being conducted.

Finding No. 7: Procedures will be developed to include a review of appropriate logs.

Federal Awards

Finding No. 1: The contract template used for Federal programs will be updated to include all appropriate language.

Finding No. 2: Future billings from all contractors will include detailed invoices with the times worked as well as the number of hours worked when payments are based on time worked.

Finding No. 3: The District has registered with the CCR and will maintain the registration as required.

The District appreciates the efforts of the Auditor General staff during this audit. Their professionalism and knowledge helped make the process effective and positive.

Sincerely,

Martha Butler, Superintendent