

HIGHLANDS COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Howard C. "Wally" Randall, Vice Chair from 11-18-08	1
Donna Howerton	2
J. Ned Hancock, Chair to 11-17-08	3
Richard A. Norris	4
Andy Tuck, Vice Chair to 11-17-08	5
Chair from 11-18-08	

Wally Cox, Superintendent

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

The audit team leader was Yuling Liu, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Deidre Melton, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS:

Finding No. 1: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 2: Improvements were needed in the District's IT security controls related to user authentication and logging, monitoring, and review of system activity.

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 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.

Audit Objectives and Scope

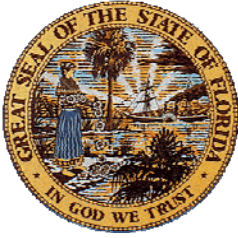
Our audit objectives were to determine whether the Highlands County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2009-175.

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*.



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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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands 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 23 percent of the assets and 69 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Highlands County Education Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Highlands County District School Board as of June 30, 2009, and the respective changes in financial position

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

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Highlands 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 50 through 52) 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

February 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Highlands County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview 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 48.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- General revenues total \$105,633,216, or 85.1 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$18,452,439, or 14.9 percent.
- Expenses total \$123,497,036; only \$18,452,439 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$588,619.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$2,503,991 at June 30, 2009, or 2.8 percent of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type 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 three 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.

- Business-type activities – The District charges fees and receives Federal and State grants to cover the cost of certain services it provides. These activities account for the financial resources of the Heartland Educational Consortium.
- Component units – The District presents the Highlands County Education Foundation, Inc., as a discretely presented component unit. 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.

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

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

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

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

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for the Heartland Educational Consortium.

- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses an internal service fund to account for the District's employee dental program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District's major enterprise fund is the Heartland Educational Consortium.

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

The District uses private-purpose trust funds to account for scholarship funds established by private donors.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

Net Assets, End of Year

	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-09	6-30-08	6-30-09	6-30-08	6-30-09	6-30-08
Current and Other Assets	\$ 25,165,303.89	\$ 50,297,960.03	\$ 881,087.60	\$ 796,012.06	\$ 26,046,391.49	\$ 51,093,972.09
Capital Assets	125,886,490.85	110,277,596.30	439,595.94	447,716.79	126,326,086.79	110,725,313.09
Total Assets	151,051,794.74	160,575,556.33	1,320,683.54	1,243,728.85	152,372,478.28	161,819,285.18
Long-Term Liabilities	75,692,055.30	78,365,235.19			75,692,055.30	78,365,235.19
Other Liabilities	5,377,026.53	12,732,687.07	16,606.67	23,192.04	5,393,633.20	12,755,879.11
Total Liabilities	81,069,081.83	91,097,922.26	16,606.67	23,192.04	81,085,688.50	91,121,114.30
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	63,255,554.74	59,493,254.89	439,595.94	447,716.79	63,695,150.68	59,940,971.68
Restricted	8,867,672.31	9,919,324.07			8,867,672.31	9,919,324.07
Unrestricted (Deficit)	(2,140,514.14)	65,055.11	864,480.93	772,820.02	(1,276,033.21)	837,875.13
Total Net Assets	\$ 69,982,712.91	\$ 69,477,634.07	\$ 1,304,076.87	\$ 1,220,536.81	\$ 71,286,789.78	\$ 70,698,170.88

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$3,216,541 (after the exclusion of \$5,357,055 in compensated absences and other postemployment benefits) may be used to meet the District's ongoing obligations to students, employees, and creditors.

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

	Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-09	6-30-08	6-30-09	6-30-08	6-30-09	6-30-08
Program Revenues:						
Charges for Services	\$ 2,017,738.12	\$ 2,008,293.75	\$ 529,340.19	\$ 367,903.84	\$ 2,547,078.31	\$ 2,376,197.59
Operating Grants and Contributions	8,331,439.47	7,703,694.60	410,541.98	464,100.26	8,741,981.45	8,167,794.86
Capital Grants and Contributions	7,163,378.89	8,894,280.81			7,163,378.89	8,894,280.81
General Revenues:						
Property Taxes, Levied for Operational Purposes	38,132,916.05	38,170,779.78			38,132,916.05	38,170,779.78
Property Taxes, Levied for Capital Projects	11,248,399.54	13,464,614.23			11,248,399.54	13,464,614.23
Grants and Contributions Not Restricted to Specific Programs	53,966,303.13	57,056,566.67			53,966,303.13	57,056,566.67
Unrestricted Investment Earnings	484,425.50	2,100,773.01	8,843.30	20,189.94	493,268.80	2,120,962.95
Miscellaneous	1,731,343.68	2,722,451.94	60,985.21	36,363.96	1,792,328.89	2,758,815.90
Total Revenues	123,075,944.38	132,121,454.79	1,009,710.68	888,558.00	124,085,655.06	133,010,012.79
Functions/Program Expenses:						
Instruction	58,859,622.47	57,687,576.41			58,859,622.47	57,687,576.41
Pupil Personnel Services	6,304,551.40	6,381,817.65			6,304,551.40	6,381,817.65
Instructional Media Services	1,628,339.38	1,667,616.87			1,628,339.38	1,667,616.87
Instruction and Curriculum Development Services	2,680,763.00	2,137,803.52			2,680,763.00	2,137,803.52
Instructional Staff Training Services	2,442,357.02	3,252,885.08			2,442,357.02	3,252,885.08
Instruction Related Technology	1,565,229.84	1,508,512.05			1,565,229.84	1,508,512.05
Board of Education	450,573.58	454,283.57			450,573.58	454,283.57
General Administration	771,133.88	693,750.42			771,133.88	693,750.42
School Administration	6,402,319.96	6,786,778.45			6,402,319.96	6,786,778.45
Facilities Acquisition and Construction	3,734,636.36	5,856,475.86			3,734,636.36	5,856,475.86
Fiscal Services	760,802.73	870,867.30			760,802.73	870,867.30
Food Services	7,455,249.81	6,862,616.95			7,455,249.81	6,862,616.95
Central Services	1,468,462.44	1,678,186.81			1,468,462.44	1,678,186.81
Pupil Transportation Services	6,561,287.61	6,412,108.08			6,561,287.61	6,412,108.08
Operation of Plant	9,667,516.01	10,408,173.76			9,667,516.01	10,408,173.76
Maintenance of Plant	2,283,739.43	2,449,807.04			2,283,739.43	2,449,807.04
Administrative Technology Services	366,039.75	352,917.17			366,039.75	352,917.17
Community Services	586,535.34	680,252.25			586,535.34	680,252.25
Interest on Long-Term Debt	3,126,876.85	3,236,832.52			3,126,876.85	3,236,832.52
Unallocated Depreciation Expense	5,454,828.68	4,864,946.21			5,454,828.68	4,864,946.21
Heartland Educational Consortium			926,170.62	658,082.37	926,170.62	658,082.37
Total Functions/Program Expenses	122,570,865.54	124,244,207.97	926,170.62	658,082.37	123,497,036.16	124,902,290.34
Increase in Net Assets	\$ 505,078.84	\$ 7,877,246.82	\$ 83,540.06	\$ 230,475.63	\$ 588,618.90	\$ 8,107,722.45

The largest revenue source is the State of Florida (42 percent). Total State revenues decreased by \$6,083,256 or 10.5 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. FEFP revenues declined \$4.47 million from the 2007-08 fiscal year.

Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. State Public Education Capital Outlay funding decreased \$2.65 million from the 2007-08 fiscal year.

Instruction and instruction related technology expenses represent 48.9 percent of total governmental expenses in the 2008-09 fiscal year. Instruction and instruction related technology expenses increased by \$1,228,764, or 2.1 percent, from the previous year.

The increase in net assets for the business-type activities resulted primarily from the increase in charges for consortium tutoring services to students of member districts.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$2,503,991, while the total fund balance is \$3,054,465. The unreserved fund balance decreased by \$2,036,463, while the total fund balance decreased by \$2,199,480 during the fiscal year. Key factors in these decreases are as follows:

- Total General Fund revenues decreased \$5,859,203 or 6.4 percent, primarily because State FEFP revenues decreased \$4,474,227, or 14.4 percent.
- Total General Fund expenditures decreased by \$2,983,399, or 3.2 percent, due mainly to decreases in staff training and support services.

The Special Revenue – Food Service Fund has a total fund balance of \$353,534, which is restricted for operating the District's food and nutrition program. Fund balance increased during the 2008-09 fiscal year, primarily due to an increase in operating grants and contributions received which totaled \$674,983.

The Capital Projects – Other Fund has a total fund balance of \$12,396,984 most of which is restricted for projects financed by the Certificates of Participation, Series 2006A. Of this amount, \$3,445,253 has been encumbered for specific projects. The fund balance decreased by \$15,099,889 this year due to construction expenses for additions at Avon Park High School, Avon Park Middle School, Sebring High School and Hill-Gustat Middle School.

Proprietary Funds

Unrestricted net assets of the Heartland Educational Consortium Enterprise Fund totals \$864,481 at June 30, 2009, an increase of \$91,661. This increase occurred primarily because of an increase in charges for tutoring services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the year. The final category includes the Board approved transfers between expenditure functions and objects.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

There was an increase of \$15,600,774 in net Capital Assets from the previous year due to capital asset additions in excess of depreciation expense for Memorial Elementary School and additions at Sebring High School, Hill-Gustat Middle School, Avon Park High School and Avon Park Middle School. Additional information on the District's capital assets can be found in Notes 4 and 15 to the financial statements.

Long-Term Debt

The District's long-term debt decreased by \$2,865,000 during the fiscal year or approximately 4 percent, due to payments of current debt issues. Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Approximately 52 percent of General Fund revenues are from the State of Florida. The primary source of revenue for the State is sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida, will impact the amount of revenue received by the District. Changes in the levels of tourism, immigration into the State of Florida, and unemployment have a significant impact on establishing the State budget, as well as the District budget.

Federal stimulus funds will help in the short term, but continued shortfalls in State tax revenues resulting from further declines in the economy are anticipated. Plans continue to be developed to contend with revenue shortfalls.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent's Office at 426 School Street, Sebring, FL 33870.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 8,769,205.10	\$ 881,087.60	\$ 9,650,292.70	\$ 34,148.57
Investments	5,967,459.80		5,967,459.80	
Accounts Receivable	398,461.54		398,461.54	
Due from Other Agencies	8,950,187.67		8,950,187.67	
Inventories	1,079,989.78		1,079,989.78	
Capital Assets:				
Nondepreciable Capital Assets	6,297,181.78	126,607.00	6,423,788.78	
Depreciable Capital Assets, Net	119,589,309.07	312,988.94	119,902,298.01	
TOTAL ASSETS	\$ 151,051,794.74	\$ 1,320,683.54	\$ 152,372,478.28	\$ 34,148.57
LIABILITIES				
Salaries and Benefits Payable	\$ 339,274.42	\$ 1,282.19	\$ 340,556.61	\$
Payroll Deductions and Withholdings	3,481,894.72	5,155.64	3,487,050.36	
Accounts Payable	521,912.64	10,168.84	532,081.48	
Construction Contracts Payable	661,917.38		661,917.38	
Construction Contracts Payable - Retainage	304,304.41		304,304.41	
Deferred Revenue	34,497.74		34,497.74	
Estimated Insurance Claims Payable	33,225.22		33,225.22	
Long-Term Liabilities:				
Portion Due Within One Year	3,360,000.00		3,360,000.00	
Portion Due After One Year	72,332,055.30		72,332,055.30	
Total Liabilities	81,069,081.83	16,606.67	81,085,688.50	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	63,255,554.74	439,595.94	63,695,150.68	
Restricted for:				
State Categorical Programs	293,456.80		293,456.80	
Debt Service	415,521.56		415,521.56	
Capital Projects	7,805,160.00		7,805,160.00	
Food Service	353,533.95		353,533.95	
Unrestricted	(2,140,514.14)	864,480.93	(1,276,033.21)	34,148.57
Total Net Assets	69,982,712.91	1,304,076.87	71,286,789.78	34,148.57
TOTAL LIABILITIES AND NET ASSETS	\$ 151,051,794.74	\$ 1,320,683.54	\$ 152,372,478.28	\$ 34,148.57

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

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**HIGHLANDS 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	\$ 58,859,622.47	\$	\$	\$
Pupil Personnel Services	6,304,551.40			
Instructional Media Services	1,628,339.38			
Instruction and Curriculum Development Services	2,680,763.00			
Instructional Staff Training Services	2,442,357.02			
Instruction Related Technology	1,565,229.84			
Board of Education	450,573.58			
General Administration	771,133.88			
School Administration	6,402,319.96			
Facilities Acquisition and Construction	3,734,636.36			6,795,446.69
Fiscal Services	760,802.73			
Food Services	7,455,249.81	2,017,738.12	5,534,438.47	
Central Services	1,468,462.44			
Pupil Transportation Services	6,561,287.61		2,797,001.00	
Operation of Plant	9,667,516.01			
Maintenance of Plant	2,283,739.43			
Administrative Technology Services	366,039.75			
Community Services	586,535.34			
Interest on Long-Term Debt	3,126,876.85			367,932.20
Unallocated Depreciation Expense	5,454,828.68			
Total Governmental Activities	122,570,865.54	2,017,738.12	8,331,439.47	7,163,378.89
Business-Type Activities:				
Heartland Educational Consortium	926,170.62	529,340.19	410,541.98	
Total Primary Government	\$ 123,497,036.16	\$ 2,547,078.31	\$ 8,741,981.45	\$ 7,163,378.89
Component Unit				
Highlands County Education Foundation, Inc	\$ 98,979.50	\$ 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			
Governmental Activities	Primary Government		Component Unit
	Business-Type Activities	Total	
\$ (58,859,622.47)	\$	\$ (58,859,622.47)	\$
(6,304,551.40)		(6,304,551.40)	
(1,628,339.38)		(1,628,339.38)	
(2,680,763.00)		(2,680,763.00)	
(2,442,357.02)		(2,442,357.02)	
(1,565,229.84)		(1,565,229.84)	
(450,573.58)		(450,573.58)	
(771,133.88)		(771,133.88)	
(6,402,319.96)		(6,402,319.96)	
3,060,810.33		3,060,810.33	
(760,802.73)		(760,802.73)	
96,926.78		96,926.78	
(1,468,462.44)		(1,468,462.44)	
(3,764,286.61)		(3,764,286.61)	
(9,667,516.01)		(9,667,516.01)	
(2,283,739.43)		(2,283,739.43)	
(366,039.75)		(366,039.75)	
(586,535.34)		(586,535.34)	
(2,758,944.65)		(2,758,944.65)	
(5,454,828.68)		(5,454,828.68)	
(105,058,309.06)		(105,058,309.06)	
	13,711.55	13,711.55	
(105,058,309.06)	13,711.55	(105,044,597.51)	
			(98,979.50)
38,132,916.05		38,132,916.05	
11,248,399.54		11,248,399.54	
53,966,303.13		53,966,303.13	
484,425.50	8,843.30	493,268.80	374.94
1,731,343.68	60,985.21	1,792,328.89	85,766.66
105,563,387.90	69,828.51	105,633,216.41	86,141.60
505,078.84	83,540.06	588,618.90	(12,837.90)
69,477,634.07	1,220,536.81	70,698,170.88	46,986.47
\$ 69,982,712.91	\$ 1,304,076.87	\$ 71,286,789.78	\$ 34,148.57

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS**

	General Fund	Special Revenue - Food Service Fund
ASSETS		
Cash and Cash Equivalents	\$	\$ 4,763.31
Investments	5,058,997.98	
Accounts Receivable	114,835.78	
Due from Other Funds		
Due from Other Agencies	802,033.20	711,221.60
Inventories	784,985.56	295,004.22
Restricted Cash with Fiscal Agent		
Investments in SBA Fund B Surplus Funds Trust Fund	88,661.22	
TOTAL ASSETS	\$ 6,849,513.74	\$ 1,010,989.13
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 209,654.34	\$ 21,851.64
Payroll Deductions and Withholdings	3,157,293.69	67,499.77
Accounts Payable	226,448.47	28,606.03
Construction Contracts Payable		
Construction Contracts Payable - Retainage		
Due to Other Funds	201,652.55	505,000.00
Deferred Revenues		34,497.74
Total Liabilities	3,795,049.05	657,455.18
Fund Balances:		
Reserved for State Categorical Programs	293,456.80	
Reserved for Encumbrances	168,355.18	56,868.03
Reserved for Debt Service		
Reserved for SBA Fund B Investments	88,661.22	
Unreserved:		
Undesignated, Reported in:		
General Fund	2,503,991.49	
Special Revenue Funds		296,665.92
Capital Projects Funds		
Total Fund Balances	3,054,464.69	353,533.95
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,849,513.74	\$ 1,010,989.13

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 480,234.06	\$ 831,851.67	\$ 1,316,849.04
	66,863.01	5,125,860.99
	283,625.76	398,461.54
	864,652.55	864,652.55
5,326,156.00	2,110,776.87	8,950,187.67
		1,079,989.78
6,951,126.30	12,471.27	6,963,597.57
752,937.59		841,598.81
<u>\$ 13,510,453.95</u>	<u>\$ 4,170,241.13</u>	<u>\$ 25,541,197.95</u>
\$	\$ 107,768.44	\$ 339,274.42
	257,101.26	3,481,894.72
85,248.27	181,609.87	521,912.64
661,917.38		661,917.38
304,304.41		304,304.41
62,000.00	96,000.00	864,652.55
		34,497.74
<u>1,113,470.06</u>	<u>642,479.57</u>	<u>6,208,453.86</u>
		293,456.80
3,445,252.85	425,621.55	4,096,097.61
	415,521.56	415,521.56
752,937.59		841,598.81
		2,503,991.49
		296,665.92
8,198,793.45	2,686,618.45	10,885,411.90
<u>12,396,983.89</u>	<u>3,527,761.56</u>	<u>19,332,744.09</u>
<u>\$ 13,510,453.95</u>	<u>\$ 4,170,241.13</u>	<u>\$ 25,541,197.95</u>

HIGHLANDS 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 \$ 19,332,744.09

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. 125,886,490.85

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 455,533.27

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:

Certificates of Participation Payable	\$ 66,540,000.00	
Bonds Payable	3,795,000.00	
Compensated Absences Payable	5,026,408.30	
Other Postemployment Benefits Payable	330,647.00	
	(75,692,055.30)	

Total Net Assets - Governmental Activities **\$ 69,982,712.91**

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

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**HIGHLANDS 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 - Food Service Fund
Revenues		
Intergovernmental:		
Federal Direct	\$ 145,321.91	\$
Federal Through State and Local	342,346.47	5,363,496.47
State	44,665,844.87	173,508.75
Local:		
Property Taxes	38,132,916.05	
Charges for Services - Food Service		2,017,738.12
Impact Fees		
Miscellaneous	2,037,877.15	4,067.71
Total Revenues	85,324,306.45	7,558,811.05
Expenditures		
Current - Education:		
Instruction	54,285,980.48	
Pupil Personnel Services	4,919,564.18	
Instructional Media Services	1,624,624.04	
Instruction and Curriculum Development Services	1,083,158.08	
Instructional Staff Training Services	552,537.67	
Instruction Related Technology	398,361.12	
Board of Education	449,162.58	
General Administration	442,305.13	
School Administration	6,398,877.68	
Facilities Acquisition and Construction	11,607.71	
Fiscal Services	758,420.22	
Food Services		7,431,903.14
Central Services	1,465,247.76	
Pupil Transportation Services	5,604,870.45	
Operation of Plant	9,636,804.11	
Maintenance of Plant	2,236,669.58	
Administrative Technology Services	364,893.47	
Community Services	584,698.56	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	9,100.00	
Other Capital Outlay	56,038.38	9,293.74
Debt Service:		
Principal		
Interest and Fiscal Charges		
Total Expenditures	90,882,921.20	7,441,196.88
Excess (Deficiency) of Revenues Over Expenditures	(5,558,614.75)	117,614.17
Other Financing Sources (Uses)		
Transfers In	3,359,135.00	
Transfers Out		
Total Other Financing Sources (Uses)	3,359,135.00	
Net Change in Fund Balances	(2,199,479.75)	117,614.17
Fund Balances, Beginning	5,253,944.44	235,919.78
Fund Balances, Ending	\$ 3,054,464.69	\$ 353,533.95

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	360,557.73	505,879.64
	10,929,759.70	16,635,602.64
5,524,283.00	1,662,906.25	52,026,542.87
	11,248,399.54	49,381,315.59
		2,017,738.12
293,096.34		293,096.34
(296,605.81)	323,655.83	2,068,994.88
5,520,773.53	24,525,279.05	122,929,170.08
	4,490,344.92	58,776,325.40
	1,372,163.65	6,291,727.83
		1,624,624.04
	1,593,361.68	2,676,519.76
	1,889,819.35	2,442,357.02
	1,166,868.72	1,565,229.84
		449,162.58
	330,565.65	772,870.78
		6,398,877.68
1,406,248.46	2,316,780.19	3,734,636.36
		758,420.22
		7,431,903.14
		1,465,247.76
	178,809.10	5,783,679.55
	1,821.26	9,638,625.37
		2,236,669.58
		364,893.47
		584,698.56
18,880,144.68	1,139,472.25	20,028,716.93
334,269.07	1,431,495.53	1,831,096.72
	2,865,000.00	2,865,000.00
	3,126,876.85	3,126,876.85
20,620,662.21	21,903,379.15	140,848,159.44
(15,099,888.68)	2,621,899.90	(17,918,989.36)
	5,412,285.85	8,771,420.85
	(8,771,420.85)	(8,771,420.85)
	(3,359,135.00)	
(15,099,888.68)	(737,235.10)	(17,918,989.36)
27,496,872.57	4,264,996.66	37,251,733.45
\$ 12,396,983.89	\$ 3,527,761.56	\$ 19,332,744.09

**HIGHLANDS 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 \$ (17,918,989.36)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. 15,608,894.55

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. 2,865,000.00

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. 138,826.89

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (330,647.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. 141,993.76

Change in Net Assets - Governmental Activities \$ 505,078.84

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2009**

	Business-Type Activities - Enterprise Fund Heartland Educational Consortium	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 881,087.60	\$ 488,758.49
Noncurrent Assets:		
Land	126,607.00	
Buildings and Fixed Equipment, Net	303,857.60	
Furniture, Fixtures, and Equipment, Net	8,552.03	
Computer Software, Net	579.31	
Total Noncurrent Assets	439,595.94	
TOTAL ASSETS	\$ 1,320,683.54	\$ 488,758.49
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	\$ 1,282.19	\$
Payroll Deductions and Withholdings	5,155.64	
Accounts Payable	10,168.84	
Estimated Insurance Claims Payable		33,225.22
Total Liabilities	16,606.67	33,225.22
NET ASSETS		
Invested in Capital Assets	439,595.94	
Unrestricted	864,480.93	455,533.27
Total Net Assets	1,304,076.87	455,533.27
TOTAL LIABILITIES AND NET ASSETS	\$ 1,320,683.54	\$ 488,758.49

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

	Business-Type Activities - Enterprise Fund Heartland Educational Consortium	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	\$ 529,340.19	\$
Premium Revenues		975,597.11
Other Operating Revenues	471,527.19	
Total Operating Revenues	<u>1,000,867.38</u>	<u>975,597.11</u>
OPERATING EXPENSES		
Salaries	335,204.06	
Employee Benefits	82,352.27	
Purchased Services	401,847.41	803,051.35
Energy Services	11,719.28	
Materials and Supplies	37,776.27	
Capital Outlay	26,095.46	
Other Expenses	20,104.02	30,552.00
Depreciation	11,071.85	
Total Operating Expenses	<u>926,170.62</u>	<u>833,603.35</u>
Operating Income	<u>74,696.76</u>	<u>141,993.76</u>
NONOPERATING REVENUES		
Interest	8,843.30	
Change in Net Assets	83,540.06	141,993.76
Total Net Assets - Beginning	<u>1,220,536.81</u>	<u>313,539.51</u>
Total Net Assets - Ending	<u>\$ 1,304,076.87</u>	<u>\$ 455,533.27</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

	Business-Type Activities - Enterprise Fund Heartland Educational Consortium	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	\$ 529,340.19	\$ 975,597.11
Cash Payments to Suppliers for Goods and Services	(505,521.86)	(30,552.00)
Cash Payments to Employees for Services	(416,162.28)	
Cash Payments for Insurance Claims		(810,423.33)
Other Cash Receipts	471,527.19	
Net Cash Provided by Operating Activities	79,183.24	134,621.78
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(2,951.00)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	8,843.30	
Net Increase in Cash and Cash Equivalents	85,075.54	134,621.78
Cash and Cash Equivalents, Beginning	796,012.06	354,136.71
Cash and Cash Equivalents, Ending	\$ 881,087.60	\$ 488,758.49

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

Operating Income	\$ 74,696.76	\$ 141,993.76
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	11,071.85	
Changes in Assets and Liabilities:		
Decrease in Accounts Payable	(7,979.42)	
Increase in Salaries and Benefits Payable	1,282.19	
Increase in Payroll Deductions and Withholdings	111.86	
Decrease in Estimated Insurance Claims Payable		(7,371.98)
Total Adjustments	4,486.48	(7,371.98)
Net Cash Provided by Operating Activities	\$ 79,183.24	\$ 134,621.78

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2009**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 289,756.07	\$ 1,500,790.00
Investments		17,546.00
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 289,756.07</u>	<u>\$ 1,518,336.00</u>
LIABILITIES		
Internal Accounts Payable	\$ <u> </u>	\$ <u>1,518,336.00</u>
Total Liabilities	<u>\$ <u> </u></u>	<u>\$ <u>1,518,336.00</u></u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<u>289,756.07</u>	
Total Net Assets	<u>289,756.07</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ <u>289,756.07</u></u>	

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2009**

	Private-Purpose Trust Funds
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 3,320.00
Investment Earnings:	
Interest	3,337.21
Total Additions	<u>6,657.21</u>
DEDUCTIONS	
Scholarship Payments	<u>15,800.00</u>
Change in Net Assets Held in Trust for:	
Scholarships for Individuals	(9,142.79)
Net Assets - Beginning	<u>298,898.86</u>
Net Assets - Ending	<u><u>\$ 289,756.07</u></u>

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

**HIGHLANDS 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 Highlands County School District is considered part of the Florida system of public education. The governing body of the school district is the Highlands 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 Highlands 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 units are included within the District School Board's reporting entity:

- **Blended Component Unit.** The Highlands County School Board Leasing Corporation (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Highlands County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements, include the financial data of the District's other component unit. The Highlands County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct support organization under Section 1001.453, Florida Statutes, to provide charitable and educational aid to the School Board, to promote education; and to encourage research, learning, and dissemination of information. The Foundation is considered a component unit of the District because the District must approve all members of the Foundation Board and the District has the ability to impose its will on the Foundation. It is considered a discretely presented component unit because the two boards are not the same and the Foundation does not provide services entirely or nearly entirely to the District. The financial data reported in the accompanying basic financial statements was derived from audited financial information from the organization for the fiscal year ended June 30, 2009, on file in the District's administrative office.

➤ **Basis of Presentation**

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

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DISTRICT SCHOOL BOARD
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and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges for services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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 and for each segment of the business-type 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 and maintenance departments is allocated to the pupil transportation services and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment 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, except for interfund services provided and used and the net residual amounts between governmental and business-type activities.

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Food Service Fund – to account for food service program resources.
- Capital Projects – Other Fund – to account for other miscellaneous funds from various sources which are restricted for capital outlay purposes.

The District reports the following major enterprise fund:

- Enterprise Fund – to account for the Heartland Educational Consortium, for which the District is the fiscal agent.

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

- Internal Service Fund – to account for the District’s individual self-insurance program.
- Private-Purpose Trust Funds – to account for scholarship trust funds provided by private donors.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

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

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds’ principal ongoing operations. The principal operating revenues of the District’s enterprise fund are charges for services and operating grants. Operating expenses include personnel costs, purchased services, and related costs. The principal operating revenues of the District’s internal service funds are charges for employee dental insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

The Highlands County Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of

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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 placed 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 the SBA Debt Service accounts for investment of debt service moneys, amounts placed with the 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, and those made locally. 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.

Investments made locally consist of nonnegotiable certificates of deposit and are reported at cost. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the moving average basis, except that transportation supplies are stated at last invoice, which approximates the first-in, first-out basis, and United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing

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more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	13 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	7 years
Motor Vehicles	8 years
Audio Visual Materials and Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

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

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

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

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

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 9, 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 Highlands 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.

➤ **Educational Impact Fee**

Highlands County (County) imposes an educational impact fee based on an ordinance adopted by the Highlands County Commission in 2007. In June 2008, the ordinance was amended, in part, to establish revised collection rates for the fee. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fee shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses of the fee include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness. Because the

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fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements.

➤ **Federal Revenue Sources**

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

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1) (2)	46 Days	\$ 6,971,151.28
Fund B Surplus Funds Trust Fund (Fund B) (2)	6.87 Year Average	841,598.81
Debt Service Accounts	6 Months	66,863.01
Certificates of Deposit	July 2009	5,058,997.98
Total Investments		<u>\$ 12,938,611.08</u>

Notes:

(1) Investment reported as a cash equivalent.

(2) Investments totaling \$6,951,126.30 in LGIP and investments in SBA Fund B totaling \$752,937.59 are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2000, 2005, and 2006.

Interest Rate Risk

- The District's investment policy limits certain investments to a maximum of five years; the investment of tax-exempt debt issues to three years; and the investment of current funds to twelve months.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(16), Florida Statutes, provides that those units of local government electing to adopt a written investment policy as provided in subsections (1)-(15) may by resolution invest and reinvest any surplus public funds in their control or possession in: the SBA LGIP, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; Federal agencies and instrumentalities; rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of

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- Israel; securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and other investments authorized by law or by resolution for a school district or a special district.
- The District's investment policy limits investments to LGIP; United States Treasury securities, including but not limited to notes, bills, bonds, strips, and State and local government series; obligations of United States Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government; SEC registered money market funds with the highest rating and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; securities or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940; certificates of deposit in State qualified public depositories; and other investments permitted by the State statute and not prohibited by this policy. Securities of United States Government Enterprises and Instrumentalities are not eligible investments under this policy.
 - The District's investments in the SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
 - As of June 30, 2009, the District's investment in LGIP is rated AAAM by Standard & Poor's. Fund B is unrated.
 - The District's investments in certificates of deposit are held in qualified public depositories.

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

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	\$ 5,380,033.49	\$ 314,045.00	\$	\$ 5,694,078.49
Construction in Progress	19,535,819.89	603,103.29	19,535,819.89	603,103.29
Total Capital Assets Not Being Depreciated	24,915,853.38	917,148.29	19,535,819.89	6,297,181.78
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	10,618,829.44	229,642.58		10,848,472.02
Buildings and Fixed Equipment	107,315,192.40	38,417,745.95		145,732,938.35
Furniture, Fixtures, and Equipment	13,617,359.96	746,131.31	342,363.68	14,021,127.59
Motor Vehicles	10,824,315.42	312,828.00		11,137,143.42
Property Under Capital Lease	219,401.34			219,401.34
Audio Visual Materials and Computer Software	3,073,346.58	784,402.23	734,218.83	3,123,529.98
Total Capital Assets Being Depreciated	145,668,445.14	40,490,750.07	1,076,582.51	185,082,612.70
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	7,239,057.65	484,696.52		7,723,754.17
Buildings and Fixed Equipment	34,511,580.74	2,882,990.44		37,394,571.18
Furniture, Fixtures, and Equipment	8,774,617.56	1,407,677.18	342,363.68	9,839,931.06
Motor Vehicles	7,666,002.27	800,870.96		8,466,873.23
Property Under Capital Lease	156,715.10	31,343.02		188,058.12
Audio Visual Materials and Computer Software	1,958,728.90	655,605.80	734,218.83	1,880,115.87
Total Accumulated Depreciation	60,306,702.22	6,263,183.92	1,076,582.51	65,493,303.63
Total Capital Assets Being Depreciated, Net	85,361,742.92	34,227,566.15		119,589,309.07
Governmental Activities Capital Assets, Net	\$ 110,277,596.30	\$ 35,144,714.44	\$19,535,819.89	\$125,886,490.85

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	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 126,607.00	\$	\$	\$ 126,607.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	379,822.00			379,822.00
Furniture, Fixtures, and Equipment	94,763.44	2,951.00	29,645.55	68,068.89
Audio Visual Materials and Computer Software	3,345.37		1,897.08	1,448.29
Total Capital Assets Being Depreciated	477,930.81	2,951.00	31,542.63	449,339.18
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	68,367.96	7,596.44		75,964.40
Furniture, Fixtures, and Equipment	85,976.66	3,185.75	29,645.55	59,516.86
Audio Visual Materials and Computer Software	2,476.40	289.66	1,897.08	868.98
Total Accumulated Depreciation	156,821.02	11,071.85	31,542.63	136,350.24
Total Capital Assets Being Depreciated, Net	321,109.79	(8,120.85)		312,988.94
Governmental Activities Capital Assets, Net	\$ 447,716.79	\$ (8,120.85)	\$ 0.00	\$ 439,595.94

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 768,311.69
Maintenance of Plant	40,043.55
Unallocated	5,454,828.68
Total Depreciation Expense - Governmental Activities	\$ 6,263,183.92
BUSINESS-TYPE ACTIVITIES	
Heartland Educational Consortium	\$ 11,071.85

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5. REVOLVING LINE OF CREDIT

Pursuant to the provisions of Section 1011.13, Florida Statutes, the Board entered into a revolving line of credit (tax anticipation note) on October 3, 2008, in the amount of \$7,500,000 with Heartland National Bank. This line of credit allows the District to borrow funds for the purpose of paying all outstanding obligations and lawful expenses incurred in operating the schools of the District. The outstanding principal amount of the note shall bear interest at the Prime Rate, as published daily in the *Wall Street Journal*, minus 1.25 percent (125 basis points). The note is secured by a pledge of anticipated ad valorem tax proceeds. As of June 30, 2009, no funds are outstanding under this line of credit.

6. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on September 7, 2000, in the total amount of \$19,690,000, which arrangement was characterized as a lease-purchase agreement, with the Highlands County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, for refunding of the District's Certificates of Participation, Series 1992, and for repayment of a 1999 Note for \$4,450,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$1 per year. The initial term of the lease is 26 years commencing on August 15, 2000. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up to 26 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include Sebring High School, Lake Placid High School, Avon Elementary School, Cracker Trail Elementary School, Sun 'N Lake Elementary School, Woodlawn Elementary School, Fred Wild Elementary School, Park Elementary School, Lake Country Elementary School, and Lake Placid Middle School. The lease payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 4.75 percent.

The District entered into a financing arrangement on February 11, 2005, in the total amount of \$9,900,000, which arrangement was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing for constructing new buildings at existing educational facilities and for refunding of a 2004 Note for \$1,540,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2005, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation with a rental fee of \$1 per year. The initial term of the lease is 20 years commencing on March 1, 2005. The properties covered by the ground lease are, together with the improvements constructed

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thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement, which may be up to 20 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include Avon Elementary School, Lake Placid Elementary School, and Memorial Elementary School, and the Kindergarten Learning Center. The lease payments are payable by the District, semiannually, on March 1 and September 1 at interest rates ranging from 3.5 to 4.75 percent.

The District entered into a financing arrangement on December 4, 2006, in the total amount of \$59,090,000, which arrangement was characterized as a lease-purchase agreement, with the Leasing Corporation whereby the District secured financing for educational facilities and related equipment, and to advance-refund \$12,900,000 of outstanding Certificates of Participation, Series 2000. The financing was accomplished through the issuance of Certificates of Participation, Series 2006, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation with a rental fee of \$10 per year. The initial term of the lease is 31 years commencing on November 1, 2006. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement, which may be up to 31 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement include Memorial Elementary School, renovation of the Kindergarten Learning Center, and new classroom additions and ancillary facilities at Sebring High School, Lake Placid High School, Avon Park High School, Avon Park Middle School, Hill-Gustat Middle School, Lake Placid Middle School, and Lake Country Elementary School. The lease payments are payable by the District at interest rates ranging from 3.5 to 5.0 percent.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,415,073.76	\$ 2,600,000.00	\$ 2,815,073.76
2011	5,413,323.76	2,700,000.00	2,713,323.76
2012	5,414,423.76	2,805,000.00	2,609,423.76
2013	5,413,443.76	2,905,000.00	2,508,443.76
2014	5,418,137.52	3,015,000.00	2,403,137.52
2015-2019	27,078,801.28	17,015,000.00	10,063,801.28
2020-2024	27,075,302.50	20,730,000.00	6,345,302.50
2025-2027	16,244,300.00	14,770,000.00	1,474,300.00
Total Minimum Lease Payments	<u>\$ 97,472,806.34</u>	<u>\$ 66,540,000.00</u>	<u>\$ 30,932,806.34</u>

7. BONDS PAYABLE

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 1999A	\$ 120,000	4.375 - 4.750	2019
Series 2005A, Refunding	1,835,000	5.0	2016
Series 2005B, Refunding	300,000	5.0	2018
District Revenue Bonds:			
Series 1999A	<u>1,540,000</u>	4.850 - 5.375	2018
Total Bonds Payable	<u>\$ 3,795,000</u>		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

➤ State School Bonds

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

➤ District Revenue Bonds

The School Board issued \$2,425,000 in Refunding Certificates of Indebtedness, Series 1999, dated September 1, 1999. The proceeds were used to refund the Certificates of Indebtedness, Series 1978A, and for the acquisition and construction of certain capital school projects. These bonds are

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

secured by a pledge of funds accruing to the District from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes).

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	\$ 372,337.50	\$ 260,000.00	\$ 112,337.50
2011	374,400.00	275,000.00	99,400.00
2012	375,700.00	290,000.00	85,700.00
2013	376,250.00	305,000.00	71,250.00
2014	376,037.50	320,000.00	56,037.50
2015 - 2019	878,662.50	805,000.00	73,662.50
Total State School Bonds	2,753,387.50	2,255,000.00	498,387.50
District Revenue Bonds:			
2010	197,893.76	120,000.00	77,893.76
2011	196,858.76	125,000.00	71,858.76
2012	195,483.76	130,000.00	65,483.76
2013	278,663.76	220,000.00	58,663.76
2014	198,912.51	150,000.00	48,912.51
2015 - 2018	903,306.28	795,000.00	108,306.28
Total District Revenue Bonds	1,971,118.83	1,540,000.00	431,118.83
Total	\$ 4,724,506.33	\$ 3,795,000.00	\$ 929,506.33

8. 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	\$ 4,155,000.00	\$	\$ 360,000.00	\$ 3,795,000.00	\$ 380,000.00
Certificates of Participation Payable	69,045,000.00		2,505,000.00	66,540,000.00	2,600,000.00
Compensated Absences Payable	5,165,235.19	376,089.44	514,916.33	5,026,408.30	380,000.00
Other Postemployment Benefits Payable		679,521.00	348,874.00	330,647.00	
Total Governmental Activities	\$ 78,365,235.19	\$ 1,055,610.44	\$ 3,728,790.33	\$ 75,692,055.30	\$ 3,360,000.00

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

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$	\$ 201,652.55
Special Revenue - Food Service		505,000.00
Capital Projects - Other		62,000.00
Nonmajor Governmental	864,652.55	96,000.00
Total	<u>\$ 864,652.55</u>	<u>\$ 864,652.55</u>

The interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources and temporary cash and investment shortages, and are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 3,359,135.00	\$
Nonmajor Governmental	5,412,285.85	8,771,420.85
Total	<u>\$ 8,771,420.85</u>	<u>\$ 8,771,420.85</u>

Transfers out of the nonmajor governmental funds were to provide debt service payments, to pay property casualty insurance premiums, and to provide funding for certain expenditures of the District's facilities, maintenance, and technology departments.

10. 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.

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

11. 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	\$ 26,637,451.00
Categorical Educational Programs:	
Class Size Reduction	12,344,102.00
Transportation	2,797,001.00
Instructional Materials	1,213,386.00
School Recognition	399,036.00
Excellent Teaching	262,647.84
Florida Teachers Lead	175,149.00
Voluntary Prekindergarten	126,019.25
Classrooms for Kids	5,524,283.00
Gross Receipts Tax (Public Education Capital Outlay)	991,668.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	454,704.23
Discretionary Lottery Funds	293,649.00
Mobile Home License Tax	233,181.11
Food Service Supplement	170,942.00
Miscellaneous	403,323.44
	<u> </u>
Total	<u><u>\$ 52,026,542.87</u></u>

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

12. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.242	\$ 35,162,239
Basic Discretionary Local Effort	0.498	3,340,484
Supplemental Discretionary Local Effort	0.197	1,321,436
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	11,738,688
Total	<u><u>7.687</u></u>	<u><u>\$ 51,562,847</u></u>

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

13. 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.

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 216 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$676,476.45.

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

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
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

(B) Contribution rates are dependent upon 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 \$5,535,618.86, \$5,683,424.86, and \$5,690,326.64, 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.

14. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$6,576,802 at the July 1, 2008, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the other postemployment benefits liability at the date of transition.

Plan Description. The Other Postemployment Benefits Plan (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 healthcare and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at blended group (implicitly subsidized) premium rates for both active and retired

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

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 cost to the plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. The 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. Contribution requirements of the District and plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual 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, 87 retirees received postemployment healthcare benefits, and another 60 retirees received life insurance benefits. The District provided required contributions of \$348,874 toward the annual OPEB cost, comprised of payments made on behalf of retirees net of retiree contributions totaling \$598,680, which represents 1 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 333,669
Amortization of Unfunded Actuarial Accrued Liability	327,346
Interest on Normal Cost and Amortization	<u>18,506</u>
Annual Required Contribution	<u>679,521</u>
Annual OPEB Cost (Expense)	679,521
Contribution Toward the OPEB Cost	<u>(348,874)</u>
Increase in Net OPEB Obligation	330,647
Net OPEB Obligation, Beginning of Year	<u> </u>
Net OPEB Obligation, End of Year	<u><u>\$ 330,647</u></u>

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

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	OPEB Obligation
Beginning Balance 7-1-08	\$		\$ 0
2008-09	679,521	51.3%	330,647

Funded Status and Funding Progress. As of October 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,576,802, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,576,802 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$59,482,745 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.1 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.

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 October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability and the annual required contribution as of June 30, 2009. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested funds. The actuarial assumptions also included a payroll growth rate of 4 percent and an initial annual healthcare cost trend rate of 13 percent as of October 1, 2008, reduced by various decrements each year to an ultimate trend rate of 5 percent for the beginning October 1, 2019. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 19 years.

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

15. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Lake Placid Middle School Classroom Additions:			
Architect	\$ 182,192.38	\$ 146,585.97	\$ 35,606.41
Contractor	2,649,535.74	102,982.98	2,546,552.76
Lake Placid High School Classroom Additions:			
Architect	261,648.32	205,565.19	56,083.13
Contractor	3,855,750.24	136,930.89	3,718,819.35
Total	<u>\$ 6,949,126.68</u>	<u>\$ 592,065.03</u>	<u>\$ 6,357,061.65</u>

16. OPERATING LEASE COMMITMENTS

The District leases athletic facilities under an operating lease with a fifteen-year term. The following is a schedule by years of future minimum rental payments required under the operating lease that has a remaining noncancelable lease term in excess of one year:

Fiscal Year Ending June 30	
2010	\$ 95,000
2011	95,000
2012	95,000
2013	95,000
2014	95,000
2015-2019	<u>475,000</u>
Total Minimum Payments Required	<u>\$ 950,000</u>

17. CONSORTIUM

The District is a member of the Heartland Educational Consortium (Consortium) which provides educational and other services for the members. The Consortium is governed by a Board of Directors composed of the superintendents of the participating school districts. The Consortium offices are located in Highlands County, and the Highlands County District School Board is the fiscal agent.

18. 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 Highlands County District School Board is a member of the South Central Educational Risk Management Program (SCERMP) Consortium

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

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 SCERMP is composed of superintendents of all participating districts. Employers Mutual, Inc., serves as fiscal agent for SCERMP.

The property and casualty group under SCERMP is public entity risk pool that was organized to develop, implement, and administer a multidistrict cooperative property and casualty risk management program for the member school boards in which the risk of loss is transferred to the group. The member school boards make an annual contribution to the group for its property and casualty coverage. The interlocal agreement and bylaws of the property and casualty group provide that the group will be self-sustaining through member contributions. However, member school boards are subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from the specific claim against a member school board. In addition, it is the property and casualty group's policy to reinsure through commercial insurance carriers for workers' compensation and property loss claims in excess of specified amounts. Settled claims resulting from the risks described above have not exceeded commercial coverage in any of the past three fiscal years.

The District is self-insured for employee dental coverage, which is administered by a third-party provider. The following schedule represents the changes in claims liability for the past two years for the District's self-insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2007-08	\$ 29,911.60	\$ 811,152.65	\$ (800,467.05)	\$ 40,597.20
2008-09	40,597.20	803,051.34	(810,423.32)	33,225.22

Health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HIGHLANDS 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			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 114,390.00	\$ 145,321.91	\$ 145,321.91	\$
Federal Through State and Local	545,000.00	342,346.47	342,346.47	
State	48,313,964.00	44,667,176.50	44,665,844.87	(1,331.63)
Local:				
Property Taxes	37,572,818.00	40,132,916.05	38,132,916.05	(2,000,000.00)
Charges for Services - Food Service				
Miscellaneous	1,610,628.00	1,832,944.03	2,037,877.15	204,933.12
Total Revenues	88,156,800.00	87,120,704.96	85,324,306.45	(1,796,398.51)
Expenditures				
Current - Education:				
Instruction	54,337,741.50	54,437,542.60	54,285,980.48	151,562.12
Pupil Personnel Services	3,917,231.00	4,931,202.68	4,919,564.18	11,638.50
Instructional Media Services	1,494,365.00	1,649,073.94	1,624,624.04	24,449.90
Instruction and Curriculum Development Services	1,553,056.00	1,103,966.43	1,083,158.08	20,808.35
Instructional Staff Training Services	107,520.00	599,286.61	552,537.67	46,748.94
Instruction Related Technology	443,213.00	408,320.78	398,361.12	9,959.66
Board of Education	541,427.00	524,259.61	449,162.58	75,097.03
General Administration	419,939.00	442,305.13	442,305.13	
School Administration	6,141,546.00	6,446,283.58	6,398,877.68	47,405.90
Facilities Acquisition and Construction		11,607.71	11,607.71	
Fiscal Services	769,565.00	758,420.22	758,420.22	
Food Services				
Central Services	1,622,909.00	1,495,748.02	1,465,247.76	30,500.26
Pupil Transportation Services	5,791,677.00	5,606,218.94	5,604,870.45	1,348.49
Operation of Plant	10,734,550.00	9,803,395.41	9,636,804.11	166,591.30
Maintenance of Plant	2,264,302.00	2,258,227.57	2,236,669.58	21,557.99
Administrative Technology Services	322,228.00	365,371.42	364,893.47	477.95
Community Services	414,745.00	584,698.56	584,698.56	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		134,324.76	9,100.00	125,224.76
Other Capital Outlay	15,785.50	65,122.25	56,038.38	9,083.87
Total Expenditures	90,891,800.00	91,625,376.22	90,882,921.20	742,455.02
Excess (Deficiency) of Revenues Over Expenditures	(2,735,000.00)	(4,504,671.26)	(5,558,614.75)	(1,053,943.49)
Other Financing Sources				
Transfers In	2,735,000.00	3,359,135.00	3,359,135.00	
Total Other Financing Sources	2,735,000.00	3,359,135.00	3,359,135.00	
Net Change in Fund Balances		(1,145,536.26)	(2,199,479.75)	(1,053,943.49)
Fund Balances, Beginning	5,253,944.44	5,253,944.44	5,253,944.44	
Fund Balances, Ending	\$ 5,253,944.44	\$ 4,108,408.18	\$ 3,054,464.69	\$ (1,053,943.49)

Special Revenue - Food Service Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
5,076,355.00	5,304,127.30	5,363,496.47	59,369.17
126,500.00	125,865.00	173,508.75	47,643.75
2,202,057.00	2,206,057.00	2,017,738.12	(188,318.88)
9,500.00	10,135.00	4,067.71	(6,067.29)
7,414,412.00	7,646,184.30	7,558,811.05	(87,373.25)
7,394,873.02	7,644,547.83	7,431,903.14	212,644.69
9,000.00	11,255.00	9,293.74	1,961.26
7,403,873.02	7,655,802.83	7,441,196.88	214,605.95
10,538.98	(9,618.53)	117,614.17	127,232.70
10,538.98	(9,618.53)	117,614.17	127,232.70
235,919.78	235,919.78	235,919.78	
\$ 246,458.76	\$ 226,301.25	\$ 353,533.95	\$ 127,232.70

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 6,576,802	\$ 6,576,802	0.0%	\$ 59,482,745	11.1%

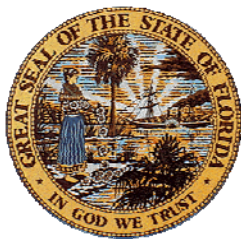
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HIGHLANDS 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)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 1,438,716.18	\$
National School Lunch Program	10.555	300, 350	3,280,806.10	
Summer Food Service Program for Children	10.559	323	223,309.19	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	412,118.37	
Total United States Department of Agriculture			5,354,949.84	
United States Department of Labor:				
Indirect:				
Heartland Workforce Investment Board, Inc.:				
ARRA - WIA Youth Activities, Recovery Act	17.259	None	25,147.81	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	348,514.66	21,443.67
Transition to Teaching	84.350	N/A	12,043.07	
Total Direct			360,557.73	21,443.67
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	3,152,762.79	387,472.92
Special Education - Preschool Grants	84.173	266, 267	120,622.85	26,306.09
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	1,906.49	
Total Special Education Cluster			3,275,292.13	413,779.01
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	4,134,049.66	
Migrant Education - State Grant Program	84.011	217	641,542.48	
Title I Program for Neglected and Delinquent Children	84.013	223	20,036.37	
Career and Technical Education - Basic Grants to States	84.048	151, 161	252,098.21	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	49,566.03	
Education Technology State Grants	84.318	121, 122	29,451.81	
Reading First State Grants	84.357	211	994,546.82	632,816.66
Rural Education	84.358	110	309,786.95	
English Language Acquisition Grants	84.365	102	239,534.03	
Improving Teacher Quality State Grants	84.367	224	744,699.96	
School Improvement Grants	84.377	126	58,406.61	
Washington County District School Board:				
Reading First State Grants	84.357	None	2,100.00	
University of South Florida:				
Mathematics and Science Partnerships	84.366	None	157,507.32	1,258.15
Total Indirect			10,908,618.38	1,047,853.82
Total United States Department of Education			11,269,176.11	1,069,297.49
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	145,321.91	
Total Expenditures of Federal Awards			\$ 16,794,595.67	\$ 1,069,297.49

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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands 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 Highlands County District School Board's financial statements. For the school internal funds, 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 Highlands County Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

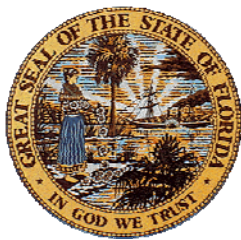
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
February 23, 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
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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 Highlands 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.

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 consider to be material weaknesses, as defined above.

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
February 23, 2010

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency 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> ?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Special Education Cluster (CFDA Nos. 84.027 and 84.173)
Dollar threshold used to distinguish between Type A and Type B programs:	\$503,837
Auditee qualified as low-risk auditee?	No

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

ADDITIONAL MATTERS

Finding No. 1: Information Technology – Written Policies and Procedures

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

As similarly noted in our report No. 2009-175, the District lacked written policies and procedures for the following IT functions:

- Requesting, prioritizing, and authorizing system changes.
- Administering identification codes (IDs) and passwords of system administrators and vendor-supplied IDs and passwords.
- Configuring and administering security devices (such as firewalls and routers).
- Defining access privileges granted and the responsibilities of the help desk staff.
- Resetting passwords, including positive user identification measures.
- Prohibiting administrator rights on the workstations of end users.
- Removing confidential information from consultant and vendor equipment.

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.

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

Finding No. 2: Information Technology – User Authentication and Logging, Monitoring, and Review of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2009-175, certain controls related to user authentication and logging, monitoring, and review of system activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve the security controls related to user authentication and logging, monitoring, and review of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB *Circular A-133*, Section __.510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-175.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HIGHLANDS 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
2008-132 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions and Earmarking	Improvements were needed in procedures associated with coordination of supplemental educational services to ensure that parents have sufficient time and information to make informed decisions. The District earmarked \$612,947 but only spent \$370,628 on such costs, resulting in questioned costs of \$242,318.	Partially corrected	Control weakness has been corrected; however, the grantor has not made a final determination regarding questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE



The School Board of Highlands County

426 School Street • Sebring, FL 33870-4048
(863) 471-5555 • FAX (863) 471-560TDD (863) 382-3693

Wally Cox
Superintendent

Wally Randall
Chairperson

Richard Norris
Vice Chairperson

Donna Howerton

Andy Tuck

J. Ned Hancock

February 8, 2010

David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Subject: Audit Response

Dear Mr. Martin:

We have enclosed our responses to the preliminary and tentative audit findings of the audit conducted by your office for the period ending June 30, 2009.

Finding No. 1: Information Technology – Written Policies and Procedures

The School District will review its procedures to establish written procedures to document management's expectations for the performance of the IT functions cited in the audit report.

Finding No. 2: Information Technology – User authentication and Logging, Monitoring, and Review of System Activity

The District will review its procedures to enhance security controls to district data and IT resources.

We wish to thank your office for the professionalism and courtesy shown by your staff during the audit. We are confident that the District will benefit from this review.

Sincerely,

Wally Cox
Superintendent

MA:WC/pk

"A fully accredited school system"
Southern Association of Colleges and Schools
Equal Opportunity Employer