

HENDRY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Richard A. "Rick" Murphy to 11-17-08	1
Ray Clinard from 11-18-08	1
Dr. Eva S. Berg, Vice Chair to 11-17-08	2
Patrick B. Langford, Chair from 11-18-08	3
Dwayne E. Brown, Chair to 11-17-08	4
Matthew A. Beatty, Vice Chair from 11-18-08	5

Thomas W. Conner, Superintendent to 11-17-08

Richard A. "Rick" Murphy, Superintendent from 11-18-08

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

The audit team leader was William D. Foster, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. For the information technology portion of this audit, the audit team leader was Deidre N. Melton, CISA, and the supervisor was Nancy M. 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.

HENDRY COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards. Club and class activity funds of the individual schools were not included within the scope of our audit.

Summary of Report on Internal Control and Compliance

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

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

MATERIAL WEAKNESS

Finding No. 1: Improvements are needed in District procedures to ensure completion of the required annual audit of the school internal funds for consideration in the audit of the District's financial statements.

ADDITIONAL MATTERS

Finding No. 2: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 3: The District could improve controls over the reporting of instructional contact hours for adult general education to the Florida Department of Education.

Finding No. 4: Controls to monitor school resource officer services could be enhanced.

Finding No. 5: The District did not have a fraud policy for communicating and reporting known or suspected fraud to the appropriate authorities.

Finding No. 6: The District had not implemented a comprehensive security awareness training program.

Finding No. 7: The District lacked written policies and procedures for certain information technology functions.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: The District did not provide private schools in the District the opportunity to participate in the Reading First program.

Federal Awards Finding No. 2: Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Central Contractor Registration database.

Audit Objectives and Scope

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

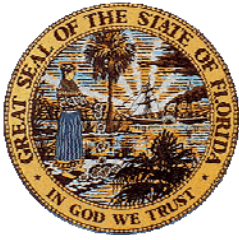
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2009-142.

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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 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 Hendry Public Schools Foundation, Inc. (Foundation), which represents less than 1 percent of the respective assets, liabilities, revenues, and expenditures of the aggregate remaining fund information. The Foundation's financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

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

Pursuant to State Board of Education Rule 6A-1.087, Florida Administrative Code, the District is required to otherwise provide for audits of the school and activity funds, commonly called the school internal funds. Accordingly, our audit did not extend to the school internal funds reported as agency funds on the accompanying basic financial statements. These financial activities represent 18 percent and 72 percent of the assets and liabilities, respectively, of the aggregate remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the school internal funds been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information for the Hendry 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 addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the Hendry County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 48) 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
March 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hendry County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2009. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$4,007,408, which represents a 7.2 percent decrease from the 2007-08 fiscal year.
- General revenues total \$61,068,771, or 90.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$6,339,779, or 9.4 percent.
- Expenses total \$71,415,958. Only \$6,339,779 of these expenses are offset by program specific charges, with the remainder being paid from general revenues. Total expenses exceed total revenues by \$4,007,408.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$2,039,081 at June 30, 2009, or 3.9 percent of total General Fund revenues.
- The District's total long-term liabilities increased by \$3,567,339, or approximately 22.5 percent. The increase is due mainly to an increase in the postemployment benefits liability.

OVERVIEW OF THE 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 activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Blended component units – The District presents two separate legal entities in this report which are the Hendry Public Schools Foundation, Inc., and Hendry County School Board Leasing Corporation. The Hendry Public Schools Foundation, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Hendry County School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment. Based on generally accepted accounting principles, as discussed in the notes to financial statements, these two entities have been included as an integral part of the District.

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

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

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

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

dental and disability employee benefits. Revenue is generated by insurance premiums contributed by the Board and program participants.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year		
	Governmental Activities		
	6-30-09	6-30-08	Change
Current and Other Assets	\$ 10,478,223	\$ 9,873,552	\$ 604,671
Capital Assets	60,798,237	62,231,470	(1,433,233)
Total Assets	71,276,460	72,105,022	(828,562)
Long-Term Liabilities	19,417,326	15,849,987	3,567,339
Other Liabilities	575,475	963,968	(388,493)
Total Liabilities	19,992,801	16,813,955	3,178,846
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	55,147,849	56,117,946	(970,097)
Restricted	6,330,588	6,117,975	212,613
Unrestricted Deficit	(10,194,778)	(6,944,854)	(3,249,924)
Total Net Assets	\$ 51,283,659	\$ 55,291,067	\$ (4,007,408)

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land, buildings and fixed equipment, 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 deficit of \$10,194,778 in unrestricted net assets is primarily caused by the liability for

compensated absences, which was \$5,210,155 as of June 30, 2009, and postemployment benefits, which was \$8,470,922 as of June 30, 2009. This deficit represents a claim on future revenues received by the District. The District has implemented two programs to minimize the financial impact to the District, as follows:

- Deferred Retirement Option Program (DROP) Participants – The District spreads DROP participant payoffs over five years.
- Non-DROP Participants – The District will allow employees to submit an irrevocable letter of resignation up to five (5) years in advance of the actual resignation date. The compensated absences liability for terminating employees will be amortized over the period between the date of the letter and the actual termination date.

Operating Results for the Year

	Governmental Activities		
	6-30-09	6-30-08	Change
Program Revenues:			
Charges for Services	\$ 1,077,017	\$ 1,093,345	\$ (16,328)
Operating Grants and Contributions	4,371,177	4,432,982	(61,805)
Capital Grants and Contributions	891,585	2,171,395	(1,279,810)
General Revenues:			
Property Taxes, Levied for Operational Purposes	15,461,662	14,235,716	1,225,946
Property Taxes, Levied for Capital Projects	2,363,156	5,124,083	(2,760,927)
Grants and Contributions Not Restricted to Specific Programs	42,303,643	43,634,304	(1,330,661)
Unrestricted Investment Earnings	124,255	488,145	(363,890)
Miscellaneous	816,055	1,941,259	(1,125,204)
Total Revenues	67,408,550	73,121,229	(5,712,679)
Functions/Program Expenses:			
Instruction	38,705,129	40,951,009	(2,245,880)
Pupil Personnel Services	3,020,336	3,790,121	(769,785)
Instructional Media Services	1,018,702	1,098,187	(79,485)
Instruction and Curriculum Development Services	1,331,666	1,299,040	32,626
Instructional Staff Training Services	249,259	158,073	91,186
Instruction Related Technology	4,425	73,134	(68,709)
Board of Education	1,332,476	1,236,525	95,951
General Administration	923,723	909,945	13,778
School Administration	3,880,391	3,844,739	35,652
Facilities Acquisition and Construction	1,839,403	3,018,927	(1,179,524)
Fiscal Services	814,535	840,418	(25,883)
Food Services	3,856,283	4,294,095	(437,812)
Central Services	613,695	609,374	4,321
Pupil Transportation Services	3,052,143	3,242,783	(190,640)
Operation of Plant	5,272,823	6,098,803	(825,980)
Maintenance of Plant	1,430,869	1,468,343	(37,474)
Administrative Technology Services	799,408	1,229,161	(429,753)
Interest on Long-Term Debt	198,655	215,149	(16,494)
Unallocated Depreciation Expense	2,979,250	2,951,672	27,578
Loss on Disposal of Capital Assets	92,787	210,413	(117,626)
Total Functions/Program Expenses	71,415,958	77,539,911	(6,123,953)
Decrease in Net Assets	\$ (4,007,408)	\$ (4,418,682)	\$ 411,274

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:

State revenues decreased by \$3,705,867 or 9.2 percent, primarily due to a decrease in Florida Education Finance Program (FEFP) and capital outlay funding.

The largest revenue source is the State of Florida (54.5 percent). Revenues from State sources for current operations are primarily received through the FEFP funding formula. This 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.

Instruction expenses represent 54.2 percent of total governmental expenses in the 2008-09 fiscal year. Instruction expenses decreased by \$2,245,880, or 5.5 percent, from the previous year due mainly to a reduction in personnel due to enrollment shortfalls and State budget reductions.

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 \$2,039,081, while the total fund balance is \$3,178,335. The unreserved fund balance increased by \$928,153, and the total fund balance increased by \$1,256,961 during the fiscal year. The increase is primarily due to a decrease in noninstructional salaries and reduction in instructional staff.

The Special Revenue – Other Fund is used to account for Federal grant programs, and allowed expenditures are specified by grant agreements. Since the revenues in this fund are equal to amounts expended, there is no ending fund balance.

The Capital Projects – Local Capital Improvement Fund is used to account for revenues produced by an ad valorem (property) tax levy authorized by the Board to support capital improvements. The fund has a total fund balance of \$4,153,606, which is restricted for the acquisition, construction, and maintenance of capital assets. It should be noted that \$828,304 of the fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Although the District's General Fund ending fund balance of \$3,178,335 is more than the amount originally budgeted, the District was aggressive in reducing expenses, delaying midyear hiring in noninstructional positions, and seeking other revenue sources to replace State funding.

CAPITAL ASSETS AND LONG-TERM DEBT

The District's long-term debt related to financing of capital assets decreased by \$459,803 during the 2008-09 fiscal year. The decrease is primarily the result of payments for bonds and capital leases. The changes in capital assets were not significant. Additional capital assets and long-term debt information is disclosed in Notes 4 through 10 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

For the past several years, approximately 70 percent of total General Fund revenues are grants from the State of Florida; therefore, economic conditions, which affect the economy both nationally and at the State level, will affect the general operating funds and activities of the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment may affect the State revenue streams, which, in turn, will affect District revenue streams.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 8,423,380
Investments	177,131
Accounts Receivable	91
Due from Other Agencies	1,092,731
Inventories	281,615
Deferred Charges	3,333
Restricted Cash	9,580
Restricted Investments	490,362
Capital Assets:	
Nondepreciable Capital Assets	1,278,483
Depreciable Capital Assets, Net	<u>59,519,754</u>
TOTAL ASSETS	<u><u>\$ 71,276,460</u></u>
LIABILITIES	
Accounts Payable	\$ 573,104
Due to Other Agencies	2,371
Long-Term Liabilities:	
Portion Due Within One Year	948,825
Portion Due After One Year	<u>18,468,501</u>
Total Liabilities	<u>19,992,801</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	55,147,849
Restricted for:	
State Categorical Programs	500,746
Debt Service	796,238
Capital Projects	4,823,197
Food Service	210,407
Unrestricted Deficit	<u>(10,194,778)</u>
Total Net Assets	<u>51,283,659</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 71,276,460</u></u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 38,705,129	\$ 5,006			\$ (38,700,123)
Pupil Personnel Services	3,020,336				(3,020,336)
Instructional Media Services	1,018,702				(1,018,702)
Instruction and Curriculum Development Services	1,331,666				(1,331,666)
Instructional Staff Training Services	249,259				(249,259)
Instruction Related Technology	4,425				(4,425)
Board of Education	1,332,476				(1,332,476)
General Administration	923,723				(923,723)
School Administration	3,880,391				(3,880,391)
Facilities Acquisition and Construction	1,839,403			224,044	(1,615,359)
Fiscal Services	814,535				(814,535)
Food Services	3,856,283	970,464	2,935,809		49,990
Central Services	613,695				(613,695)
Pupil Transportation Services	3,052,143	101,547	1,435,368		(1,515,228)
Operation of Plant	5,272,823				(5,272,823)
Maintenance of Plant	1,430,869			434,501	(996,368)
Administrative Technology Services	799,408				(799,408)
Interest on Long-Term Debt	198,655			233,040	34,385
Unallocated Depreciation Expense	2,979,250				(2,979,250)
Loss on Disposal of Capital Assets	92,787				(92,787)
Total Governmental Activities	\$ 71,415,958	\$ 1,077,017	\$ 4,371,177	\$ 891,585	(65,076,179)
General Revenues:					
Taxes:					
					15,461,662
					2,363,156
					42,303,643
					124,255
					816,055
Total General Revenues					61,068,771
Change in Net Assets					(4,007,408)
Net Assets - Beginning					55,291,067
Net Assets - Ending					\$ 51,283,659

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

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

	General Fund	Special Revenue - Other Fund
ASSETS		
Cash and Cash Equivalents	\$ 2,187,977	\$ 5,493
Investments	50,423	
Accounts Receivable	91	
Due from Other Funds	614,933	
Due from Other Agencies	290,842	626,529
Inventories	264,222	
Restricted Cash		
Restricted Investments		
	\$ 3,408,488	\$ 632,022
TOTAL ASSETS		
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 230,153	\$ 163,835
Due to Other Funds		466,419
Due to Other Agencies		1,768
	230,153	632,022
Total Liabilities		
Fund Balances:		
Reserved for State Categorical Programs	500,746	
Reserved for Encumbrances	374,286	
Reserved for Inventories	264,222	
Reserved for Debt Service		
Unreserved, Reported in:		
General Fund	2,039,081	
Special Revenue Funds		
Capital Projects Funds		
	3,178,335	
Total Fund Balances		
	\$ 3,408,488	\$ 632,022
TOTAL LIABILITIES AND FUND BALANCES		

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,252,609	\$ 1,086,063	\$ 7,532,142
79,276	47,432	177,131
	1,951	91
	175,360	616,884
	17,393	1,092,731
	9,580	281,615
	490,362	9,580
<u>4,331,885</u>	<u>1,828,141</u>	<u>10,200,536</u>
\$ 178,279	\$ 837	\$ 573,104
	150,465	616,884
	603	2,371
<u>178,279</u>	<u>151,905</u>	<u>1,192,359</u>
828,304	156,013	500,746
	17,393	1,358,603
	796,238	281,615
		796,238
		2,039,081
	187,532	187,532
<u>3,325,302</u>	<u>519,060</u>	<u>3,844,362</u>
<u>4,153,606</u>	<u>1,676,236</u>	<u>9,008,177</u>
<u>\$ 4,331,885</u>	<u>\$ 1,828,141</u>	<u>\$ 10,200,536</u>

**HENDRY 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 \$ 9,008,177

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. 60,798,237

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 funds are included in governmental activities in the statement of net assets. 808,710

Debt Issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the related debt. 3,333

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:

Bond Payable	\$ 2,367,085	
Certificates of Participation Payable	3,068,200	
Obligations Under Capital Lease	175,017	
Installment-Purchases Payable	43,419	
Compensated Absences Payable	5,210,155	
Postemployment Healthcare Benefits Payable	8,470,922	(19,334,798)
	8,470,922	(19,334,798)

Total Net Assets - Governmental Activities \$ 51,283,659

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

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

	General Fund	Special Revenue - Other Fund
Revenues		
Intergovernmental:		
Federal Direct	\$	\$ 20,277
Federal Through State	282,820	7,634,466
Federal Through Local	13,711	
State	35,648,235	
Local:		
Property Taxes	15,461,662	
Charges for Services - Food Service		
Miscellaneous	964,500	58,310
Total Revenues	52,370,928	7,713,053
Expenditures		
Current - Education:		
Instruction	30,950,320	5,091,749
Pupil Personnel Services	2,024,384	810,286
Instructional Media Services	919,759	22,169
Instruction and Curriculum Development Services	342,960	954,371
Instructional Staff Training Services	22,062	225,531
Instruction Related Technology	4,425	
Board of Education	1,314,711	
General Administration	690,685	187,242
School Administration	3,541,244	
Facilities Acquisition and Construction		121
Fiscal Services	748,299	
Food Services		
Central Services	568,008	
Pupil Transportation Services	2,712,414	164,331
Operation of Plant	5,104,108	1,928
Maintenance of Plant	1,355,771	1,440
Administrative Technology Services	757,944	
Fixed Capital Outlay:		
Facilities Acquisition and Construction		213,646
Other Capital Outlay	94,083	40,239
Debt Service:		
Principal	15,489	
Interest and Fiscal Charges	12,556	
Total Expenditures	51,179,222	7,713,053
Excess (Deficiency) of Revenues Over Expenditures	1,191,706	
Other Financing Sources (Uses)		
Transfers In		
Proceeds from Installment-Purchase Agreements	61,452	
Insurance Loss Recoveries	3,803	
Transfers Out		
Total Other Financing Sources (Uses)	65,255	
Net Change in Fund Balances	1,256,961	
Fund Balances, Beginning	1,921,374	
Fund Balances, Ending	\$ 3,178,335	\$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	2,859,775	20,277
	1,107,121	10,777,061
		13,711
		36,755,356
2,363,156		17,824,818
	970,464	970,464
4,033	32,052	1,058,895
<u>2,367,189</u>	<u>4,969,412</u>	<u>67,420,582</u>
		36,042,069
		2,834,670
		941,928
		1,297,331
		247,593
		4,425
		1,314,711
		877,927
		3,541,244
822,601	1,016,681	1,839,403
		748,299
	3,856,283	3,856,283
		568,008
		2,876,745
		5,106,036
		1,357,211
		757,944
1,030,314	229,223	1,473,183
		134,322
273,312	225,000	513,801
6,670	128,765	147,991
<u>2,132,897</u>	<u>5,455,952</u>	<u>66,481,124</u>
<u>234,292</u>	<u>(486,540)</u>	<u>939,458</u>
	160,827	160,827
		61,452
		3,803
(160,827)		(160,827)
<u>(160,827)</u>	<u>160,827</u>	<u>65,255</u>
73,465	(325,713)	1,004,713
4,080,141	2,001,949	8,003,464
<u>\$ 4,153,606</u>	<u>\$ 1,676,236</u>	<u>\$ 9,008,177</u>

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

Net Change in Fund Balances - Governmental Funds \$ 1,004,713

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

Capital outlays of \$1,607,505 are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense of \$2,979,250 in excess of capital outlays in the current period. In addition, \$31,299 of capital assets were purchased through the school internal accounts, and thus, did not require outlay from the governmental funds. (1,340,446)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (92,787)

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

Inception of Installment-Purchase	\$ 61,452.00	
Bonds Payable Principal Repaid	(232,453.00)	
Capital Lease Principal Repaid	(208,813.00)	
Installment-Purchases Principal Repaid	(79,989.00)	459,803

Debt issuance costs are reported in the governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the government-wide statements. (371)

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 earned in the current period. 221,122

Postemployment healthcare benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the postemployment healthcare benefits liability for the current fiscal year. (4,248,264)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (11,178)

Change in Net Assets - Governmental Activities \$ (4,007,408)

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

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2009**

		Governmental Activities - Internal Service Fund
		<u> </u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	891,238
		<u> </u>
LIABILITIES		
Noncurrent Liabilities - Portion Due Within One Year:		
Estimated Insurance Claims Payable	\$	82,528
NET ASSETS		
Unrestricted		808,710
		<u> </u>
TOTAL LIABILITIES AND NET ASSETS	\$	891,238
		<u> </u>

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

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

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues:	
Board Funds	\$ 481,431
OPERATING EXPENSES	
Insurance Premiums	4,606
Administration	46,561
Insurance Claims	450,387
	501,554
Total Operating Expenses	501,554
Operating Loss	(20,123)
NONOPERATING REVENUES	
Interest	8,945
Change in Net Assets	(11,178)
Total Net Assets - Beginning	819,888
Total Net Assets - Ending	\$ 808,710

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

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

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board Funds	\$	481,431
Cash Payments for Administrative and Other Expenses		(51,167)
Cash Payments for Insurance Claims		(450,387)
Net Cash Used by Operating Activities		(20,123)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		8,945
Net Decrease in Cash and Cash Equivalents		(11,178)
Cash and Cash Equivalents, Beginning		902,416
Cash and Cash Equivalents, Ending	\$	891,238
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	\$	20,123
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
No Changes in Assets and Liabilities		
Net Cash Used by Operating Activities	\$	20,123

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

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

	Private-Purpose Trust Fund	Agency Funds (Unaudited)
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 15,770	\$ 604,234
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 604,234
		<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<u>15,770</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,770</u>	

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

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

		Private-Purpose Trust Fund
ADDITIONS		
Contributions:		
Gifts, Grants, Endowments, and Bequests	\$	31,219
Gifts - Take Stock in Children Program		5,000
Total Contributions		36,219
Investment Earnings:		
Interest Income		113
Total Additions		36,332
DEDUCTIONS		
Program Services - Mini-grants for School Programs		19,951
Purchase of Prepaid Tuition Packages - Take Stock in Children Program		15,256
Program Services - Other		12,243
Administrative Expenses		1,293
Total Deductions		48,743
Change in Net Assets		(12,411)
Net Assets - Beginning		28,181
Net Assets - Ending	\$	15,770

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

**HENDRY 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 Hendry County School District is considered part of the Florida system of public education. The governing body of the school district is the Hendry 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 Hendry County.

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

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

➤ **Basis of Presentation**

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

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for relocatable school buildings.

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

- Internal Service Fund – to account for the District’s individual self-insurance programs.
- Private-Purpose Trust Fund – to account for resources of the Hendry Public Schools Foundation, Inc.
- 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 fund and fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

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.

The Proprietary Fund is accounted for as proprietary activity 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 fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are Board contributions for dental and disability insurance. Operating expenses include insurance claims and insurance 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.

➤ **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 and cash equivalents include amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective June 30, 2009, is known as Florida PRIME.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, 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. The 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

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

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 a United States Agency Obligation in the form of a Federal Home Loan Mortgage Corporation discount note held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 7). Investments made locally are valued at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Central warehouse, maintenance, and transportation inventories are stated at cost on a moving-average basis. Purchased food and cafeteria supplies inventories are stated at actual cost. 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 \$500 or more for assets acquired through August 9, 2004, and \$1,000 or more for assets acquired on or after August 10, 2004. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. 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	10 and 20 years
Buildings and Fixed Equipment, excluding relocatables	20 and 50 years
Furniture, Fixtures, and Equipment	5 and 10 years
Motor Vehicles	4 and 10 years
Computer Software	3 years

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

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable premiums and refunding costs.

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

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

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

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

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

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

➤ **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 Hendry County Property Appraiser, and property taxes are collected by the Hendry County Tax Collector.

The School Board adopted the 2008 tax levy on September 8, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District.

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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.

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
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)	46 Day Average	\$ 58,387
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	133,052
Debt Service Accounts	6 Months	44,079
United States Agency Obligations:		
Federal Home Loan Mortgage Corporation (FHLMC)		
Discount Note (2)	December 15, 2009	490,362
Total Investments		\$ 725,880

Notes: (1) Reported as Cash and Cash Equivalents.

(2) This investment is held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZABs) financing arrangement (See Note 7).

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- 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(17), Florida Statutes, limits investments to 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 registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

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

- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this 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 investment in United States Agency Obligations is authorized under a forward delivery agreement with the QZAB paying agent. The forward delivery agreement authorizes the investment of available sinking fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and FHLMC. The eligible securities must have a maturity date that is on or before December 15, 2021. The FHLMC discount note is unrated.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Restricted investments of \$490,362 in United States Agency Obligations are held by the trustee for the QZABs in the District's name.

Concentration of Credit Risk

- The District places no limit on the amount the District may invest in any one issuer. The District's QZAB investment of \$490,362 in United States Agency Obligations represents 74 percent of total investments and 91 percent of investments in the other governmental funds.

**HENDRY COUNTY
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	\$ 1,278,483	\$	\$	\$ 1,278,483
Construction in Progress	3,868,160		3,868,160	
Total Capital Assets Not Being Depreciated	5,146,643		3,868,160	1,278,483
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,453,346	97,411		3,550,757
Buildings and Fixed Equipment	78,599,654	4,024,504	99,493	82,524,665
Furniture, Fixtures, and Equipment	9,360,163	555,098	768,481	9,146,780
Motor Vehicles	4,378,464	827,484	365,546	4,840,402
Computer Software	1,365,365	2,467	426,751	941,081
Total Capital Assets Being Depreciated	97,156,992	5,506,964	1,660,271	101,003,685
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,406,018	210,859		2,616,877
Buildings and Fixed Equipment	26,622,722	1,695,592	40,457	28,277,857
Furniture, Fixtures, and Equipment	6,816,571	690,558	738,304	6,768,825
Motor Vehicles	2,874,711	374,536	361,972	2,887,275
Computer Software	1,352,143	7,705	426,751	933,097
Total Accumulated Depreciation	40,072,165	2,979,250	1,567,484	41,483,931
Total Capital Assets Being Depreciated, Net	57,084,827	2,527,714	92,787	59,519,754
Governmental Activities Capital Assets, Net	\$ 62,231,470	\$ 2,527,714	\$ 3,960,947	\$ 60,798,237

The classes of property under capital lease and installment-purchases are presented in Notes 5 and 6, respectively.

The District’s capital assets serve multiple functions; therefore depreciation expense is not allocated to the various expense functions on the statement of activities, but is shown as unallocated depreciation expense.

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

5. OBLIGATION UNDER CAPITAL LEASE

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

	<u>Asset Balance</u>
Lighting Retrofit	\$ 401,442

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

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 40,776	\$ 30,963	\$ 9,813
2011	40,776	32,862	7,914
2012	40,776	34,880	5,896
2013	40,776	37,020	3,756
2014	40,776	39,292	1,484
Total Minimum Lease Payments	\$ 203,880	\$ 175,017	\$ 28,863

The stated interest rate is 6 percent.

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

6. INSTALLMENT-PURCHASES PAYABLE

The classes and amounts of property being acquired under installment-purchases are as follows:

	<u>Asset Balance</u>
Superintendent's Vehicle	\$ 26,149
Maintenance Truck	28,821
Transportation Truck	18,909
Workforce Development Vehicle	13,722
Total	\$ 87,601

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 40,960	\$ 38,791	\$ 2,169
2011	4,699	4,628	71
Total Minimum Payments	\$ 45,659	\$ 43,419	\$ 2,240

The stated interest rate is 5.25 percent for the Superintendent's vehicle, 5.75 percent for the Maintenance truck, 5.75 percent for the Transportation truck, and 5.45 percent for the Workforce Development vehicle.

7. CERTIFICATES OF PARTICIPATION

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

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2022	<u>\$ 3,068,200</u>	<u>\$ 3,068,200</u>	<u>\$ 0.00</u>

8. 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 2000A	\$ 30,000	5.125	2010
Series 2005A	1,145,000	5.0	2016
Series 2005B, Refunding	335,000	5.0	2020
District Revenue and Refunding Bonds:			
Series 1997	<u>790,000</u>	4.80 - 5.20	2017
Total Minimum Bond Payments	2,300,000		
Plus: Unamortized Premiums	124,265		
Less: Unamortized Costs on Refunding	<u>(57,180)</u>		
Total Bond Payments	<u>\$ 2,367,085</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 and Refunding Bonds**

These bonds are authorized by Chapter 69-1094, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hendry County from the State’s

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

Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows: **(WP 10-20/21)**

Fiscal Year Ending June 30	Total	Prinicipal	Interest
State School Bonds:			
2010	\$ 234,537	\$ 160,000	\$ 74,537
2011	237,500	170,000	67,500
2012	239,000	180,000	59,000
2013	240,000	190,000	50,000
2014	240,500	200,000	40,500
2015-2019	635,500	565,000	70,500
2020	47,250	45,000	2,250
Total Minimum Bond Payments	1,874,287	1,510,000	364,287
Plus: Unamortized Premiums	124,265	124,265	
Less: Unamortized Costs on Refunding	(57,180)	(57,180)	
Total State School Bonds	1,941,372	1,577,085	364,287
District Revenue and Refunding Bonds:			
2010	108,650	70,000	38,650
2011	110,133	75,000	35,133
2012	111,295	80,000	31,295
2013	112,127	85,000	27,127
2014	112,620	90,000	22,620
2015-2018	431,860	390,000	41,860
Total District Revenue Bonds	986,685	790,000	196,685
Total	\$ 2,928,057	\$ 2,367,085	\$ 560,972

9. DEFEASED DEBT

In prior years, State School Bonds, Series 2000A, were defeased in substance by placing a portion of the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the in-substance defeased bonds are not included in the District’s financial statements. On June 30, 2009, State School Bonds, Series 2000A, totaling \$335,000, are considered to be defeased in substance.

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

10. 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	\$ 2,599,538	\$	\$ 232,453	\$ 2,367,085	\$ 230,000
Certificates of Participation Payable	3,068,200			3,068,200	
Obligations Under Capital Lease	383,830		208,813	175,017	30,963
Installment-Purchases Payable	61,956	61,452	79,989	43,419	38,791
Estimated Insurance Claims Payable	82,528	450,387	450,387	82,528	82,528
Compensated Absences Payable	5,431,277	345,421	566,543	5,210,155	566,543
Postemployment Healthcare Benefits Payable	4,222,658	5,481,007	1,232,743	8,470,922	
Total Governmental Activities	\$ 15,849,987	\$ 6,338,267	\$ 2,770,928	\$ 19,417,326	\$ 948,825

For the governmental activities, compensated absences and postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary fund, as discussed in Note 17.

11. 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	\$ 614,933	\$
Special Revenue:		
Other		466,419
Nonmajor Governmental	1,951	150,465
Total	\$ 616,884	\$ 616,884

The interfund receivables and payables are loans to be paid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
Capital Projects:		
Local Capital Improvement	\$	\$ 160,827
Nonmajor Governmental	160,827	
Total	\$ 160,827	\$ 160,827

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

Capital outlay ad valorem tax moneys were transferred from the Capital Projects - Local Capital Improvement Fund to the nonmajor Debt Service - QZAB Fund for debt service payments and administrative fees.

12. RESERVE FOR ENCUMBRANCES

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

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

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$212,320 at June 30, 2009.

13. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 24,903,077
Categorical Educational Programs:	
Class Size Reduction	7,220,398
Transportation	1,435,368
Instructional Materials	677,490
School Recognition	392,478
Other	336,824
Gross Receipts Tax (Public Education Capital Outlay)	605,354
Workforce Development Program	414,226
Motor Vehicle License Tax (Capital Outlay and Debt Service)	286,231
Discretionary Lottery Funds	171,051
Food Service Supplement	76,034
Mobile Home License Tax	39,061
Miscellaneous	197,764
Total	\$ 36,755,356

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

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

14. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.176	\$ 12,718,101
Basic Discretionary Local Effort	0.498	1,243,283
Supplemental Discretionary Local Effort	0.250	624,138
Voted School Tax:		
Additional Millage	0.750	1,830,201
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.000	2,440,267
Total	7.674	\$18,855,990

15. 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.

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

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

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 95 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$313,359.

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 \$3,190,037, \$3,269,167, and \$3,415,851, 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.

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

16. POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. The Postemployment Healthcare Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in one of the District's two health and hospitalization plans as well as its self-insured dental plan. Hendry County District School Board subsidizes the premium rates paid by retirees by allowing them to participate in the plans at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. All of the District's employees may become eligible for those benefits if they reach normal retirement age. For Plan 1, the Board contributes \$236.22 for single and \$791.78 per month for family health insurance premiums for retirees. For Plan 2, the single amount is \$273.68 and the family amount is \$767.50 per month. In addition, the Board contributes \$23.50 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District 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, 141 retirees received postemployment healthcare benefits. The District provided required contributions of \$1,232,743 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling \$443,294, which represents 1.21 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 2,827,820
Amortization of Unfunded Actuarial Accrued Liability	2,184,481
Interest on Normal Cost and Amortization	424,040
Interest on NOO	200,576
Adjustments to ARC	(155,910)
Annual OPEB Cost (Expense)	5,481,007
 Contribution Toward the OPEB Cost	 (1,232,743)
 Increase in Net OPEB Obligation	 4,248,264
Net OPEB Obligation, Beginning of Year	4,222,658
 Net OPEB Obligation, End of Year	 \$ 8,470,922

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, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-07	\$		\$ 0
2007-08	5,259,225	19.71%	4,222,658
2008-09	5,481,007	22.50%	8,470,922

Funded Status and Funding Progress. As of October 1, 2006, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$57,807,206, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$57,807,206. The covered payroll (annual payroll of active participating employees) was \$36,648,829 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 157.73 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

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

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, 2006, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the frozen entry age normal cost actuarial method to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 12 percent initially beginning October 1, 2008, for the 2008-09 fiscal year, reduced to an ultimate rate of 5 percent after four years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 28 years.

17. 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 Hendry County District School Board is a member of the South Central Educational Risk Management Program (SCERMP) Consortium, under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee dishonesty with faithful performance, equipment breakdown, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. SCERMP is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. Employers Mutual, Inc., serves as fiscal agent for SCERMP.

The property and casualty group under SCERMP is a public entity risk pool which was organized to develop, implement, and administer a multidistrict cooperative property and casualty risk management program for member school boards in which risk of loss is transferred to the group. Member school boards make annual contributions to the group for 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 is solely the responsibility of that member school board. It is the

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

property and casualty group’s policy to reinsure through commercial insurance carriers for workers’ compensation and property loss claims in excess of \$1,000,000 and \$100,000, respectively. The named wind or named flood deductible is 5 percent of replacement cost value with a minimum of \$250,000 per occurrence. The all other windstorm deductible is \$100,000. Special hazard areas are \$500,000 per building and \$500,000 per contents.

The District provides employee dental and disability coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Hendry County District School Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2009.

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

	Beginning-of Fiscal-Year Liability	Current-year Claims and Changes in Estimated	Claims Payments	Balance at Fiscal Year-End
2007-08	\$ 77,631	\$ 464,184	\$ (459,287)	\$ 82,528
2008-09	82,528	450,387	(450,387)	82,528

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

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State	100,000	282,820	282,820	13,711
Federal Through Local State	36,958,596	35,668,664	35,648,235	(20,429)
Local:				
Property Taxes	15,567,848	15,496,243	15,461,662	(34,581)
Miscellaneous	683,500	1,070,311	964,500	(105,811)
Total Revenues	<u>53,309,944</u>	<u>52,518,038</u>	<u>52,370,928</u>	<u>(147,110)</u>
Expenditures				
Current - Education:				
Instruction	33,723,996	31,564,717	30,950,320	614,397
Pupil Personnel Services	2,158,443	2,165,554	2,024,384	141,170
Instructional Media Services	914,312	944,593	919,759	24,834
Instruction and Curriculum Development Services	322,252	353,460	342,960	10,500
Instructional Staff Training Services	56,658	55,795	22,062	33,733
Instruction Related Technology	123,222	129,047	4,425	124,622
Board of Education	1,018,392	1,387,408	1,314,711	72,697
General Administration	798,972	824,399	690,685	133,714
School Administration	3,481,099	3,547,224	3,541,244	5,980
Facilities Acquisition and Construction				
Fiscal Services	770,427	763,930	748,299	15,631
Central Services	546,271	606,893	568,008	38,885
Pupil Transportation Services	3,097,619	3,126,461	2,712,414	414,047
Operation of Plant	5,688,677	5,450,696	5,104,108	346,588
Maintenance of Plant	1,488,722	1,480,078	1,355,771	124,307
Administrative Technology Services	1,121,208	1,087,767	757,944	329,823
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		94,083	94,083	
Debt Service:				
Principal		15,489	15,489	
Interest and Fiscal Charges	48,045	32,555	12,556	19,999
Total Expenditures	<u>55,358,315</u>	<u>53,630,149</u>	<u>51,179,222</u>	<u>2,450,927</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,048,371)</u>	<u>(1,112,111)</u>	<u>1,191,706</u>	<u>2,303,817</u>
Other Financing Sources (Uses)				
Transfers In	1,042,000	1,042,000		(1,042,000)
Proceeds from Installment-Purchase Agreements		61,452	61,452	
Insurance Loss Recoveries		3,803	3,803	
Transfers Out	(450,000)	(378,000)		378,000
Total Other Financing Sources (Uses)	<u>592,000</u>	<u>729,255</u>	<u>65,255</u>	<u>(664,000)</u>
Net Change in Fund Balances	<u>(1,456,371)</u>	<u>(382,856)</u>	<u>1,256,961</u>	<u>1,639,817</u>
Fund Balances, Beginning	1,921,374	1,921,374	1,921,374	
Fund Balances, Ending	<u>\$ 465,003</u>	<u>\$ 1,538,518</u>	<u>\$ 3,178,335</u>	<u>\$ 1,639,817</u>

Original Budget	Special Revenue - Other Fund		Variance with Final Budget - Positive (Negative)
	Final Budget	Actual	
\$ 6,529,000	\$ 8,333,199	\$ 7,634,466	\$ 20,277 (698,733)
	30,670		(30,670)
	614,783	58,310	(556,473)
<u>6,529,000</u>	<u>8,978,652</u>	<u>7,713,053</u>	<u>(1,265,599)</u>
4,031,261	5,989,144	5,091,749	897,395
529,600	897,192	810,286	86,906
32,046	23,776	22,169	1,607
948,838	1,032,360	954,371	77,989
300,746	364,602	225,531	139,071
200,778	211,628	187,242	24,386
214,646	121	121	
271,085	199,834	164,331	35,503
	4,310	1,928	2,382
	1,800	1,440	360
	213,646	213,646	
	40,239	40,239	
<u>6,529,000</u>	<u>8,978,652</u>	<u>7,713,053</u>	<u>1,265,599</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2006	\$ 0	\$ 57,807,206	\$ 57,807,206	0.00%	\$ 36,648,829	157.73%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 565,597
National School Lunch Program	10.555	300	1,938,975
Summer Food Service Program for Children	10.559	323	128,995
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	263,110
Total United States Department of Agriculture			2,896,677
United States Department of Justice:			
Indirect:			
Hendry County Sheriff's Department:			
Public Safety Partnership and Community Policing Grants	16.710	None	213,646
Hendry County Board of County Commissioners:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	None	25,677
Total United States Department of Justice			239,323
United States Department of Labor:			
Indirect:			
Southwest Florida Workforce Development Board, Inc.:			
ARRA - WIA Youth Activities	17.259	None	11,637
United States Department of Education:			
Direct:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	20,277
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,766,686
Special Education - Preschool Grants	84.173	266, 267	52,858
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	254,864
Special Education - Preschool Grants	84.173	None	10,000
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	1,034
Total Special Education Cluster			2,085,442
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	138,829
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,810,231
Migrant Education - State Grant Program	84.011	217	943,230
Career and Technical Education - Basic Grants to States	84.048	151, 161	194,981
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	A2417	29,542
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	67,085
State Grants for Innovative Programs	84.298	113	2,181
Education Technology State Grants	84.318	121	16,616
Rural Education	84.358	110	125,958
English Language Acquisition Grants	84.365	102	63,100
Improving Teacher Quality State Grants	84.367	224	463,784
School Improvement Grants	84.377	126	222,360
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	20,516
Reading First State Grants	84.357	None	201,262
Mathematics and Science Partnerships	84.366	None	554
Washington County District School Board:			
Reading First State Grants	84.357	None	2,790
Total Indirect			7,388,461
Total United States Department of Education			7,408,738
United States Department of Health and Human Services:			
Indirect:			
Florida State University:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	13,926
Total Expenditures of Federal Awards			\$ 10,570,301

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
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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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board as of and for the fiscal year ended June 30, 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. Our audit did not extend to the school and activity funds, commonly called the school internal funds. 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 Hendry Public Schools Foundation, Inc., as described in our report on the Hendry County District School Board’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is a material weakness.

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 16, 2010



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

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

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

Internal Control Over Compliance

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

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.

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
March 16, 2010

**HENDRY 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:	Except for the exclusion of the school internal funds from the scope of the audit, there were no modifications to the opinions on the financial statements.
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Migrant Education – State Grant Program (CFDA No. 84.011)
Dollar threshold used to distinguish between Type A and Type B programs:	\$317,109
Auditee qualified as low-risk auditee?	Yes

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

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

School internal funds provide an accounting for the various school club and class activities and are reported by the District in its financial statements as Agency Funds. State Board of Education Rule 6A-1.087, Florida Administrative Code, requires annual audits of the District’s school internal funds. We noted that, as of January 2010, audits of the school internal funds for the 2008-09 fiscal year were in process of being performed by other auditors, but had not been completed. The financial balances of the school internal funds represent 18 percent and 72 percent of the assets and liabilities, respectively, of the other aggregate remaining fund information in which they are included. Professional auditing standards require that when other auditors report on a significant portion of an entity’s financial statements, and the reports are not available for consideration during the course of an audit, appropriate disclosures (qualifications) should be made in the auditor’s report. Therefore, our report on the District’s financial statements includes a qualification to that effect.

In addition, District personnel informed us of allegations that a misappropriation of internal account funds occurred at a high school and an adult education school during the 2008-09 fiscal year, resulting in the District hiring a forensic CPA firm and a fraud examiner to review the records of these schools. As of January 2010, the forensic CPA firm has not issued its report.

Similar findings were noted in our report Nos. 2008-065 and 2009-142.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure completion of the required annual audit of the school internal funds for consideration in the audit of the District’s financial statements.

ADDITIONAL MATTERS

Finding No. 2: Collection of Social Security Numbers

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

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

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

The District requires SSNs on employment applications and from parents or legal guardians for students when completing certain forms, such as enrollment applications; however, written statements were not provided to evidence the purposes for requesting these SSNs. In August 2009, the District began providing written notifications to these individuals explaining the purposes for requesting the SSNs. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2009-142.

Recommendation: **The District should continue its efforts to comply with Section 119.071(5), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.**

Finding No. 3: Adult Education Program

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2008-152, Laws of Florida, Paragraph 120, states that from the funds provided in Specific Appropriations 9A and 120, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. In addition, according to FDOE guidance, a student is counted for enrollment if the student has participated in instructional activity for 12 contact hours, and only 2 hours of assessment hours, used for administrative processing or placement, shall count toward the 12 hour threshold.

The District reported 66,372 contact hours for adult general education programs during the 2008-09 school year. However, our review of the contact hours reported for 15 students enrolled in 23 adult general education courses disclosed that enhancements could be made in this process, as follows:

- For 3 students, attendance records did not evidence that they participated in instructional activities for 12 contact hours including assessment hours. For 2 of those same students, more than 2 hours of assessment were counted towards the 12 hour threshold required by FDOE procedures. Because of these errors, the District overreported 21 hours.
- For 12 students attending 20 different courses, the District reported 1,109 hours over the hours reported on the attendance rosters. The range of overreported hours was from 6 to 162 hours per student.
- For 2 students, the District underreported 9 and 24 attendance hours, respectively.
- For 2 students who were absent more than six consecutive days, the District did not procedurally withdraw them from the hours reported, contrary to FDOE instructions, resulting in 153 hours overreported.

- For 6 students who were withdrawn due to unattendance (six consecutive absences), hours reported did not agree to the attendance rosters, resulting in overreported hours totaling 155 and underreported hours totaling 24, ranging from 24 to 36 overreported hours per student.

These errors occurred because District personnel used different forms of attendance rosters, the software system inaccurately recorded absences, the lack of a District procedure to withdraw students for nonattendance, and other clerical mistakes. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. A similar finding was noted in our report No. 2009-142.

The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 4: Contract Monitoring – School Resource Officer

As similarly noted in our reports No. 2008-065 and 2009-142, the District needs to improve its procedures to ensure that it receives contracted services from school resource officers (SROs) before it pays for the services. The District contracted with the Sheriff's department, pursuant to Section 1006.12, Florida Statutes, to provide for SROs with responsibilities for instruction regarding law enforcement, prevention of crime, and related matters. While the addendum to the ongoing annual agreement indicated how many SROs would provide services, and the designated locations for the services, the document did not establish the days or hours per day that a SRO would work. As was the practice in previous years, the Sheriff's Department submitted one invoice to the District for the annual contract price of \$111,000 on February 20, 2009, and the District made payment on March 10, 2009, which was prior to the end of the contracted school year. The District further indicated that it did not maintain time records to evidence receipt of the SRO services. Without specifying the expected work hours in the contract, and properly monitoring the services, disputes may arise regarding SRO work time and the District may not receive the services it pays for. Subsequent to our inquiries, the District provided a draft administrative procedure that delineates the responsibilities of the SRO; however it did not designate personnel at the school-level to verify receipt of the services before payments are made.

Recommendation: The District should enhance procedures to ensure that contracts clearly contain the agreed-upon times for SRO services, and maintain time records, signed by the SRO and school-level staff, to evidence review and approval of the services before payments are made.

Finding No. 5: Policies for Reporting Fraud

As stated in our report No. 2009-142, the District has not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Furthermore, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

Recommendation: To aid the detection and prevention of fraud, the District should develop policies for communicating and reporting known or suspected fraud to the appropriate authorities.

Finding No. 6: Information Technology – Security Awareness Training Program

As also noted in our report No. 2009-142, the District had not implemented a comprehensive security awareness training program to apprise new, or remind current employees, consultants, and vendors of the importance of preserving the confidentiality, integrity, and availability of data and information technology (IT) resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems. Although the District had published an acceptable use policy in teacher handbooks and in the District's 2007-2009 Technology Plan that covered, among other things, appropriate Internet, e-mail, and network resource usage, employees, consultants, and vendors were not required to acknowledge in writing their awareness, understanding, and acceptance of security-related responsibilities on an annual basis. Additionally, the District did not have a comprehensive security awareness training program to facilitate ongoing education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information. A comprehensive security awareness training program would decrease the risk that the District's IT resources may be intentionally or unintentionally compromised by employees, consultants, and vendors while performing their assigned duties.

Recommendation: To minimize misuse of IT resources, the District should promote security awareness through a comprehensive training program to ensure that all employees, consultants, and vendors are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. Additionally, the District should require all employees, consultants, and vendors to acknowledge their understanding and acceptance of security-related responsibilities on an annual basis.

Finding No. 7: Information Technology – Written Policies and Procedures

Each 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 also noted in our report No. 2009-142, the District lacked written policies and procedures for the following IT functions:

- Requesting, prioritizing, and authorizing system changes including configuration, program code, and report changes.
- Administering user identification codes (IDs), administrator IDs, administrator passwords, guest accounts, and security devices (such as firewalls and routers).
- Changing or deleting vendor-supplied passwords upon installation.
- Resetting user passwords, including positive identification of the user.
- Prohibiting administrator rights on the workstations of end users.

- Monitoring and logging access to and modification of sensitive or critical tables, files, and transactions for the application, database, and the network.
- Revoking access privileges of former or reassigned employees, consultants, and vendors.
- Removing confidential information from consultant and vendor equipment.
- Defining responsibilities, access privileges, and activities for network, database, and security administrators and help desk staff.

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.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Federal Awards Finding 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: Reading First State Grants (CFDA No. 84.357)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions - Private School Participation. As noted in our report No. 2009-142, the District did not invite the two private schools to participate in the Reading First State Grant during the 2008-09 fiscal year. District personnel indicated that the District project director did not send the notification letters to the private schools because of an oversight. Although private school officials have declined to participate in the District’s Federal grant programs when contacted in the past, without annually notifying private school officials of available Federal funding, there is a possibility that the views of private school officials may change or new officials may desire their schools to participate, and students attending those schools may not receive services from Federal grants received by the District.

Recommendation: The District should enhance controls to provide for timely and meaningful consultation with private school officials regarding the design and development of programs to make Federally-funded educational services available.

District Contact Person: Michael Yanosik, Assistant Superintendent for Business and Administration

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education and Southwest Florida Workforce Development Board, Inc.

Programs: ARRA: Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); WIA Youth Activities (CFDA No. 17.259); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394); and SFSF – Government Services, Recovery Act (CFDA No. 84.397)

Finding Type: Noncompliance

Questioned Costs: Not applicable

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

The Southwest Florida Workforce Development Board, Inc., approved ARRA Federal funding, totaling \$51,156, from June 22, 2009 through July 17, 2009, for WIA Youth Activities (CFDA No. 17.259). In addition, the Florida Department of Education (FDOE) approved ARRA Federal funding for the District to administer, as shown in the table below:

Grant (CFDA Number)	Award Amount
ARRA – Child Nutrition Discretionary (10.579)	\$ 109,646
ARRA – Title I (84.389)	717,096
ARRA – Special Education (84.391)	829,728
ARRA – Special Education, Preschool (84.392)	26,125
ARRA – State Fiscal Stabilization – Education (84.394)	2,214,736
ARRA – State Fiscal Stabilization – Government (84.397)	25,851

District records indicated that the awards periods for these grants started on dates ranging from April 2009 through July 2009, and the grant periods end on dates ranging from June 2010 through September 2010. However, District records did not evidence that the District had registered with CCR. Subsequent to our inquiries, the District designated the Assistant Superintendent for Business and Administration to monitor the ARRA Federal reporting requirements and, on September 11, 2009, registered with CCR. Without timely registration in the CCR system, the District may be limited in its eligibility to receive ARRA Federal funds.

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

District Contact Person: Michael Yanosik, Assistant Superintendent for Business and Administration

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-142.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

Listed below is the District's summary of the status of prior audit findings on Federal programs:

<u>Audit Report No. and Federal Awards Finding No.</u>	<u>Program/Area</u>	<u>Brief Description</u>	<u>Status</u>	<u>Comments</u>
2009-142 (1)	Reading First State Grants (CFDA No. 84.357) / Special Tests and Provisions - Private School Participation	District did not invite private schools to participate in program activities.	Uncorrected	District did not invite private schools to participate in this grant for the 2008-09 fiscal year. Program was discontinued in the 2009-10 fiscal year.

EXHIBIT A
MANAGEMENT'S RESPONSE



Hendry County School Board

Richard A. "Rick" Murphy
Superintendent

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March 5, 2010

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

Dear Mr. Martin:

Pursuant to the provisions of Section 11.45 (4) (d), Florida Statutes herewith is the submitted statement of explanation for proposed action concerning all the findings of the preliminary and tentative audit findings of the Hendry County District School Board for the fiscal year ending June 30, 2009.

Financial Reporting

The District will enhance its procedures to ensure completion of the required annual audit of the school internal funds for consideration in the audit of the District's financial statements.

Collection of Social Security Numbers

The District will continue its efforts to comply with Section 119.071(5), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Adult Education Program

The District will enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Contract Monitoring – School Resource Officer

The District will enhance its procedures to ensure that contracts clearly contain the agreed-upon times for SRO services, and maintain time records, signed by the SRO and school-level staff, to evidence review and approval of the services before payments are made.

Policies for Reporting Fraud

The District will develop policies for communicating and reporting known or suspected fraud to the appropriate authorities.

Information Technology-Security Awareness Programs

To minimize misuse of IT resources the District will promote security awareness through a comprehensive training program to ensure that all employees, consultants, and vendors are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. Additionally, the District will require all employees, consultants, and vendors to acknowledge their understanding and acceptance of security related responsibilities on an annual basis.

Information Technology- Written Policies and Procedures

The District will establish written policies and procedures to document management's expectations for the performance of IT functions.

Special Tests and Provisions- Private School Participation

The District will enhance controls to provide for timely and meaningful consultation with private school officials regarding the design and development of programs to make Federally funded educational services available.

Reporting and Special Tests and Provisions

The District will continue its efforts to ensure timely registration at the Central Contractor Registration website on an annual basis as required.

Sincerely yours,



Richard A. "Rick" Murphy
Superintendent

RAM/bt

cc: Michael J. Yanosik, Assistant Superintendent of Business