

HAMILTON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Damon Deas, Vice Chair	1
William Gary Godwin	2
Jeanie Daniels	3
Joyce Law Shaw	4
Don J. Fenneman, Chair	5

Martha W. Butler, Superintendent

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

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

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

HAMILTON COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Improvements were needed in the bank account reconciliation process.

Finding No. 2: The District could strengthen its tangible personal property physical inventory procedures.

Finding No. 3: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 4: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 5: Enhancements were needed in District procedures over transportation, maintenance, and janitorial inventories.

Finding No. 6: Controls over social security numbers could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster; Title I, Part A Cluster; and State Fiscal Stabilization Fund Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Three employees, paid from the ARRA - Special Education program, did not perform services consistent with the program requirements, resulting in \$46,280.57 of questioned costs.

Federal Awards Finding No. 2: Improvements were needed in District procedures for reporting ARRA program information and related expenditures on the Schedule of Expenditures of Federal Awards.

Audit Objectives and Scope

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

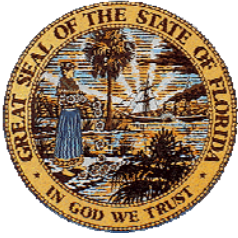
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a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

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-109.

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, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 47 percent of the assets and 61 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

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

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, each major fund, and the aggregate remaining fund information for the Hamilton County District School Board as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Hamilton County Public Schools Foundation, Inc., has been reported as a discretely presented component unit in prior fiscal years; however, the Foundation no longer meets the

criteria of being a component unit of the District and, therefore, is not reported for the 2009-10 fiscal year. This affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 36 through 40) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA

January 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- The District's total net assets decreased by \$524,348 (or 1.6 percent), from \$32,976,554 at June 30, 2009, to \$32,452,206 At June 30, 2010.
- During the 2009-10 fiscal year, General Fund expenditures exceeded revenues by \$450,539.
- This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$484,089.
- The General Fund's unreserved, undesignated fund balance decreased from \$538,330 as of June 30, 2009, to \$442,630 (or 3.2 percent of expenditures) as of June 30, 2010.
- The District's student enrollment decreased by 146 students (or 7.9 percent) over the preceding fiscal year. The student ending enrollment was 1,698 for the 2009-10 fiscal year. See the MD&A's **OTHER MATTERS OF SIGNIFICANCE** for further evaluation of enrollment changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

In addition, this report presents certain required supplementary information which includes management's discussion and analysis and other information.

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 District presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the 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 governmental activities. Most of the District's services include its educational programs: basic, 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.

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

Fund Financial Statements

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

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. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental 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 balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-10	6-30-09
Current and Other Assets	\$ 4,041,869	\$ 3,191,245
Capital Assets	31,223,734	32,050,144
Total Assets	35,265,603	35,241,389
Long-Term Liabilities	1,917,404	1,914,541
Other Liabilities	895,993	350,294
Total Liabilities	2,813,397	2,264,835
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	30,843,734	31,630,144
Restricted	1,799,815	1,390,165
Unrestricted	(191,343)	(43,755)
Total Net Assets	\$ 32,452,206	\$ 32,976,554

The largest portion of the District’s net assets (95 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures and equipment; etc.), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The deficit in the unrestricted net assets is due, in part, to an increase in current liabilities, and this increased primarily because of an increase in retirement benefit payables.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 235,982	\$ 233,238
Operating Grants and Contributions	826,220	1,263,620
Capital Grants and Contributions	141,119	253,533
General Revenues:		
Property Taxes, Levied for Operational Purposes	5,005,555	4,293,742
Property Taxes, Levied for Capital Projects	1,153,428	1,262,980
Grants and Contributions Not Restricted to Specific Programs	11,595,327	11,965,233
Unrestricted Investment Earnings	18,376	41,438
Miscellaneous	452,457	379,530
Total Revenues	19,428,464	19,693,314
Functions/Program Expenses:		
Instruction	9,263,198	9,757,788
Pupil Personnel Services	990,757	1,003,642
Instructional Media Services	177,854	178,522
Instruction and Curriculum Development Services	879,871	912,144
Instructional Staff Training Services	613,852	302,659
Instruction Related Technology	115,695	66,613
School Board	238,161	242,767
General Administration	818,183	857,169
School Administration	835,795	827,934
Facilities Acquisition and Construction	301,198	590,452
Fiscal Services	333,126	294,133
Food Services	1,065,279	1,089,766
Central Services	102,745	104,825
Pupil Transportation Services	1,296,010	1,131,679
Operation of Plant	1,378,264	1,500,285
Maintenance of Plant	327,593	209,044
Administrative Technology Services	76,016	33,317
Community Services	152,633	155,793
Unallocated Interest on Long-Term Debt	21,074	22,826
Unallocated Depreciation/Amortization Expense	965,508	1,000,573
Total Functions/Program Expenses	19,952,812	20,281,931
Decrease in Net Assets	\$ (524,348)	\$ (588,617)

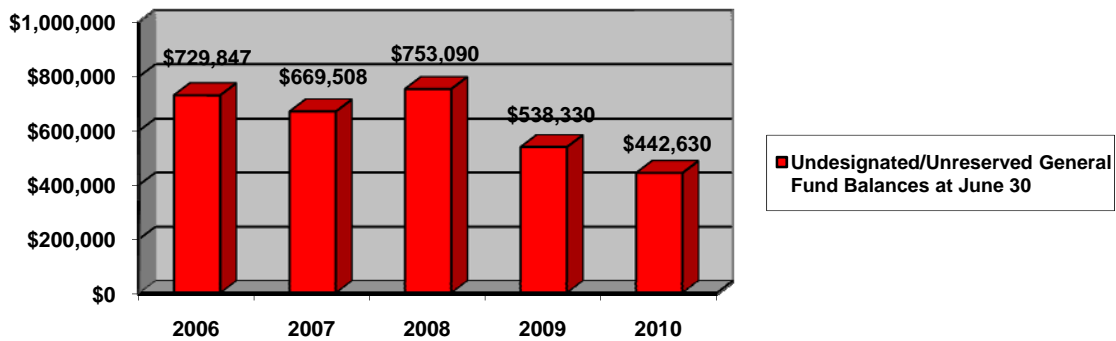
The largest revenue source is the State of Florida (40 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Revenues decreased approximately \$264,850, due primarily to a decrease in student population. The effects of the decrease in revenue generated from students for operating expenses was mitigated by an increase in Federal grant revenues.

Instruction expenses represent 46.4 percent of total governmental expenses in the 2009-10 fiscal year. Instruction expenses decreased by \$494,590, or 5 percent, from the previous year due mainly to a reduction in staffing levels, resulting in a decrease in salaries and related benefits.

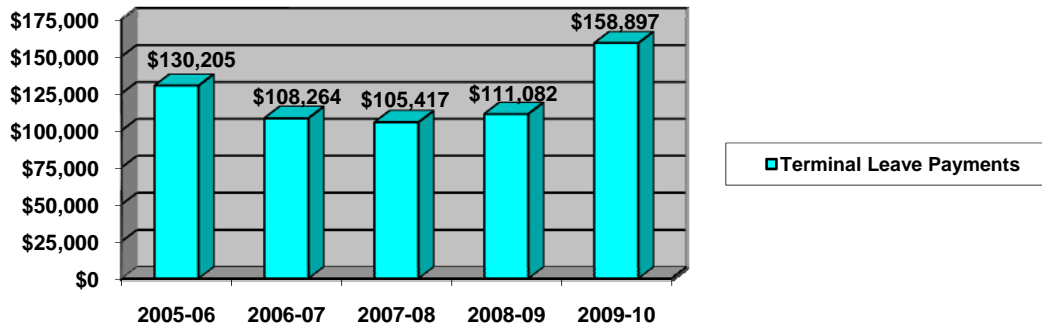
FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

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

Unrestricted/Undesignated General Fund Balances. The unrestricted/undesignated fund balance of the General Fund has decreased in the 2009-10 fiscal year by \$95,700. The unreserved fund balance of the General fund has steadily decreased since the 2007-08 fiscal year. This trend is due, in part, to reductions in FEFP and declining student enrollment. The following chart reflects these balances over the past five fiscal years.



Terminal Leave Payments. The General Fund pays terminal leave payments to retirees. Terminal leave payments increased \$47,815 in the 2009-10 fiscal year. The following chart reflects these payments over the past five fiscal years.



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

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

Capital Projects – Public Education Capital Outlay. The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$239,278, which is restricted for expenditures related to capital outlay. The fund

balance remained relatively constant, decreasing by \$4,819. There were no major construction or renovation projects in the current year.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,055,099, which is restricted for expenditures related to capital outlay. The fund balance increased by \$455,324 because there were no major construction or renovation projects in the current year, leading to an accumulation of fund balance.

BUDGET VARIANCES IN THE GENERAL FUND

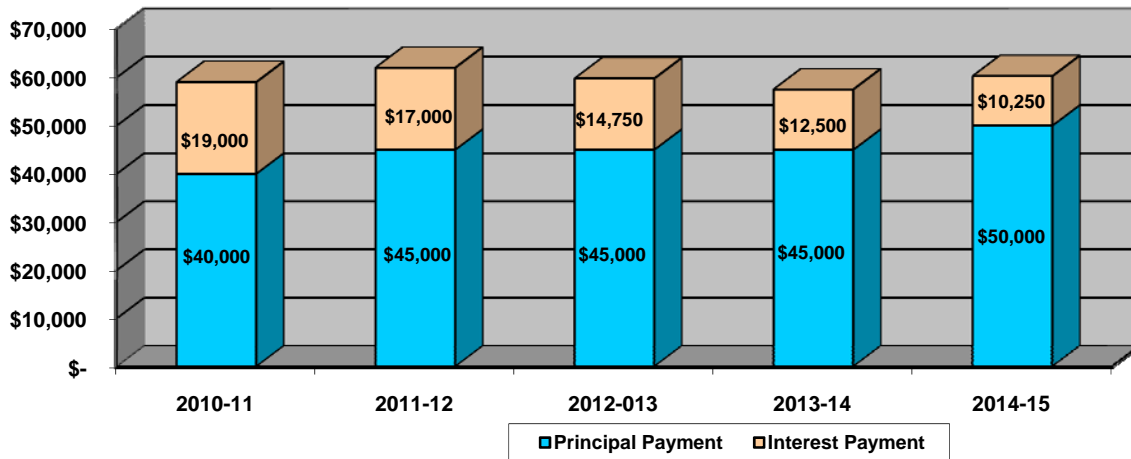
Original and final budget amounts did not significantly change.

CAPITAL ASSETS AND LONG-TERM DEBT

The District’s investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$31,223,734 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. There were no significant capital asset events for the 2009-10 fiscal year.

The District has not issued any new long-term debt during the 2009-10 fiscal year, and at this time, there are no plans for issuing any new debt.

The following chart reflects an estimate of the debt service requirements of the District over the next five fiscal years.

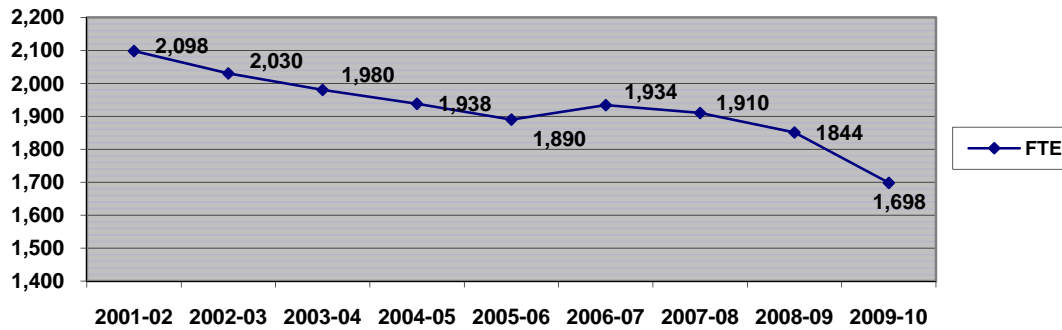


OTHER MATTERS OF SIGNIFICANCE

Effective for the 2009-10 fiscal year, the District began receiving one-time appropriations under the American Recovery and Reinvestment Act of 2009 (ARRA). The intent of these funds is to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only two to three years.

Student Enrollment and Funding. In the General Fund, revenues from State sources comprise 57 percent of total available resources of the District. Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 236.081, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. As shown in the following chart,

the District has experienced a significant decline in FTE which is used for funding purposes over the past several fiscal years. It is anticipated that this trend will continue.



REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Hamilton County School Board, 4280 SW County Road 152 Jasper, FL 32052.

BASIC FINANCIAL STATEMENTS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2010**

	Primary Government Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 2,551,456.52
Investments	13,223.59
Due from Other Agencies	1,236,195.56
Inventories	240,993.15
Capital Assets:	
Nondepreciable Capital Assets	490,000.00
Depreciable Capital Assets, Net	30,733,734.12
TOTAL ASSETS	\$ 35,265,602.94
LIABILITIES	
Salaries and Benefits Payable	\$ 555,237.42
Accounts Payable	142,577.64
Deferred Revenue	198,178.00
Long-Term Liabilities:	
Portion Due Within One Year	198,578.97
Portion Due After One Year	1,718,825.12
Total Liabilities	2,813,397.15
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	30,843,734.12
Restricted for:	
State Required Carryover Programs	71,249.08
Debt Service	13,223.59
Capital Projects	1,328,668.05
Food Service	4,899.24
Other Purposes	381,774.89
Unrestricted	(191,343.18)
Total Net Assets	32,452,205.79
TOTAL LIABILITIES AND NET ASSETS	\$ 35,265,602.94

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Expenses	Program Revenues			Net (Expense) Revenue and Chages in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	\$ 9,263,197.71	\$	\$	\$ (9,263,197.71)
Pupil Personnel Services	990,756.92			(990,756.92)
Instructional Media Services	177,853.96			(177,853.96)
Instruction and Curriculum Development Services	879,871.35			(879,871.35)
Instructional Staff Training Services	613,851.82			(613,851.82)
Instruction Related Technology	115,694.62			(115,694.62)
School Board	238,161.31			(238,161.31)
General Administration	818,183.26			(818,183.26)
School Administration	835,794.87			(835,794.87)
Facilities Acquisition and Construction	301,198.26		79,923.32	(221,274.94)
Fiscal Services	333,125.85			(333,125.85)
Food Services	1,065,278.51	194,073.29	826,219.92	(44,985.30)
Central Services	102,744.74			(102,744.74)
Pupil Transportation Services	1,296,009.47			(1,296,009.47)
Operation of Plant	1,378,264.46			(1,378,264.46)
Maintenance of Plant	327,593.44			(327,593.44)
Administrative Technology Services	76,016.43			(76,016.43)
Community Services	152,632.96	41,908.77		(110,724.19)
Unallocated Interest on Long-Term Debt	21,073.85		61,195.81	40,121.96
Unallocated Depreciation/Amortization Expense*	965,508.04			(965,508.04)
Total Primary Government	\$ 19,952,811.83	\$ 235,982.06	\$ 826,219.92	\$ 141,119.13
 General Revenues:				
Taxes:				
				5,005,554.87
				1,153,427.55
				11,595,326.96
				18,376.38
				452,457.17
Total General Revenues				18,225,142.93
Change in Net Assets				(524,347.79)
Net Assets - Beginning				32,976,553.58
Net Assets - Ending				\$ 32,452,205.79

* This amount excludes the depreciation/amortization that is included in the direct expenses of the various functions.

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,448,922.10	\$ 4,952.01	\$
Investments			
Due from Other Funds	369,365.45	36,144.80	312.26
Due from Other Agencies	231,436.03	340,609.02	192,801.70
Inventories	208,386.44		
TOTAL ASSETS	\$ 2,258,110.02	\$ 381,705.83	\$ 193,113.96
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 368,225.33	\$ 88,250.42	\$ 59,042.43
Accounts Payable	90,799.81	45,063.93	1,640.50
Due to Other Funds		248,391.48	132,431.03
Deferred Revenue			
Total Liabilities	459,025.14	381,705.83	193,113.96
Fund Balances:			
Reserved for State Required Carryover Programs	71,249.08		
Reserved for Encumbrances	209,759.64		
Reserved for Inventories	208,386.44		
Reserved for Other Purposes	381,774.89		
Reserved for Debt Service			
Unreserved:			
Designated, Reported in General Fund:			
Designated for Terminal Pay	485,284.38		
Undesignated, Reported in:			
General Fund	442,630.45		
Special Revenue Funds			
Capital Projects Funds			
Total Fund Balances	1,799,084.88		
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,258,110.02	\$ 381,705.83	\$ 193,113.96

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 9,048.52	\$ 1,052,496.08	\$ 36,037.81	\$ 2,551,456.52
		13,223.59	13,223.59
428,407.81	5,046.46	37,894.54	405,822.51
<u>428,407.81</u>	<u>5,046.46</u>	<u>37,894.54</u>	<u>405,822.51</u>
		32,606.71	1,236,195.56
			240,993.15
<u>\$ 437,456.33</u>	<u>\$ 1,057,542.54</u>	<u>\$ 119,762.65</u>	<u>\$ 4,447,691.33</u>
\$	\$	\$	\$
	2,443.85	39,719.24	555,237.42
		2,629.55	142,577.64
		25,000.00	405,822.51
<u>198,178.00</u>	<u>2,443.85</u>	<u>67,348.79</u>	<u>1,301,815.57</u>
<u>198,178.00</u>	<u>2,443.85</u>	<u>67,348.79</u>	<u>1,301,815.57</u>
			71,249.08
			209,759.64
			208,386.44
			381,774.89
		13,223.59	13,223.59
			485,284.38
			442,630.45
		4,899.24	4,899.24
<u>239,278.33</u>	<u>1,055,098.69</u>	<u>34,291.03</u>	<u>1,328,668.05</u>
<u>239,278.33</u>	<u>1,055,098.69</u>	<u>52,413.86</u>	<u>3,145,875.76</u>
<u>\$ 437,456.33</u>	<u>\$ 1,057,542.54</u>	<u>\$ 119,762.65</u>	<u>\$ 4,447,691.33</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds \$ 3,145,875.76

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. 31,223,734.12

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

Bonds Payable	\$ 380,000.00	
Other Postemployment Benefits Payable	94,643.00	
Compensated Absences Payable	1,442,761.09	(1,917,404.09)

Total Net Assets - Governmental Activities **\$ 32,452,205.79**

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

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**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 138,434.15	\$	\$	\$
Federal Through State and Local State	145,530.91	2,641,293.38	1,079,048.62	
	7,592,153.99			64,774.00
Local:				
Property Taxes	5,005,554.87			
Charges for Services	41,908.77			
Miscellaneous	439,571.67			
Total Revenues	13,363,154.36	2,641,293.38	1,079,048.62	64,774.00
Expenditures				
Current - Education:				
Instruction	7,198,031.02	1,293,819.14	728,484.55	
Pupil Personnel Services	599,000.03	371,506.89	20,250.00	
Instructional Media Services	177,853.96			
Instruction and Curriculum Development Services	379,405.29	444,208.43	56,257.63	
Instructional Staff Training Services	30,237.92	377,804.56	205,809.34	
Instruction Related Technology School Board	115,694.62			
General Administration	238,161.31			
School Administration	725,337.91	77,927.65	14,917.70	
Facilities Acquisition and Construction	835,794.87			
Fiscal Services	12,600.00			4,900.51
Food Services	333,125.85			
Central Services			598.25	
Pupil Transportation Services	102,744.74			
Operation of Plant	1,079,500.33	7,278.54		
Maintenance of Plant	1,370,743.71	7,520.75		
Administrative Technology Services	327,593.44			
Community Services	76,016.43			
Fixed Capital Outlay:	152,632.96			
Other Capital Outlay	59,219.14	61,227.42	52,731.15	
Debt Service:				
Principal Interest and Fiscal Charges				
Total Expenditures	13,813,693.53	2,641,293.38	1,079,048.62	4,900.51
Excess (Deficiency) of Revenues Over Expenditures	(450,539.17)			59,873.49
Other Financing Sources (Uses)				
Transfers In	306,692.75			
Insurance Loss Recoveries	29,204.54			
Transfers Out	(10,000.00)			(64,692.75)
Total Other Financing Sources (Uses)	325,897.29			(64,692.75)
Net Change in Fund Balances	(124,641.88)			(4,819.26)
Fund Balances, Beginning	1,923,726.76			244,097.59
Fund Balances, Ending	\$ 1,799,084.88	\$	\$	\$ 239,278.33

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
\$	\$	\$
	138,434.15	4,669,165.83
	803,292.92	7,755,066.03
	98,138.04	
1,153,427.55		6,158,982.42
	194,073.29	235,982.06
602.07	527.27	440,701.01
<u>1,154,029.62</u>	<u>1,096,031.52</u>	<u>19,398,331.50</u>
		9,220,334.71
		990,756.92
		177,853.96
		879,871.35
		613,851.82
		115,694.62
		238,161.31
		818,183.26
		835,794.87
283,697.75		301,198.26
	1,064,680.26	333,125.85
		1,065,278.51
		102,744.74
		1,086,778.87
		1,378,264.46
		327,593.44
		76,016.43
		152,632.96
173,008.00	1,215.00	347,400.71
	40,000.00	40,000.00
	21,073.85	21,073.85
<u>456,705.75</u>	<u>1,126,969.11</u>	<u>19,122,610.90</u>
<u>697,323.87</u>	<u>(30,937.59)</u>	<u>275,720.60</u>
	10,000.00	316,692.75
(242,000.00)		29,204.54
		(316,692.75)
<u>(242,000.00)</u>	<u>10,000.00</u>	<u>29,204.54</u>
455,323.87	(20,937.59)	304,925.14
599,774.82	73,351.45	2,840,950.62
<u>\$ 1,055,098.69</u>	<u>\$ 52,413.86</u>	<u>\$ 3,145,875.76</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Net Change in Fund Balances - Governmental Funds \$ 304,925.14

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period. (826,409.93)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 40,000.00

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (42,863.00)

Change in Net Assets - Governmental Activities \$ (524,347.79)

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS & LIABILITIES -
FIDUCIARY FUNDS
June 30, 2010**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 107,274.00
LIABILITIES	
Internal Accounts Payable	\$ 107,274.00

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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 these criteria, no component units are included within the District's reporting entity.

The Hamilton County Public Schools Foundation, Inc., has been reported as a discretely presented component unit in prior fiscal years; however, the Foundation no longer meets the criteria of being a component unit of the District and, therefore, is not reported for the 2009-10 fiscal year.

➤ **Basis of Presentation**

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

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

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriations of gross receipts taxes for the District. These funds are to be used for educational capital outlay needs, including new construction, renovation, and remodeling projects, maintenance, repairs, and site improvements.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, and amounts placed with SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end inventories.

➤ **Capital Assets**

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

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

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 and earmarked educational program resources.

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

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

➤ **District Property Taxes**

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

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

The Board adopted the 2009 tax levy on September 14, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME(1)	46 Day Average	\$ 90,894.71
Debt Service Accounts	6 Months	13,233.59
Total Investments		\$ 104,128.30

Note: (1) Investments reported as cash equivalents for financial statement reporting purposes.

Interest Rate Risk

- The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. 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.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that would further limit its investment choices.
- 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 interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 490,000.00	\$	\$	490,000.00
Total Capital Assets Not Being Depreciated	490,000.00			490,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	2,333,515.90			2,333,515.90
Buildings and Fixed Equipment	32,359,824.85			32,359,824.85
Furniture, Fixtures, and Equipment	4,004,957.95	212,876.71		4,217,834.66
Motor Vehicles	2,571,538.27	135,452.00	50,784.50	2,656,205.77
Audio Visual Materials and Computer Software	810,311.63			810,311.63
Total Capital Assets Being Depreciated	42,080,148.60	348,328.71	50,784.50	42,377,692.81
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	464,009.46	54,587.90		518,597.36
Buildings and Fixed Equipment	4,413,461.04	648,202.44		5,061,663.48
Furniture, Fixtures, and Equipment	3,525,595.03	246,982.52		3,772,577.55
Motor Vehicles	1,322,362.57	209,230.60	50,784.50	1,480,808.67
Audio Visual Materials and Computer Software	794,576.45	15,735.18		810,311.63
Total Accumulated Depreciation	10,520,004.55	1,174,738.64	50,784.50	11,643,958.69
Total Capital Assets Being Depreciated, Net	31,560,144.05	(826,409.93)		30,733,734.12
Governmental Activities Capital Assets, Net	\$ 32,050,144.05	\$ (826,409.93)		\$ 31,223,734.12

Depreciation expense was charged to functions as follows:

GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 209,230.60
Unallocated	965,508.04
Total Depreciation Expense - Governmental Activities	<u>\$ 1,174,738.64</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

5. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2005B, Refunding	<u>\$ 380,000</u>	5.0	2018

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

State School Bonds

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 59,000.00	\$ 40,000.00	\$ 19,000.00
2012	62,000.00	45,000.00	17,000.00
2013	59,750.00	45,000.00	14,750.00
2014	57,500.00	45,000.00	12,500.00
2015	60,250.00	50,000.00	10,250.00
2016-2018	<u>170,750.00</u>	<u>155,000.00</u>	<u>15,750.00</u>
Total State School Bonds	<u>\$ 469,250.00</u>	<u>\$ 380,000.00</u>	<u>\$ 89,250.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 420,000.00	\$	\$ 40,000.00	\$ 380,000.00	\$ 40,000.00
Compensated Absences Payable	1,442,761.09	158,897.00	158,897.00	1,442,761.09	158,578.97
Other Postemployment Benefits Payable	51,780.00	173,987.00	131,124.00	94,643.00	
Total Governmental Activities	\$ 1,914,541.09	\$ 332,884.00	\$ 330,021.00	\$ 1,917,404.09	\$ 198,578.97

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 369,365.45	\$
Special Revenue:		
Other	36,144.80	248,391.48
ARRA Economic Stimulus Funds	312.26	132,431.03
Nonmajor Governmental		25,000.00
Total	\$ 405,822.51	\$ 405,822.51

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 306,692.75	\$ 10,000.00
Capital Projects:		
Public Education Capital Outlay		64,692.75
Local Capital Improvement		242,000.00
Nonmajor Governmental	10,000.00	
Total	\$ 316,692.75	\$ 316,692.75

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Interfund transfers were to move restricted capital outlay revenues to offset eligible maintenance and capital outlay expenditures made in the General Fund and to supplement operations of the Special Revenue - Food Service Fund.

8. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – Other Fund and Special Revenue – ARRA Economic Stimulus 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 and Special Revenue – ARRA Economic Stimulus Fund, total \$161,552.44 and \$14,466.88, respectively, at June 30, 2010.

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2009-10 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 5,223,312.00
Categorical Educational Program - Class Size Reduction	1,808,527.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	76,345.13
Workforce Development Program	70,937.00
Gross Receipts Tax (Public Education Capital Outlay)	64,774.00
Mobile Home License Tax	25,054.21
Food Service Supplement	22,927.00
Discretionary Lottery Funds	4,709.00
Miscellaneous	<u>458,480.69</u>
 Total	 <u><u>\$ 7,755,066.03</u></u>

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

10. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.562	\$ 4,259,445.45
Basic Discretionary Local Effort	0.500	382,905.90
Supplemental Discretionary Local Effort	0.248	189,921.33
Voted Critical Needs Tax	0.250	191,452.95
 CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	1,148,717.42
Total	8.060	\$6,172,443.05

11. FLORIDA RETIREMENT SYSTEM

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

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

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

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

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$993,289.38, \$980,972.18, and \$854,375.06, respectively, which were equal to the required contributions for each fiscal year. There were 32 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$98,123.39.

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

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval each year. Under this retirement incentive, retirees receive a \$50 per month rate subsidy until the retiree reaches age 65. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The 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. Plan contribution requirements of the District and Plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 36 retirees received other postemployment benefits. The District provided required contributions of \$131,124 toward the annual OPEB cost, net of retiree contributions totaling \$211,508, which represents 3.1 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 fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 107,176
Amortization of Unfunded Actuarial Accrued Liability	64,570
Interest on Normal Cost and Amortization	<u>2,241</u>
Annual Required Contribution - OPEB Cost (Expense)	173,987
Contribution Toward the OPEB Cost	<u>(131,124)</u>
Increase in Net OPEB Obligation	42,863
Net OPEB Obligation, Beginning of Year	<u>51,780</u>
Net OPEB Obligation, End of Year	<u><u>\$ 94,643</u></u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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, 2010, and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0	\$ 0
2008-09	173,987	70.2%	51,780
2009-10	173,987	75.4%	94,643

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

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

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

The District’s initial OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2010, and to estimate the District’s 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.7 percent initially for the 2008-09 fiscal year, reduced gradually over 60 years to an ultimate rate of 4.9 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 28 years.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

13. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hamilton County District School Board is a member of the Panhandle Area Educational Consortium – Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 175,000.00	\$ 175,000.00	\$ 138,434.15	\$ (36,565.85)
Federal Through State and Local	123,944.70	146,404.59	145,530.91	(873.68)
State	7,891,643.09	7,665,942.95	7,592,153.99	(73,788.96)
Local:				
Property Taxes	4,820,910.00	4,931,218.10	5,005,554.87	74,336.77
Charges for Services			41,908.77	41,908.77
Miscellaneous	209,500.00	249,858.06	439,571.67	189,713.61
Total Revenues	13,220,997.79	13,168,423.70	13,363,154.36	194,730.66
Expenditures				
Current - Education:				
Instruction	7,731,408.33	7,664,955.70	7,198,031.02	466,924.68
Pupil Personnel Services	594,969.83	604,926.95	599,000.03	5,926.92
Instructional Media Services	184,319.16	188,069.21	177,853.96	10,215.25
Instruction and Curriculum Development Services	331,574.28	387,688.68	379,405.29	8,283.39
Instructional Staff Training Services	31,029.51	31,029.51	30,237.92	791.59
Instruction Related Technology	66,924.20	134,924.20	115,694.62	19,229.58
School Board	245,855.89	250,855.89	238,161.31	12,694.58
General Administration	769,422.97	775,271.90	725,337.91	49,933.99
School Administration	846,578.32	848,415.31	835,794.87	12,620.44
Facilities Acquisition and Construction	15,605.09	15,605.09	12,600.00	3,005.09
Fiscal Services	310,625.13	343,849.80	333,125.85	10,723.95
Food Services				
Central Services	137,964.60	132,964.60	102,744.74	30,219.86
Pupil Transportation Services	1,159,841.70	1,201,288.41	1,079,500.33	121,788.08
Operation of Plant	1,861,755.46	1,590,343.04	1,370,743.71	219,599.33
Maintenance of Plant	392,309.12	399,609.12	327,593.44	72,015.68
Administrative Technology Services	33,464.60	80,097.66	76,016.43	4,081.23
Community Services	197,654.18	217,614.07	152,632.96	64,981.11
Fixed Capital Outlay:				
Other Capital Outlay		59,219.14	59,219.14	
Total Expenditures	14,911,302.37	14,926,728.28	13,813,693.53	1,113,034.75
Excess (Deficiency) of Revenues Over Expenditures	(1,690,304.58)	(1,758,304.58)	(450,539.17)	1,307,765.41
Other Financing Sources (Uses)				
Transfers In	306,774.00	306,774.00	306,692.75	(81.25)
Insurance Loss Recoveries			29,204.54	29,204.54
Transfers Out	(30,000.00)	(30,000.00)	(10,000.00)	20,000.00
Total Other Financing Sources (Uses)	276,774.00	276,774.00	325,897.29	49,123.29
Net Change in Fund Balances	(1,413,530.58)	(1,481,530.58)	(124,641.88)	1,356,888.70
Fund Balances, Beginning	1,923,726.76	1,923,726.76	1,923,726.76	
Fund Balances, Ending	\$ 510,196.18	\$ 442,196.18	\$ 1,799,084.88	\$ 1,356,888.70

Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 3,436,549.10	\$ 3,925,048.40	\$ 2,641,293.38	\$ (1,283,755.02)
<u>3,436,549.10</u>	<u>3,925,048.40</u>	<u>2,641,293.38</u>	<u>(1,283,755.02)</u>
1,698,576.26	1,985,838.76	1,293,819.14	692,019.62
421,946.39	458,070.89	371,506.89	86,564.00
572,750.76	664,539.79	444,208.43	220,331.36
574,668.93	590,707.72	377,804.56	212,903.16
115,264.40	109,605.85	77,927.65	31,678.20
44,750.37	45,036.19	7,278.54	37,757.65
8,591.99	10,021.78	7,520.75	2,501.03
	<u>61,227.42</u>	<u>61,227.42</u>	
<u>3,436,549.10</u>	<u>3,925,048.40</u>	<u>2,641,293.38</u>	<u>1,283,755.02</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS (Continued)
For the Fiscal Year Ended June 30, 2010**

	Special Revenue - ARRA Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	1,418,754.40	1,658,021.70	1,079,048.62	(578,973.08)
Local:				
Property Taxes				
Charges for Services				
Miscellaneous				
Total Revenues	<u>1,418,754.40</u>	<u>1,658,021.70</u>	<u>1,079,048.62</u>	<u>(578,973.08)</u>
Expenditures				
Current - Education:				
Instruction	877,039.00	858,538.74	728,484.55	130,054.19
Pupil Personnel Services	70,933.00	108,427.75	20,250.00	88,177.75
Instructional Media Services				
Instruction and Curriculum Development Services	47,620.00	84,708.99	56,257.63	28,451.36
Instructional Staff Training Services	364,460.00	465,791.01	205,809.34	259,981.67
Instruction Related Technology				
School Board				
General Administration	14,876.00	34,224.66	14,917.70	19,306.96
School Administration				
Facilities Acquisition and Construction				
Fiscal Services				
Food Services	43,836.40	53,329.40	598.25	52,731.15
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Other Capital Outlay		52,731.15	52,731.15	
Total Expenditures	<u>1,418,764.40</u>	<u>1,657,751.70</u>	<u>1,079,048.62</u>	<u>578,703.08</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(10.00)</u>	<u>270.00</u>		<u>(270.00)</u>
Other Financing Sources (Uses)				
Transfers In				
Insurance Loss Recoveries				
Transfers Out				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(10.00)	270.00		(270.00)
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ (10.00)</u>	<u>\$ 270.00</u>	<u>\$ 0.00</u>	<u>\$ (270.00)</u>

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

1. BUDGETARY BASIS OF ACCOUNTING

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

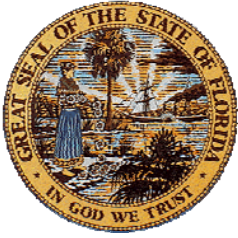
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010**

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	\$ 183,888.44
National School Lunch Program	10.555	300, 350	532,301.37
Summer Food Service Program for Children	10.559	323	39,809.11
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	47,763.66
Total Child Nutrition Cluster			803,762.58
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	43,826.40
Total United States Department of Agriculture			847,588.98
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,032,422.30
Special Education - Preschool Grants	84.173	266, 267	144,461.28
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	183,492.34
Total Special Education Cluster			1,360,375.92
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,001,096.36
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	267,669.18
Total Title I, Part A Cluster			1,268,765.54
Education Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	7,074.42
ARRA - Education Technology State Grants, Recovery Act	84.386	121	9,503.00
Total Educational Technology State Grants Cluster			16,577.42
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	535,845.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	38,610.85
Total State Stabilization Fund Cluster			574,455.85
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	31,201.66
Career and Technical Education - Basic Grants to States	84.048	151	70,690.40
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	6,479.09
Education for Homeless Children and Youth	84.196	127	28,892.49
Rural Education	84.358	110	52,376.08
Improving Teacher Quality State Grants	84.367	224	200,907.50
School Improvement Grants	84.377	126	65,793.65
Total United States Department of Education			3,676,515.60
United States Department of Health and Human Services:			
Direct:			
Drug-Free Communities Support Program	93.276	N/A	84,906.09
Indirect:			
Florida State University:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	None	42,049.76
Total United States Department of Health and Human Services			126,955.85
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	53,528.06
Total Expenditures of Federal Awards			\$ 4,704,588.49

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

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Hamilton County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

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

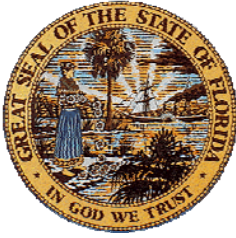
Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing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

Respectfully submitted,



David W. Martin, CPA

January 4, 2011



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Hamilton County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed 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 to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as Federal Awards Finding No. 1. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the response.

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

Respectfully submitted,



David W. Martin, CPA
January 4, 2011

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that are not considered to be a material weakness?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Special Education Cluster (CFDA Nos. 84.027, 84.173-ARRA, and 84.391-ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA, and 84.397-ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

ADDITIONAL MATTERS

Finding No. 1: Bank Account Reconciliations

Effective internal control procedures require that employees independent of the expenditure and payroll processes prepare bank account reconciliations on a routine basis, and supervisory personnel review and approve the reconciliations. This provides reasonable assurance that cash assets agree with recorded amounts and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions.

The District reported cash and cash equivalents balances at June 30, 2010, totaling approximately \$2.6 million, including cash in bank totaling approximately \$2.5 million. Our review of District records and discussions with District personnel disclosed, as of October 2010, that the April, May, and June 2010 bank account reconciliations had not been prepared. District personnel indicated that the process was delayed because of other priorities. As of November 6, 2010, all bank account reconciliations for the 2009-10 fiscal year were completed. Although the finance officer is responsible for reconciliations, District records did not evidence who prepared the reconciliations or the date they were prepared.

While we were able to determine that the amounts recorded as cash were materially correct and properly classified, our procedures do not substitute for management's responsibility to timely reconcile cash assets with those recorded in the accounting records. Absent timely bank account reconciliations, errors or fraud could occur, without timely detection.

Recommendation: The District should enhance procedures to ensure that bank account reconciliations are prepared timely, and signed and dated by the reconciler upon completion.

Finding No. 2: Tangible Personal Property

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

The District reported approximately \$6.9 million in tangible personal property (TPP) including furniture, fixtures, and equipment, and motor vehicles at June 30, 2010. The District's TPP inventory records indicated that 146 of the 3,122 property items were unlocated during the physical inventory count performed during the 2009-10 fiscal year. The recorded cost of these 146 items totaled approximately \$290,100. As of the time of our review in October 2010, District records did not evidence any follow-up with property custodians to explain reasons for the missing items and

missing items were not reported to law enforcement agencies or the Board. District personnel indicated that many of the missing items were unlocated in previous physical TPP counts, subsidiary property records needed adjusting, and that they do not notify law enforcement agencies of missing items unless evidence exists that theft occurred. However, failure to timely adjust property records for unlocated property and notify law enforcement agencies of items missing limits the District's assurance of accountability for its property. A similar finding was noted in our report No. 2010-109.

Recommendation: The District should strengthen procedures to provide for appropriate follow-up for items not located during annual physical inventories. After a thorough investigation, District personnel should timely report items not located to the appropriate law enforcement agency and to the Board for appropriate disposition.

Finding No. 3: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance evaluation procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional personnel and school administrators based on student performance. While the instructional personnel and school administrators' appraisal forms included student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessments nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Finding No. 4: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on

performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the District to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes. While these documents provided salary supplements for additional responsibilities beyond the regular work day, such as supplements for after school activities, neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.
- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule evidenced consideration of additional responsibilities, school demographics, and level of job performance difficulties by providing differing administrative pay grades for elementary schools versus the high school based on the additional responsibilities, school demographics, and level of job performance difficulties for the different types of schools. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt adequate formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 5: Inventories

The District reported transportation, maintenance, and janitorial inventories totaling \$208,386.44 at June 30, 2010, in the General Fund based on a physical count conducted by District personnel of the inventories on hand at fiscal year-end. However, as similarly noted in our report No. 2010-109, controls over inventories needed improvement, as follows:

- The custodian of the inventory had unlimited access to the inventory and maintained the perpetual inventory records, resulting in an inadequate separation of duties. This employee physically received the inventory items; received requisition from, and delivered the items to, the cost centers; and recorded receipts and deletions into the perpetual inventory system. Without proper separation of duties, or other compensating controls to ensure the accountability of inventories, there is an increased risk that errors or fraud, should they occur, would not be timely detected.
- District personnel did not always perform the physical counts and record the counts into the inventory records properly. Our comparison of 27 inventory items physically observed to the inventory records disclosed that inventory records did not list 14 of the items. Although the inventory records listed the 13 remaining items, with costs totaling approximately \$39,500, we noted errors in the physical quantities on hand for 5 of these items, resulting in approximately \$33,600 net overrecorded.
- District personnel did not ensure that all items physically present had the proper inventory value recorded. We noted 170 inventory categories, with quantities totaling 1,721 items, that had no corresponding inventory values. In addition, District records did not evidence any efforts to determine the basis for these inventory quantities or values.

District personnel indicated that the District changed its inventory software at the end of the 2009-10 fiscal year and attribute the above-noted recording errors to this change. While we were able to satisfy ourselves through alternative auditing procedures that the potential impact of these errors would not have a material effect on the District's financial statements, our procedures do not substitute for the District's responsibility to maintain accurate records to substantiate its reported inventory values.

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

Finding No. 6: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSN) for certain purposes because of their acceptance over time 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 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 is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any

purpose other than the purpose provided in the written statement. This section further requires that the District 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 collected SSNs from employees, students, and vendors for various reasons, such as record keeping and tax related purposes. District personnel provided written notifications to employees and vendors concerning the purpose for the collection of SSNs; however, due to oversight, the notifications did not include the specific Federal or State law governing the collection, use, or release of the SSN and whether the collection was authorized or mandatory under Federal or State law. Further, no such notifications were provided to students or their parents.

Recommendation: **The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes.**

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: ARRA - Special Education - Grants to States, Recovery Act (CFDA No. 84.391)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$46,280.57

Allowable Costs/Cost Principles. United States Office of Management and Budget *Circular A-87*, Attachment A, Section C.1., provides, in part, that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be authorized or not prohibited under State or local laws or regulation, and be adequately documented.

During the 2009-10 fiscal year, the District incurred ARRA - Special Education program expenditures totaling \$183,492.34. Our review of District records, such as personnel activity reports, for all 10 employees paid from the Special Education Cluster program funds disclosed 3 employees, paid from the ARRA - Special Education program, who did not perform special education services, resulting in questioned salary and benefits costs totaling \$46,280.57. District personnel indicated that this oversight occurred because of their misunderstanding that ARRA - Special Education grant funds could be used for any needed District purposes. We confirmed with the Florida Department of Education that these grant funds should only be spent on special education purposes.

Recommendation: **The District should enhance procedures to ensure that personnel paid from Federal grant funds perform duties consistent with the grant requirements, and restore the questioned costs, totaling \$46,280.57, to the ARRA – Special Education – Grants to States, Recovery Act Program.**

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

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: ARRA - Special Education Grants to States, Recovery Act (CFDA No. 84.391); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); State Fiscal Stabilization Fund – Education State Grants, Recovery Act (CFDA No. 84.394); and State Fiscal Stabilization Fund – Government Services, Recovery Act (CFDA No. 84.397)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Reporting – Schedule of Expenditures of Federal Awards. United States Office of Management and Budget *Circular A-133* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that, in part, identifies individual Federal programs by Federal agency, lists individual Federal programs within a cluster of programs, and provides total Federal awards expended for each individual Federal program. In addition, Title 2, Section 176.210(b), Code of Federal Regulations, as amended in April 2009, requires the District to separately identify the expenditures for Federal awards under the American Recovery and Reinvestment Act (ARRA) on the SEFA.

Our review disclosed that the ARRA - Special Education program and ARRA Title I program expenditures, totaling \$183,492.34 and \$267,669.18, respectively, were included in the amounts reported for the Special Education Cluster and not separately identified. Also, ARRA award expenditures, totaling \$535,845 and \$38,610.85, for the State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act, and SFSF - Government Services, Recovery Act, awards, respectively, were included on the SEFA by code of Federal domestic assistance (CFDA) number, but not by CFDA title. Without procedures to accurately report ARRA programs and related expenditures on the SEFA, the risk increases that these programs may not be audited, contrary to Federal requirements, and costs associated with those programs may be subject to disallowance by the grantors. We extended our audit procedures to determine the adjustments and corrections necessary, and the recommended changes were accepted by the District to properly report the SEFA data.

Recommendation: The District should develop procedures to separately report all ARRA awards on its Schedule of Expenditures of Federal Awards in accordance with Federal requirements.

District Contact Person: Bonnie Penner, Director of Business Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2010-109.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-102 (21)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Eligibility	Based on applications and other documentation on file, five students should have been denied reduced price meals and one student should have been denied free meals, resulting in questioned costs totaling \$1,820.70.	Partially corrected.	The District has corrected the control deficiency; however, question costs remain unresolved.
2010-109 (1)	Special Education - Grants to States (CFDA No. 84.027) / Procurement - Contract Administration	Audit procedures conducted indicated that three contracts each in excess of \$10,000 lacked certain required contract provisions.	Corrected.	
2010-109 (2)	Special Education - Grants to States (CFDA No. 84.027) / Allowable Costs / Cost Principles	District did not verify that it received 410 hours of physical therapy paid under a contract.	Corrected.	
2010-109 (3)	ARRA: Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 83.389); Special Education, Grants to States, Recovery Act (CFDA No. 84.391); Special Education - Preschool Grants, Recovery Act (CFDA No. 84.392); State Stabilization Fund - Education State Grants, Recovery Act (CFDA No. 84.394); and State Fiscal Stabilization Fund - Government Services, Recovery Act (CFDA No. 84.397) / Reporting and Special Tests and Provisions	District had not initially registered in the CCR system.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



Hamilton County School District

4280 S.W. County Road 152
Jasper, Florida 32052
Phone: 386.792.1228 – Fax: 386.792.3681

Martha W. Butler, Superintendent

School Board Members
Damon Deas – District 1
Gary Godwin – District 2
Jeanie Daniels – District 3
Johnny Bullard – District 4
Sammy McCoy – District 5

January 4, 2011

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

Dear Mr. Martin:

The following is our response to the preliminary and tentative audit finds and recommendations for the fiscal year ended June 30, 2010.

Finding No. 1: Processes are being established to ensure bank reconciliations are made timely and that the date of completion is adequately documented.

Finding No. 2: The physical inventory process will be strengthened to include appropriate follow up on missing items.

Finding No. 3: District staff is working with the Northeast Florida Educational Consortium to create and implement an appropriate performance assessment tool.

Finding No. 4: Once an acceptable performance assessment is in place, compensation methods will be contemplated to adhere to Statute.

Finding No. 5: Procedures are being modified to ensure there is adequate separation of duties and accurate year-end inventory counts.

Finding No. 6: Notifications have been sent to students in response to this finding and will continue to be made in the future. The notifications for vendors and employees are being modified to include statutory reference.

Federal Awards Finding and Questioned Costs

Finding No. 1: Questioned costs will be restored to the grant.

Finding No. 2: The Schedule of Federal Awards will, in the future, separately identify ARRA awards.

Sincerely,

Martha Butler
Superintendent of Schools

"Changing Lives Through Quality Education"
www.hamiltonfl.com