

**HENDRY 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>
Ray Clinard	1
Dr. Sally Berg, Chair from 11-17-09	2
Patrick B. Langford, Chair to 11-16-09	3
Dwayne E. Brown	4
Matthew A. Beatty, Vice Chair	5

Richard A. "Rick" Murphy, 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 David A. Pournaras, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. For the information technology portion of this audit, the audit team leader was Deidre N. Melton, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**HENDRY COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness. 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.

SIGNIFICANT DEFICIENCY

Finding No. 1: The District did not initially report the cash flow statement as part of the financial statements.

ADDITIONAL MATTERS

Finding No. 2: The Board's fraud policy for communicating known or suspected fraud to appropriate authorities could be enhanced.

Finding No. 3: District records did not evidence that performance assessments of annual contract instructional personnel and school administrators included consideration of 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: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 6: The District paid \$25,851 from workforce development funds for computers and related hardware that were used for purposes contrary to Chapter 2009-81, Laws of Florida.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The ARRA – Child Nutrition Discretionary Grants Limited Availability; Title I, Part A Cluster; Special Education Cluster; State Fiscal Stabilization Fund Cluster; and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: The District needs to enhance its competitive selection procedures for purchases exceeding the bid threshold.

Audit Objectives and Scope

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

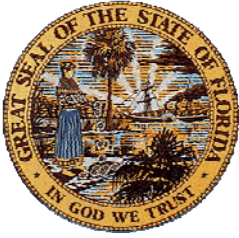
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;

- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-140.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 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 Hendry 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 20 percent of the assets and 79 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Hendry Public Schools Foundation, Inc. (Foundation), which represent less than 1 percent of the assets, liabilities, revenues, and expenditures of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the Foundation, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Hendry County District School Board as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 50) 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
December 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hendry County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$232,580, which represents a .5 percent decrease from the 2008-2009 fiscal year.
- General revenues totaled \$59,823,995, or 91.1 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$5,855,915 or 8.9 percent of all revenues.
- Expenses totaled \$65,912,490; only \$5,855,915 of these expenses was offset by program specific charges, with the remainder being paid from general revenues. Total expenses exceeded total revenues by \$232,580.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$5,193,044 at June 30, 2010, or 10.7 percent of total General Fund revenues.
- The District's total long-term liabilities increased by \$1,901,424, or approximately 9.8 percent. The increase was due mainly to an increase in the other postemployment benefits liability.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business.

The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government 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 activities in two categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- **Blended component units** – The District presents two separate legal entities in this report, which are the Hendry Public Schools Foundation, Inc. (Foundation), and the Hendry County School Board Leasing Corporation (Leasing Corporation). The Foundation, is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment for the District. Based on generally accepted accounting principles, as discussed in the notes to financial statements, these two entities have been included as an integral part of the District.

Fund Financial Statements

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year		
	Governmental Activities		
	6-30-10	6-30-09	Change
Current and Other Assets	\$ 14,399,827	\$ 10,478,223	\$ 3,921,604
Capital Assets	58,761,066	60,798,237	(2,037,171)
Total Assets	73,160,893	71,276,460	1,884,433
Long-Term Liabilities	\$ 21,318,750	19,417,326	1,901,424
Other Liabilities	791,064	575,475	215,589
Total Liabilities	22,109,814	19,992,801	2,117,013
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	53,404,042	55,147,849	(1,743,807)
Restricted	6,873,830	6,330,588	543,242
Unrestricted (Deficit)	(9,226,793)	(10,194,778)	967,985
Total Net Assets	\$ 51,051,079	\$ 51,283,659	\$ (232,580)

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

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used. The deficit of \$9,226,793 in unrestricted net assets is primarily caused by the liability for compensated absences of \$4,891,976 and the other post employment benefits obligation of \$10,987,222. This deficit represents a claim on future revenues to be received by the District. The District has implemented two programs to minimize the financial impact to the District.

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

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	Change
Program Revenues:			
Charges for Services	\$ 828,000	\$ 1,077,017	\$ (249,017)
Operating Grants and Contributions	4,584,625	4,371,177	213,448
Capital Grants and Contributions	443,290	891,585	(448,295)
General Revenues:			
Property Taxes, Levied for Operational Purposes	15,293,207	15,461,662	(168,455)
Property Taxes, Levied for Capital Projects	1,626,282	2,363,156	(736,874)
Grants and Contributions Not Restricted to Specific Programs	41,798,392	42,303,643	(505,251)
Unrestricted Investment Earnings	155,389	124,255	31,134
Miscellaneous	950,725	816,055	134,670
Total Revenues	65,679,910	67,408,550	(1,728,640)
Functions/Program Expenses:			
Instruction	35,271,267	38,705,129	(3,433,862)
Pupil Personnel Services	2,494,934	3,020,336	(525,402)
Instructional Media Services	801,079	1,018,702	(217,623)
Instruction and Curriculum Development Services	1,080,508	1,331,666	(251,158)
Instructional Staff Training Services	739,934	249,259	490,675
Instruction Related Technology	28,511	4,425	24,086
Board of Education	1,331,340	1,332,476	(1,136)
General Administration	980,699	923,723	56,976
School Administration	3,325,535	3,880,391	(554,856)
Facilities Acquisition and Construction	1,240,461	1,839,403	(598,942)
Fiscal Services	787,791	814,535	(26,744)
Food Services	3,502,268	3,856,283	(354,015)
Central Services	532,533	613,695	(81,162)
Pupil Transportation Services	2,906,920	3,052,143	(145,223)
Operation of Plant	5,126,611	5,272,823	(146,212)
Maintenance of Plant	1,354,199	1,430,869	(76,670)
Administrative Technology Services	1,228,395	799,408	428,987
Interest on Long-Term Debt	122,799	198,655	(75,856)
Unallocated Depreciation Expense	3,043,608	2,979,250	64,358
Loss on Disposal of Capital Assets	13,098	92,787	(79,689)
Total Functions/Program Expenses	65,912,490	71,415,958	(5,503,468)
Decrease in Net Assets	\$ (232,580)	\$ (4,007,408)	\$ 3,774,828

The largest revenue source is the State of Florida (49.9 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.

Grants and contributions not restricted to specific programs decreased by \$505,251 or 1.2 percent, primarily due to a decrease in FEFP revenues from the State. The property taxes levied for capital projects decreased due to a decrease in the millage rate from 1.000 mills to .723 mills.

Instructional expenses represent 53.5 percent of total governmental expenses in the 2009-10 fiscal year. Instructional expenses decreased by \$3,433,862, or 8.9 percent, from the previous year due mainly to a reduction in staffing levels.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$5,193,044, while the total fund balance is \$6,199,093. The unreserved fund balance increased by \$3,153,963, and the total fund balance increased by \$3,020,758 during the fiscal year. The increase is primarily due to a decrease in salaries.

The Special Revenue – Other and the Special Revenue – ARRA Economic Stimulus Funds are used to account for Federal grant programs. Allowed expenditures are specified by grant agreements. Since the revenues in these funds are equal to amounts expended, there are no ending fund balances.

The Capital Projects – Local Capital Improvement Fund, which is used to account for revenues produced by an ad valorem (property) tax levy authorized by the Board to support capital improvements, has a total fund balance of \$4,494,554, which is restricted for the acquisition, construction, and maintenance of capital assets. It should be noted that \$168,019 of the fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The District's ending fund balance of \$6,199,093 was more than the original budget because the District was aggressive in reducing expenses, delaying mid-year hiring in non-instructional positions, and seeking other revenue sources to replace State funding.

CAPITAL ASSETS AND LONG-TERM DEBT

The District's long-term debt related to financing of capital assets decreased by \$296,697 during the 2009-10 fiscal year. The decrease is primarily the result of payment for bonds. The changes in capital assets were not significant.

OTHER MATTERS OF SIGNIFICANCE

For the past several years, approximately 66 to 72 percent of total General Fund revenues are from the State of Florida; therefore, economic conditions, which affect the economy both nationally and at the State level, will affect the general operating funds and activities of the School District. Changes in levels of tourism, immigration into the State of Florida, and unemployment may affect the State revenue streams, which, in turn, will affect District revenue streams.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 12,786,163
Investments	175,438
Accounts Receivable	4,591
Due from Other Agencies	480,294
Deferred Charges	2,962
Inventories	274,440
Restricted Cash	12,603
Restricted Investments	663,336
Capital Assets:	
Nondepreciable Capital Assets	1,278,483
Depreciable Capital Assets, Net	57,482,583
	<u>\$ 73,160,893</u>
TOTAL ASSETS	\$ 73,160,893
LIABILITIES	
Accounts Payable	\$ 791,064
Long-Term Liabilities:	
Portion Due Within One Year	978,877
Portion Due After One Year	20,339,873
	<u>22,109,814</u>
Total Liabilities	22,109,814
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	53,404,042
Restricted for:	
State Required Carryover Programs	376,533
Debt Service	1,005,986
Capital Projects	4,898,335
Food Service	592,976
Unrestricted Deficit	(9,226,793)
	<u>51,051,079</u>
Total Net Assets	51,051,079
TOTAL LIABILITIES AND NET ASSETS	\$ 73,160,893

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 35,271,267	\$ 1,985	\$	\$	\$ (35,269,282)
Pupil Personnel Services	2,494,934				(2,494,934)
Instructional Media Services	801,079				(801,079)
Instruction and Curriculum Development Services	1,080,508				(1,080,508)
Instructional Staff Training Services	739,934				(739,934)
Instruction Related Technology	28,511				(28,511)
School Board	1,331,340				(1,331,340)
General Administration	980,699				(980,699)
School Administration	3,325,535				(3,325,535)
Facilities Acquisition and Construction	1,240,461			53,322	(1,187,139)
Fiscal Services	787,791				(787,791)
Food Services	3,502,268	733,550	3,254,521		485,803
Central Services	532,533				(532,533)
Pupil Transportation Services	2,906,920	92,465	1,330,104		(1,484,351)
Operation of Plant	5,126,611				(5,126,611)
Maintenance of Plant	1,354,199			158,204	(1,195,995)
Administrative Technology Services	1,228,395				(1,228,395)
Unallocated Interest on Long-Term Debt	122,799			231,764	108,965
Unallocated Depreciation/Amortization Expense	3,043,608				(3,043,608)
Loss on Disposal of Capital Assets	13,098				(13,098)
Total Governmental Activities	\$ 65,912,490	\$ 828,000	\$ 4,584,625	\$ 443,290	(60,056,575)
General Revenues:					
Taxes:					
					15,293,207
					1,626,282
					41,798,392
					155,389
					950,725
Total General Revenues					59,823,995
Change in Net Assets					(232,580)
Net Assets - Beginning					51,283,659
Net Assets - Ending					\$ 51,051,079

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 6,090,340	\$ 23,266	\$ 464
Investments	51,274		
Accounts Receivable	4,591		
Due from Other Funds	534,343	801	
Due from Other Agencies	4,844	212,335	211,863
Inventories	254,117		
Restricted Cash			
Restricted Investments			
TOTAL ASSETS	\$ 6,939,509	\$ 236,402	\$ 212,327
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 739,615	\$ 9,297	\$ 3,799
Due to Other Funds	801	227,105	208,528
Total Liabilities	740,416	236,402	212,327
Fund Balances:			
Reserved for State Required Carryover Programs	376,533		
Reserved for Encumbrances	375,399		
Reserved for Inventories	254,117		
Reserved for Debt Service			
Unreserved:			
General Fund	5,193,044		
Special Revenue Funds			
Debt Service Funds			
Capital Projects Funds			
Total Fund Balances	6,199,093		
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,939,509	\$ 236,402	\$ 212,327

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,436,255	\$ 1,323,465	\$ 11,873,790
80,612	43,552	175,438
		4,591
		535,144
	51,252	480,294
	20,323	274,440
	12,603	12,603
	663,336	663,336
<u>\$ 4,516,867</u>	<u>\$ 2,114,531</u>	<u>\$ 14,019,636</u>
\$ 22,313	\$ 16,040	\$ 791,064
	98,710	535,144
<u>22,313</u>	<u>114,750</u>	<u>1,326,208</u>
168,019	191,276	376,533
	20,323	734,694
	896,135	274,440
		896,135
		5,193,044
	572,653	572,653
	106,889	106,889
4,326,535	212,505	4,539,040
<u>4,494,554</u>	<u>1,999,781</u>	<u>12,693,428</u>
<u>\$ 4,516,867</u>	<u>\$ 2,114,531</u>	<u>\$ 14,019,636</u>

**HENDRY 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 \$ 12,693,428

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. 58,761,066

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 2,962

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 829,845

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	\$ 2,129,630	
Certificatates of Participation Payable	3,068,200	
Obligations Under Capital Lease	144,054	
Installment-Purchases Payable	15,140	
Compensated Absences Payable	4,891,976	
Other Postemployment Benefits Payable	10,987,222	(21,236,222)

Total Net Assets - Governmental Activities \$ 51,051,079

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Through State and Local State	\$ 173,044	\$ 6,666,340	\$ 4,226,615
Local:			
Property Taxes	15,293,207		
Charges for Services - Food Service			
Miscellaneous	866,597		
Total Revenues	48,356,279	6,666,340	4,226,615
Expenditures			
Current - Education:			
Instruction	26,740,230	4,284,594	2,816,839
Pupil Personnel Services	1,509,087	814,523	82,870
Instructional Media Services	615,026	41,590	107,856
Instruction and Curriculum Development Services	230,858	788,981	48,618
Instructional Staff Training Services	33,681	278,747	425,484
Instruction Related Technology	28,511		
School Board	1,319,944		
General Administration	720,653	163,218	67,092
School Administration	3,111,648		
Facilities Acquisition and Construction			
Fiscal Services	749,107		
Food Services			
Central Services	506,747		
Pupil Transportation Services	2,617,505	182,544	
Operation of Plant	5,028,048	2,854	
Maintenance of Plant	1,294,913	634	
Administrative Technology Services	927,768		272,634
Fixed Capital Outlay:			
Facilities Acquisition and Construction	6,300		
Other Capital Outlay	96,522	108,655	405,222
Debt Service:			
Principal	15,579		
Interest and Fiscal Charges	10,675		
Total Expenditures	45,562,802	6,666,340	4,226,615
Excess of Revenues Over Expenditures	2,793,477		
Other Financing Sources (Uses)			
Transfers In			
Proceeds from Installment-Purchase Agreements	42,165		
Insurance Loss Recoveries	185,116		
Transfers Out			
Total Other Financing Sources (Uses)	227,281		
Net Change in Fund Balances	3,020,758		
Fund Balances, Beginning	3,178,335		
Fund Balances, Ending	\$ 6,199,093	\$	\$

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
\$	\$ 3,084,261	\$ 14,150,260
	652,616	32,676,047
1,626,282		16,919,489
66,437	733,550	733,550
	27,601	960,635
<u>1,692,719</u>	<u>4,498,028</u>	<u>65,439,981</u>
		33,841,663
		2,406,480
		764,472
		1,068,457
		737,912
		28,511
		1,319,944
		950,963
986,577	253,884	3,111,648
		1,240,461
		749,107
	3,502,268	3,502,268
		506,747
		2,800,049
		5,030,902
		1,295,547
		1,200,402
119,781	223,143	349,224
	5,565	615,964
85,829	230,000	331,408
1,531	117,676	129,882
<u>1,193,718</u>	<u>4,332,536</u>	<u>61,982,011</u>
<u>499,001</u>	<u>165,492</u>	<u>3,457,970</u>
	158,053	158,053
		42,165
		185,116
<u>(158,053)</u>		<u>(158,053)</u>
<u>(158,053)</u>	<u>158,053</u>	<u>227,281</u>
340,948	323,545	3,685,251
4,153,606	1,676,236	9,008,177
<u>\$ 4,494,554</u>	<u>\$ 1,999,781</u>	<u>\$ 12,693,428</u>

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

Net Change in Fund Balances - Governmental Funds \$ 3,685,251

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. (2,024,073)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (13,098)

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

Inception of Installment Purchase	\$ (42,165)	
Bonds Principal Repaid	237,455	
Capital Lease Principal Repaid	30,963	
Installment - Purchases Principal Repaid	70,444	296,697

Deferred charges associated with long-term debt issued in the current period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current period.

Deferred Charges, June 30, 2010	\$ 2,962	
Deferred Charges, June 30, 2009	(3,333)	(371)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current period. 318,179

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. (2,516,300)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. 21,135

Change in Net Assets - Governmental Activities **\$ (232,580)**

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

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2010**

		Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Premium Revenues from Board and Participants' Funds	\$	442,522
OPERATING EXPENSES		
Insurance Claims		376,549
Administration		43,692
Flexible Benefits Reimbursements to Participants		1,612
Total Operating Expenses		<u>421,853</u>
Operating Income		<u>20,669</u>
NONOPERATING REVENUES		
Interest Revenue		466
Change in Net Assets		21,135
Total Net Assets - Beginning		<u>808,710</u>
Total Net Assets - Ending	\$	<u><u>829,845</u></u>

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

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2010**

		Governmental Activities - Internal Service Fund
		Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board and Participants' Funds	\$	442,522
Cash Payments for Insurance Claims		(376,549)
Cash Payments for Administration and Other		(45,304)
		20,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		466
		21,135
Net Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning		891,238
		912,373
Cash and Cash Equivalents, Ending	\$	912,373

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

Operating Income	\$	20,669
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
No Change in Assets and Liabilities		
		20,669
Net Cash Provided by Operating Activities	\$	20,669

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

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2010**

	Private-Purpose Trust Fund <hr style="width: 100%;"/>	Agency Funds <hr style="width: 100%;"/>
ASSETS		
Cash and Cash Equivalents	\$ 12,187	\$ 742,511
LIABILITIES		
Internal Accounts Payable	\$	\$ 742,511
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<hr style="width: 100%;"/> 12,187	
TOTAL LIABILITIES AND NET ASSETS	\$ 12,187 <hr style="width: 100%;"/>	

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

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2010**

	Private-Purpose Trust Fund
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 25,037
Investment Earnings:	
Interest Income	45
Total Additions	25,082
DEDUCTIONS	
Program Services - Mini-grants for School Programs	17,558
Program Services - Other	9,189
Administrative Expenses	1,918
Total Deductions	28,665
Change in Net Assets	(3,583)
Net Assets - Beginning	15,770
Net Assets - Ending	\$ 12,187

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

**HENDRY 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 Hendry County School District (District) is considered part of the Florida system of public education. The governing body of the school district is the Hendry County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Hendry County.

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

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

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, 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 and its component units.

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

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

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

requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- 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 – 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 proprietary and fiduciary fund types:

- Internal Service Fund – to account for the District’s employee benefits program.
- Private-Purpose Trust Fund – to account for resources of the Hendry Public Schools Foundation, Inc.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

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

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.

The Proprietary Fund is accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by the Governmental Accounting Standards Board. The Proprietary Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund are Board contributions for dental and disability insurance. Operating expenses include insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash 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, amounts placed with SBA for participation in Florida PRIME and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate 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.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record

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

at the creation date of Fund B. One hundred percent of such distributions from Fund B are liquid and are available within Florida PRIME.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Central warehouse, maintenance, and transportation inventories are stated at cost on a moving-average basis. Purchased food and cafeteria supplies are stated at actual cost. 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 used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$500 acquired through August 9, 2004, and \$1,000 or more for assets acquired on or after August 10, 2004. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	10 and 20 years
Buildings and Fixed Equipment, excluding Relocatables	20 and 50 years
Furniture, Fixtures, and Equipment	5 and 10 years
Motor Vehicles	4 and 10 years
Computer Software	3 years

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

➤ **Long-Term Liabilities**

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

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

bonds using the effective interest method. Bonds payable are reported net of the applicable premiums and refunding costs.

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

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

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

➤ **State Revenue Sources**

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 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.

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

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

The Board adopted the 2009 tax levy on September 9, 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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

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

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	\$ 160,731
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	135,296
Debt Service Accounts	6 Months	40,142
United States Agency Obligations:		
Federal Home Loan Mortgage Corporation (FHLMC)		
Discount Note (2)	December 15, 2010	663,336
Total Investments		\$ 999,505

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

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

Interest Rate Risk

- 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. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to 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 limits 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.

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

- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in United States Agency Obligations is authorized under a forward delivery agreement with the QZAB paying agent. The forward delivery agreement authorizes the investment of available sinking fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association, and the FHLMC. The eligible securities must have a maturity date that is on or before December 15, 2021. The FHLMC discount note is unrated.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Restricted investments of \$663,336 in United States Agency Obligations are held by the trustee for the QZABs in the District's name.

Concentration of Credit Risk

- The District places no limit on the amount the District may invest in any one issuer. The District's QZAB investment of \$663,336 in United States Agency Obligations represents 66 percent of total investments and 94 percent of investments in the other governmental funds.

**HENDRY 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	\$ 1,278,483	\$	\$	\$ 1,278,483
Total Capital Assets Not Being Depreciated	<u>1,278,483</u>			<u>1,278,483</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,550,757	121,440		3,672,197
Buildings and Fixed Equipment	82,524,665	9,161		82,533,826
Furniture, Fixtures, and Equipment	9,146,780	692,217	321,674	9,517,323
Motor Vehicles	4,840,402	163,975	54,256	4,950,121
Computer Software	941,081	32,742	61,759	912,064
Total Capital Assets Being Depreciated	<u>101,003,685</u>	<u>1,019,535</u>	<u>437,689</u>	<u>101,585,531</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,616,877	226,849		2,843,726
Buildings and Fixed Equipment	28,277,857	1,764,792		30,042,649
Furniture, Fixtures, and Equipment	6,768,825	614,590	313,256	7,070,159
Motor Vehicles	2,887,275	431,022	52,836	3,265,461
Computer Software	933,097	6,355	58,499	880,953
Total Accumulated Depreciation	<u>41,483,931</u>	<u>3,043,608</u>	<u>424,591</u>	<u>44,102,948</u>
Total Capital Assets Being Depreciated, Net	<u>59,519,754</u>	<u>(2,024,073)</u>	<u>13,098</u>	<u>57,482,583</u>
Governmental Activities Capital Assets, Net	<u>\$ 60,798,237</u>	<u>\$ (2,024,073)</u>	<u>\$ 13,098</u>	<u>\$ 58,761,066</u>

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

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

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

5. OBLIGATION UNDER CAPITAL LEASE

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

	Asset Balance
Lighting Retrofit	\$ 401,442

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

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 40,776	\$ 32,862	\$ 7,914
2012	40,776	34,880	5,896
2013	40,776	37,020	3,756
2014	40,776	39,292	1,484
Total Minimum Lease Payments	\$ 163,104	\$ 144,054	\$ 19,050

The stated interest rate is 6 percent.

6. INSTALLMENT PURCHASE PAYABLE

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

	Asset Balances
Superintendent's Vehicle	\$ 26,149
Maintenance Department Vehicle	21,644
Total	\$ 47,793

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

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 15,831	\$ 15,140	\$ 691

The stated interest rate is 5.25 percent for the Superintendent's vehicle and 5.90 percent for the Ford Super Cab Truck.

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

7. CERTIFICATES OF PARTICIPATION

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2022	\$ 3,068,200	\$ 3,068,200	\$ 0

8. BONDS PAYABLE

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

	Outstanding	Rates (Percent)	Maturity To
State School Bonds:			
Series 2005A	\$ 1,015,000	5.0	2016
Series 2005B, Refunding	335,000	5.0	2020
District Revenue Bonds:			
Series 1997	720,000	4.90 - 5.20	2017
Total Minimum Bond Payments	2,070,000		
Plus: Unamortized Premiums	110,458		
Less: Unamortized Costs on Refunding	(50,828)		
Total Bonds Payable	\$ 2,129,630		

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

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

➤ **State School Bonds**

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

➤ **District Revenue and Refunding Bonds**

These bonds are authorized by chapter 69-1094, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hendry County from the State’s Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 237,500	\$ 170,000	\$ 67,500
2012	239,000	180,000	59,000
2013	240,000	190,000	50,000
2014	240,500	200,000	40,500
2015	240,500	210,000	30,500
2016-2020	<u>442,250</u>	<u>400,000</u>	<u>42,250</u>
Total Mimium Bond Payments	1,639,750	1,350,000	289,750
Plus: Unamortized Premiums	110,458	110,458	
Less: Unamortized Costs on Refunding	<u>(50,828)</u>	<u>(50,828)</u>	
Total State School Bonds	<u>1,699,380</u>	<u>1,409,630</u>	<u>289,750</u>
District Revenue and Refunding Bonds:			
2011	110,133	75,000	35,133
2012	111,295	80,000	31,295
2013	112,127	85,000	27,127
2014	112,620	90,000	22,620
2015	107,940	90,000	17,940
2016-2018	<u>323,920</u>	<u>300,000</u>	<u>23,920</u>
Total District Revenue Bonds	<u>878,035</u>	<u>720,000</u>	<u>158,035</u>
Total	<u>\$ 2,577,415</u>	<u>\$ 2,129,630</u>	<u>\$ 447,785</u>

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

9. 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	\$ 2,367,085	\$	\$ 237,455	\$ 2,129,630	\$ 245,000
Certificates of Participation Payable	3,068,200			3,068,200	
Obligation Under Capital Lease	175,017		30,963	144,054	32,862
Installment-Purchases Payable	43,419	42,165	70,444	15,140	15,140
Estimated Insurance Claims Payable	82,528	376,549	376,549	82,528	82,528
Compensated Absences Payable	5,210,155	285,167	603,346	4,891,976	603,347
Other Postemployment Benefits Payable	8,470,922	3,646,974	1,130,674	10,987,222	
Total Governmental Activities	\$ 19,417,326	\$ 4,350,855	\$ 2,449,431	\$ 21,318,750	\$ 978,877

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as discussed in Note 16.

10. 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	\$ 534,343	\$ 801
Special Revenue:		
ARRA Economic Stimulus		208,528
Other	801	227,105
Nonmajor Governmental		98,710
Total	\$ 535,144	\$ 535,144

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
Capital Projects:		
Local Capital Improvement	\$	\$ 158,053.00
Nonmajor Governmental	158,053.00	
Total	\$ 158,053.00	\$ 158,053.00

Capital Outlay ad valorem tax moneys were transferred from the Capital Projects – Local Capital Improvement Fund to the nonmajor Debt Service – QZAB Fund for debt service payments.

11. RESERVE FOR ENCUMBRANCES

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year’s appropriations are 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 and Special Revenue – ARRA Economic Stimulus Funds are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other and Special Revenue – ARRA Economic Stimulus Funds total \$35,798 and \$29,298, respectively, at June 30, 2010.

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

12. 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:	
Transportation	\$ 1,330,104
Instructional Materials	559,158
Florida Teachers Lead	86,921
Other	21,826,873
Categorical Educational Program - Class Size Reduction	7,469,044
Workforce Development Program	378,531
Motor Vehicle License Tax (Capital Outlay and Debt Service)	285,086
School Recognition	170,560
Gross Receipts Tax (Public Education Capital Outlay)	158,204
Food Service Supplement	69,605
Mobile Home License Tax	37,221
Discretionary Lottery Funds	19,003
Miscellaneous	<u>285,737</u>
 Total	 <u>\$ 32,676,047</u>

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

13. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.642	\$ 12,427,510
Basic Discretionary Local Effort	0.498	1,096,933
Supplemental Discretionary Local Effort	0.250	550,669
Voted School Tax:		
Additional Millage	0.750	1,652,008
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>0.723</u>	<u>1,592,535</u>
 Total	 <u>7.863</u>	 <u>\$ 17,319,655</u>

14. 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

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

Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

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

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

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

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$3,269,167, \$3,415,851, and \$3,100,438, respectively, which were equal to the required contributions for each fiscal year. There were 99 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$298,589.

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.

15. 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 four health and hospitalization plans as well as its self-insured dental plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plans at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. All of the District’s employees may become eligible for those benefits if they reach normal retirement age. For retirees under the age of 65:

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

- For Plan 1, the Board contributes \$424.11 for single and \$600 for dependent health insurance premiums.
- For Plan 2, the Board contributes \$324.29 for single and \$600 for dependent health insurance premiums.
- For Plan 3, the Board contributes \$227.82 for single and \$600 for dependent health insurance premiums.
- For Plan 4, the Board contributes \$249.73 for single and \$600 for dependent health insurance premiums.

For retirees age 65 and over, for all plans, the Board contributes \$0 for single and \$268.75 for dependent health insurance premiums. For retirees only, the Board also offers a Medicare Advantage Plan where the Board contributes \$132.15 for single health insurance premiums. In addition, the Board contributes \$23.50 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The 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 are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 167 retirees received other postemployment benefits. The District provided required contributions of \$1,130,674 toward the annual OPEB cost, net of retiree contributions totaling \$468,624, which represents 1.5 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:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 2,053,905
Amortization of Unfunded Actuarial Accrued Liability	1,486,649
Interest on Normal Cost and Amortization	70,117
Annual Required Contribution	3,610,671
Interest on Net OPEB Obligation	338,837
Adjustment to Annual Required Contribution	(302,534)
Annual OPEB Cost (Expense)	3,646,974
Contribution Toward the OPEB Cost	(1,130,674)
Increase in Net OPEB Obligation	2,516,300
Net OPEB Obligation, Beginning of Year	8,470,922
Net OPEB Obligation, End of Year	\$ 10,987,222

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 years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	5,259,225	19.7%	4,222,658
2008-09	5,481,007	22.5%	8,470,922
2009-10	3,646,975	31.0%	10,987,222

Funded Status and Funding Progress. As of January 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$40,817,828 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$40,817,828 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$31,419,038, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 129.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents

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

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 OPEB actuarial valuation as of January 1, 2009, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the frozen entry age normal cost actuarial method 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, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent initially for the 2009-10 fiscal year, reduced by .5 percent per year, to an ultimate rate of 5 percent after seven years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 27 years.

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hendry County District School Board is a member of the South Central Educational Risk Management Consortium (SCERMP), a consortium under which eight district school boards have established a public entity risk pool for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available. Then, such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents of all participating districts. A third party administrator serves as fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by the purchase of reinsurance policies or excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except for wind/hail/flood). The named wind or named flood deductible is 5 percent of replacement cost

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

value with a minimum of \$250,000 per occurrence. The deductible for unnamed wind or flood events is \$100,000 plus \$100,000 time element for any one occurrence. Special hazard flood areas deductibles are \$500,000 per building and \$500,000 for contents. SCERMP's purchased reinsurance property loss limit was substantially reduced during the 2009-10 fiscal year to \$75 million compared to \$132 million during the 2008-09 fiscal year.

Workers' compensation claims are limited based on specific self-insured retention limits for each claim year. The limit for the 2009-10 fiscal year was \$1,000,000. SCERMP purchases excess reinsurance coverage through commercial insurance carriers covering aggregate group workers' compensation loss claims up to \$2,000,000.

The District is covered by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, which effectively limits the amount of liability of district school boards to individual claims of \$100,000 per person and \$200,000 per accident for all claims relating to the same incident for property casualty claims.

The District provides dental, life, and disability coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Hendry County District School Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2010.

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

	Beginning-of Fiscal-Year Liability	Current-year Claims and Changes in Estimated	Claims Payments	Balance at Fiscal Year-End
2008-09	\$ 82,528	\$ 450,387	\$ (450,387)	\$ 82,528
2009-10	82,528	376,549	(376,549)	82,528

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

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Through State and Local State	\$ 250,000	\$ 250,000	\$ 173,044	\$ (76,956)
Local:	31,635,185	32,063,195	32,023,431	(39,764)
Property Taxes	15,014,250	14,827,178	15,293,207	466,029
Miscellaneous	958,000	1,020,244	866,597	(153,647)
Total Revenues	47,857,435	48,160,617	48,356,279	195,662
Expenditures				
Current - Education:				
Instruction	30,193,463	30,076,581	26,740,230	3,336,351
Pupil Personnel Services	1,609,708	1,622,891	1,509,087	113,804
Instructional Media Services	765,564	778,692	615,026	163,666
Instruction and Curriculum Development Services	312,150	365,650	230,858	134,792
Instructional Staff Training Services	50,750	50,250	33,681	16,569
Instruction Related Technology	144,909	145,460	28,511	116,949
School Board	935,667	1,373,548	1,319,944	53,604
General Administration	802,892	805,851	720,653	85,198
School Administration	3,081,901	3,216,008	3,111,648	104,360
Facilities Acquisition and Construction				
Fiscal Services	816,410	867,405	749,107	118,298
Food Services				
Central Services	576,215	592,722	506,747	85,975
Pupil Transportation Services	3,126,541	3,122,413	2,617,505	504,908
Operation of Plant	5,377,286	5,491,607	5,028,048	463,559
Maintenance of Plant	1,369,126	1,369,790	1,294,913	74,877
Administrative Technology Services	990,704	976,236	927,768	48,468
Fixed Capital Outlay:				
Facilities Acquisition and Construction		6,300	6,300	
Other Capital Outlay		96,522	96,522	
Debt Service:				
Principal	15,943	15,579	15,579	
Interest and Fiscal Charges	30,311	30,675	10,675	20,000
Total Expenditures	50,199,540	51,004,180	45,562,802	5,441,378
Excess (Deficiency) of Revenues Over Expenditures	(2,342,105)	(2,843,563)	2,793,477	5,637,040
Other Financing Sources (Uses)				
Transfers In	1,904,325	1,904,325		(1,904,325)
Proceeds from Installment-Purchase Agreements		42,165	42,165	
Insurance Loss Recoveries		13,299	185,116	171,817
Transfers Out	(37,882)			
Total Other Financing Sources (Uses)	1,866,443	1,959,789	227,281	(1,732,508)
Net Change in Fund Balances	(475,662)	(883,774)	3,020,758	3,904,532
Fund Balances, Beginning	3,178,335	3,178,335	3,178,335	
Fund Balances, Ending	\$ 2,702,673	\$ 2,294,561	\$ 6,199,093	\$ 3,904,532

Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 7,678,057	\$ 8,543,709 50,901	\$ 6,666,340	\$ (1,877,369) (50,901)
<u>7,678,057</u>	<u>8,594,610</u>	<u>6,666,340</u>	<u>(1,928,270)</u>
4,910,573	5,488,319	4,284,594	1,203,725
753,537	1,024,594	814,523	210,071
51,301	42,367	41,590	777
946,999	940,538	788,981	151,557
484,001	572,752	278,747	294,005
	6,963		6,963
222,186	190,307	163,218	27,089
1,000			
306,349	215,780	182,544	33,236
2,111	3,691	2,854	837
	644	634	10
	108,655	108,655	
<u>7,678,057</u>	<u>8,594,610</u>	<u>6,666,340</u>	<u>1,928,270</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**HENDRY 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 Through State and Local State	\$ 3,281,394	\$ 5,913,285	\$ 4,226,615	\$ (1,686,670)
Local:				
Property Taxes				
Miscellaneous				
Total Revenues	<u>3,281,394</u>	<u>5,913,285</u>	<u>4,226,615</u>	<u>(1,686,670)</u>
Expenditures				
Current - Education:				
Instruction	3,022,411	4,045,148	2,816,839	1,228,309
Pupil Personnel Services	14,344	99,964	82,870	17,094
Instructional Media Services		107,856	107,856	
Instruction and Curriculum Development Services	2,000	53,618	48,618	5,000
Instructional Staff Training Services	76,487	820,027	425,484	394,543
Instruction Related Technology				
School Board				
General Administration	56,506	99,826	67,092	32,734
School Administration				
Facilities Acquisition and Construction				
Fiscal Services				
Food Services	109,646	8,991		8,991
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services		272,633	272,634	(1)
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		405,222	405,222	
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>3,281,394</u>	<u>5,913,285</u>	<u>4,226,615</u>	<u>1,686,670</u>
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources (Uses)				
Transfers In				
Proceeds from Installment-Purchase Agreements				
Insurance Loss Recoveries				
Transfers Out				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**HENDRY 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) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2006	\$ 0	\$ 57,807,206	\$ 57,807,206	0.0%	\$ 36,648,829	157.7%
January 1, 2009	0	40,817,828	40,817,828	0.0%	31,419,038	129.9%

**HENDRY 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 is used to account for governmental funds.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The District obtained a revised actuarial valuation of the unfunded actuarial accrued liability for its Postemployment Healthcare Benefits Plan as of January 1, 2009, as a result of certain changes the Board made to plan provisions. The changes, which caused the unfunded actuarial accrued liability to decrease from \$57,807,206 to \$40,817,828, are discussed below:

- The Board offered new, more affordable, group health insurance options for employees and retirees, as well as a new Medicare health insurance option for applicable retirees.
- The Board approved increasing the required retiree contribution for all plans.
- The Board approved increasing the required contributions for dependents for all plans.
- On February 10, 2009, the Board approved a reduction in workforce, which resulted in the covered payroll decreasing from \$36,648,829 to \$31,419,038.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

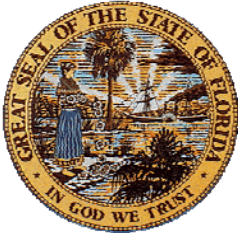
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 658,081
National School Lunch Program	10.555	300	2,115,160
Summer Food Service Program for Children	10.559	323	112,714
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	203,025
Total Child Nutrition Cluster			3,088,980
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	100,655
Florida Department of Financial Services:			
Secure Payments for States and Counties Containing Federal Lands	10.665	None	3,226
Total United States Department of Agriculture			3,192,861
United States Department of Justice:			
Indirect:			
Hendry County Board of County Commissioners:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-JAGC-HEND-3-4X-222	23,596
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	2010-ARRC-HEND-2-W7-340	19,110
Total United States Department of Justice			42,706
United States Department of Labor:			
Indirect:			
Southwest Florida Workforce Development Board, Inc.:			
ARRA - WIA Youth Activities	17.259	None	22,434
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,419,027
Special Education - Preschool Grants	84.173	267	24,293
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	659,963
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	16,040
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	198,675
Special Education - Preschool Grants	84.173	None	77,065
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	1,577
Total Special Education Cluster			2,396,640
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,652,574
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 222, 226	1,007,674
Total Title I, Part A Cluster			3,660,248
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	4,789
ARRA - Education Technology State Grants, Recovery Act	84.386	121	34,520
Total Educational Technology State Grants Cluster			39,309
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	2,239,283
ARRA - State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act	84.397	592	161,045
Total State Stabilization Fund Cluster			2,400,328

**HENDRY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
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 Education (Continued):			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	142,365
Migrant Education - State Grant Program	84.011	217	997,539
Career and Technical Education - Basic Grants to States	84.048	161	202,156
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	07-139-VH397	50,901
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	25,971
Rural Education	84.358	110	260,532
English Language Acquisition Grants	84.365	102	55,411
Improving Teacher Quality State Grants	84.367	224	458,380
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	7,433
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	20,600
Mathematics and Science Partnerships	84.366	None	301
Washington County District School Board:			
Reading First State Grants	84.357	None	200
Total United States Department of Education			<u>10,718,314</u>
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	06-WL-&K-09-36-03-518	369,310
Total Expenditures of Federal Awards			<u>\$ 14,345,625</u>

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

(2) Noncash Assistance - National School Lunch Program - Represents the amount of donated food used during the fiscal year. 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 Hendry 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 and the Hendry Public Schools Foundation, Inc., as described in our report on the Hendry County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *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. However, we identified a certain deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

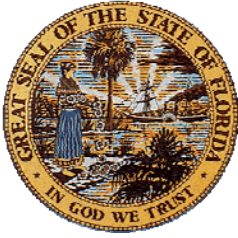
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
December 29, 2010



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 Hendry 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 could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

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 **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. *A significant deficiency in internal control over compliance* is a deficiency, or combinations 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
December 29, 2010

**HENDRY 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(es)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be a material weakness(es)? Yes

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

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

Identification of major programs: Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579-ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); and Improving Teacher Quality State Grants (CFDA No. 84.367)

Dollar threshold used to distinguish between Type A and Type B programs: \$430,368

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District’s annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles.

Our review of the District’s 2009-10 fiscal year annual financial report, presented for audit, disclosed that the District omitted the cash flow statement for its employee benefits program internal service fund because of an oversight. District personnel indicated that although the cash flow amounts were initially entered into the annual financial report template, the amounts were not retained on the file, resulting in the omission. We were able to extend our audit procedures to determine the adjustments necessary for the fair presentation of the District’s basic financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate control procedures over financial reporting.

Recommendation: The District should enhance procedures to ensure the cash flow statement is properly included in its annual financial report.

ADDITIONAL MATTERS

Finding No. 2: Fraud Policy

As similarly noted in our previous reports, most recently in report No. 2010-140, the Board had not adopted and implemented adequate policies for reporting known or suspected fraud. In September 2009, the Board adopted a policy (No. 546) that identified certain types of fraud (e.g., thefts, embezzlement, and dishonesty); designated the human resource department as the department responsible for receiving reports of alleged instances of fraud; and set forth certain consequences for fraud violations (e.g., employment termination and other legal action). However, the policy did not delineate the process of anonymous reporting, identify individuals responsible for investigations, or require referrals of alleged fraud to law enforcement agencies.

Effective fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and

avoiding damage to the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

Recommendation: To aid in the detection and prevention of fraud, the Board should enhance its fraud policy to describe the process of anonymous reporting, identify individuals responsible for investigations, and require referrals of alleged fraud to law enforcement agencies.

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 assessment procedures for continuing contract instructional personnel based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes. Annual contract instructional personnel and school administrators typically maintain records, in consultation with their supervisors, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and meet periodically with their supervisor throughout the school year to assess the progress in meeting the projected goals. However, District records did not evidence a correlation between student performance and performance assessments of these personnel, contrary to Section 1012.34(3)(a), Florida Statutes. Without measuring employee performance by the required criteria, performance assessments of annual contract instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should continue its efforts to ensure its performance assessments of annual contract instructional personnel and school administrators include consideration of student performance.

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 Board 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 provided a performance supplement of 5 percent of an instructional employee's salary and provided that performance payments were dependent, in part, on the availability of State revenues; however, the District did not make any of these payments in the 2009-10 fiscal year. As such, contrary to Section 1012.22(1)(c)2., Florida Statutes, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic and drama coaches and department chairpersons. Also, the salary schedule provided a differentiated pay salary supplement of \$1,015.20 for instructional personnel based on the school demographics (i.e., schools with free and reduced lunch participation rates greater than 50 percent) and certain instructional certifications. In addition, the salary schedule offered a supplement of \$338.40 for instructional personnel working in a Board-approved critical shortage area; however, District records did not evidence the basis for identifying critical shortage areas and no payments were made for critical shortage areas for the 2009-10 fiscal year. In addition, contrary to Section 1012.22(1)(c)4., Florida Statutes, the salary schedule did not evidence consideration of differentiated pay based on the level of job performance difficulties for instructional personnel.

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. 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 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: Adult General Education Courses

Section 1004.02(3), Florida Statutes defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. Also, FDOE procedures for reporting instructional hours stated that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule with the withdrawal date reported as the day after the last date of attendance.

During the 2009-10 fiscal year, the District reported 67,653 adult general education contact hours for 483 students to FDOE. Our review of District records for ten students enrolled during fall 2009 for 1,092 hours disclosed that for six students the District over reported 6 to 72 hours, or 150 total over reported hours, and for one student the District underreported 39 hours. District personnel indicated the misreported hours occurred primarily due to errors in determining the first and last days of attendance and not procedurally withdrawing students who had six consecutive absences. Additionally, we tested District records for ten students enrolled during winter 2010 and spring 2010, for a total of 468 hours, and noted that for eight students the District underreported 6 to 42 hours, or 207 total underreported hours. These errors occurred mainly because the District did not report contact hours for student absences that were less than six consecutive absences, contrary to FDOE guidance. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance controls over the reporting of instructional contact hours for adult general education courses to FDOE. In addition, the District should contact FDOE for resolution of the misreported hours.

Finding No. 6: Workforce Development Funds

The Legislature appropriated State funding, totaling \$398,374, to the District for workforce development programs pursuant to Chapter 2009-81, Laws of Florida, including \$25,851 of Federal American Reinvestment and Recovery (ARRA) moneys. This law limits use of these funds to adult general or career education programs, and prohibits the District from using these moneys for K-12 programs. The District spent the \$25,851 for computers and related hardware at two high school computer labs to increase capacity for career education; however, since these payments benefited the District's K-12 programs, these expenditures were contrary to the restrictions governing these funds. District personnel initially believed these moneys could be used for K-12 programs since there was more flexibility in how ARRA funds could be used. However, since the Legislature appropriated these funds specifically for workforce

development programs, these moneys are not permitted for use in K-12 programs. Subsequent to our inquiry, the District designated that these computer labs be used only for workforce development students.

Recommendation: The District should continue its efforts to comply with the restrictions governing workforce development program funds, and restore \$25,851 to the program.

Finding No. 7: Information Technology – Policies and Procedures

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

The District lacked written policies and procedures for the following IT functions:

- Requesting, prioritizing, and authorizing system changes including configuration, program code, and report changes.
- Administering user identification codes (IDs), administrator IDs, administrator passwords, guest accounts, and security devices (such as firewalls and routers).
- Changing or deleting vendor-supplied passwords upon installation.
- Resetting user passwords, including positive identification of the user.
- Prohibiting administrator rights on the workstations of end users.
- Monitoring and logging access to and modification of sensitive or critical tables, files, and transactions for the Apecs.net application and database; and the District's network.
- Revoking access privileges of former or reassigned employees, consultants, and vendors.
- Removing confidential information from consultant/vendor equipment.
- Defining responsibilities, access privileges, and activities for network, database, and security administrators and help desk staff.
- Governing the proper storage, handling, transmission, and format of sensitive and confidential data or information.
- Reporting of suspected, and responding to actual, security incidents.

Similar findings were noted in previous audits of the District, most recently in our report No. 2010-140. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: ARRA - Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Procurement – Contract Administration. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and Title 7, Section 3016, Code of Federal Regulations, require the District to use procurement procedures that reflect applicable State laws. State Board of Education Rule 6A-1.012, Florida Administrative Code (Rule), requires the District to request bids from three or more sources for purchases exceeding \$50,000, and the Rule provides that competitive solicitation is a written solicitation for competitive sealed bids available for public response.

The District received funding, totaling \$109,646, for the ARRA – Child Nutrition program, and solicited e-mails from four vendors to obtain price quotes by June 18, 2009, for food service equipment (three serving counters, an electric oven, and a walk-in cooler). However, District records indicated that the District accepted quotes dated from 1 to 12 days after the established deadline, including the company that submitted the low quotes for the equipment items. In addition, the District received the quotes by e-mail, not competitive sealed bids, contrary to the above Rule. The District received the food service equipment items from August 2009 to October 2009, and paid \$100,655 to the vendor for these items. Without proper competitive purchasing procedures, there is an increased risk that vendors may legally challenge the District’s vendor selection process, and the District may not obtain goods and services at the best price consistent with acceptable quality.

Recommendation: The District should enhance procedures to ensure that competitive sealed bids are obtained for applicable purchases based on the time limits established in the bid proposals, Federal regulations, and State Board of Education Rule 6A-1.012, Florida Administrative Code.

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-140.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HENDRY COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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
2009-142 (1) 2010-140 (1)	Reading First State Grants (CFDA No. 84.357) / Special Tests and Provisions - Private School Participation	District did not invite private schools to participate in program activities.	Resolved.	No further action warranted as program was discontinued.
2010-140 (2)	Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10-579); WIA Youth Activities (CFDA No. 17.259); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA 84.389); Special Education - Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (CFDA No. 84.394); and SFSF - Government Services, Recovery Act (CFDA 84.397) / Reporting and Special Tests and Provisions.	Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Central Contractor Registration database.	Corrected.	District timely registered.

EXHIBIT A
MANAGEMENT'S RESPONSE



Hendry County School Board

Richard A. "Rick" Murphy
Superintendent

District Office
Hendry Co. Courthouse
P. O. Box 1980
LaBelle, Florida 33975-1980
(863) 674-4642
FAX (863) 674-4090 SUNCOM 744-4642

Sub-Office
475 East Osceola Avenue
Clewiston, Florida 33440-3140
(863) 902-4244
FAX (863) 902-4247 SUNCOM 744-4244

December 17, 2010

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

Dear Mr. Martin:

Pursuant to the provisions of Section 11.45 (4) (d), Florida Statutes herewith is the submitted statement of explanation for proposed action concerning all the findings of the preliminary and tentative audit findings of the Hendry County District School Board for the fiscal year ending June 30, 2010.

Financial Reporting

The District will enhance its procedures to ensure the cash flow statement is properly included in its annual financial report.

Policies for Reporting Fraud

The District will enhance its fraud policy to describe the process of anonymous reporting, identify individuals responsible for investigations, and require referrals of alleged fraud to law enforcement agencies.

Performance Assessments

The District will continue its efforts to ensure its performance assessment procedures for annual contact instructional personnel and school-based administrators include consideration of student performance.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Compensation and Salary Schedules

The District will adopt 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.

Adult General Education Courses

The District will enhance controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education (FDOE). In addition, the District will contact FDOE for resolution of the misreported hours.

Workforce Development Funds

The District will continue its efforts to comply with the restrictions governing workforce development program funds and will restore \$25,851 to the program.

Information Technology - Policies and Procedures

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

Procurement – Contract Administration

The District will enhance procedures to ensure that competitive sealed bids are obtained for applicable purchases based on the time limits established in the bid proposals, Federal regulations, and State Board of Education Rule 6A-1.012, Florida Administrative Code.

Sincerely yours,



Richard A. "Rick" Murphy
Superintendent

RAM:bt

cc: Michael J. Yanosik, Assistant Superintendent of Business