

HIGHLANDS 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>
Howard C. "Wally" Randall, Vice Chair to 11-17-09, Chair from 11-18-09	1
Donna Howerton	2
J. Ned Hancock	3
Richard A. Norris, Vice Chair from 11-18-09	4
Andy Tuck, Chair to 11-17-09	5

Wally Cox, Superintendent

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

The audit team leader was Yuling Liu, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Danielle M. Alvarez, 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.

HIGHLANDS 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, the 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: Financial reporting procedures could be enhanced to properly capitalize the cost of remodeling and renovation projects.

ADDITIONAL MATTERS

Finding No. 2: District performance assessments of instructional personnel were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 3: 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. 4: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 5: Certain District security controls related to IT user authentication and logging, monitoring, and review of system activity needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Migrant Education; State Fiscal Stabilization Fund Cluster; and ARRA - Child Nutrition Discretionary Grants Limited Availability 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.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-112.

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*.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 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 26 percent of the assets and 62 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Highlands County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregated remaining fund information for the Highlands 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 Highlands County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 50 through 53) 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
March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Highlands County District School Board has prepared the following discussion and analysis (a) to assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 10 through 48.

FINANCIAL HIGHLIGHTS

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

- General revenues total \$108,146,060, or 89.7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$12,384,794, or 10.3 percent of all revenues.
- Expenses total \$119,479,904. Only \$12,384,794 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$1,050,950.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$5,011,607 at June 30, 2010, or 6.2 percent of total General Fund expenditures.
- The District's total debt decreased by \$2,980,000, or approximately 4.2 percent, mostly due to payment of scheduled principal on bonds and certificates of participation.

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and

administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Business-type activities – The District charges fees and receives Federal and State grants to cover the cost of certain services it provides. These activities account for the financial resources of the Heartland Educational Consortium.
- Component units – The District presents the Highlands County Education Foundation, Inc., as a discretely presented component unit. Although a legally separate organizations, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year					
	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Current and Other Assets	\$ 20,059,587.90	\$ 25,165,303.89	\$ 953,699.91	\$ 881,087.60	\$ 21,013,287.81	\$ 26,046,391.49
Capital Assets	146,560,046.14	125,886,490.85	431,391.11	439,595.94	146,991,437.25	126,326,086.79
Total Assets	166,619,634.04	151,051,794.74	1,385,091.02	1,320,683.54	168,004,725.06	152,372,478.28
Long-Term Liabilities	72,817,624.31	75,692,055.30	36,393.06		72,854,017.37	75,692,055.30
Other Liabilities	5,828,188.63	5,377,026.53	6,862.13	16,606.67	5,835,050.76	5,393,633.20
Total Liabilities	78,645,812.94	81,069,081.83	43,255.19	16,606.67	78,689,068.13	81,085,688.50
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	84,065,365.47	63,255,554.74	431,391.11	439,595.94	84,496,756.58	63,695,150.68
Restricted	3,475,621.59	8,867,672.31			3,475,621.59	8,867,672.31
Unrestricted (Deficit)	432,834.04	(2,140,514.14)	910,444.72	864,480.93	1,343,278.76	(1,276,033.21)
Total Net Assets	87,973,821.10	69,982,712.91	1,341,835.83	1,304,076.87	89,315,656.93	71,286,789.78
Adjustment to Beginning Net Assets		16,977,917.48				16,977,917.48
Total Net Assets, Restated	\$ 87,973,821.10	\$ 86,960,630.39	\$ 1,341,835.83	\$ 1,304,076.87	\$ 89,315,656.93	\$ 88,264,707.26

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

In prior fiscal years, the District improperly expensed costs associated with remodeling and renovations. Accounting principles require that such costs be capitalized if they extend or prolong the useful life of the asset. As a result, building values and accumulated depreciation for buildings at July 1, 2009, have been increased by \$23,686,047, and \$6,708,130, respectively. Therefore, the net effect of this correction is an increase to beginning net assets totaling \$16,977,917.

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$1,343,279 may be used to meet the District’s ongoing obligations to students, employees and creditors.

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

	Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Program Revenues:						
Charges for Services	\$ 1,718,844.42	\$ 2,017,738.12	\$ 759,396.46	\$ 529,340.19	\$ 2,478,240.88	\$ 2,547,078.31
Operating Grants and Contributions	8,924,535.91	8,331,439.47	261,219.08	410,541.98	9,185,754.99	8,741,981.45
Capital Grants and Contributions	720,798.09	7,163,378.89			720,798.09	7,163,378.89
General Revenues:						
Property Taxes, Levied for Operational Purposes	37,734,101.61	38,132,916.05			37,734,101.61	38,132,916.05
Property Taxes, Levied for Capital Projects	8,623,435.12	11,248,399.54			8,623,435.12	11,248,399.54
Grants and Contributions Not Restricted to Specific Programs	59,083,108.40	53,966,303.13			59,083,108.40	53,966,303.13
Unrestricted Investment Earnings	139,413.63	484,425.50	7,008.21	8,843.30	146,421.84	493,268.80
Miscellaneous	2,515,483.17	1,731,343.68	43,509.72	60,985.21	2,558,992.89	1,792,328.89
Total Revenues	119,459,720.35	123,075,944.38	1,071,133.47	1,009,710.68	120,530,853.82	124,085,655.06
Functions/Program Expenses:						
Instruction	57,396,996.46	58,859,622.47			57,396,996.46	58,859,622.47
Pupil Personnel Services	5,925,160.89	6,304,551.40			5,925,160.89	6,304,551.40
Instructional Media Services	1,265,268.04	1,628,339.38			1,265,268.04	1,628,339.38
Instruction and Curriculum Development Services	2,544,441.31	2,680,763.00			2,544,441.31	2,680,763.00
Instructional Staff Training Services	1,883,104.00	2,442,357.02			1,883,104.00	2,442,357.02
Instruction Related Technology	1,571,499.47	1,565,229.84			1,571,499.47	1,565,229.84
School Board	421,297.07	450,573.58			421,297.07	450,573.58
General Administration	827,960.44	771,133.88			827,960.44	771,133.88
School Administration	6,325,265.71	6,402,319.96			6,325,265.71	6,402,319.96
Facilities Acquisition and Construction	493,040.69	3,734,636.36			493,040.69	3,734,636.36
Fiscal Services	797,618.85	760,802.73			797,618.85	760,802.73
Food Services	7,686,106.46	7,455,249.81			7,686,106.46	7,455,249.81
Central Services	1,180,981.90	1,468,462.44			1,180,981.90	1,468,462.44
Pupil Transportation Services	6,479,776.01	6,561,287.61			6,479,776.01	6,561,287.61
Operation of Plant	9,977,892.67	9,667,516.01			9,977,892.67	9,667,516.01
Maintenance of Plant	2,231,528.60	2,283,739.43			2,231,528.60	2,283,739.43
Administrative Technology Services	398,232.09	366,039.75			398,232.09	366,039.75
Community Services	658,309.93	586,535.34			658,309.93	586,535.34
Unallocated Interest on Long-Term Debt	3,010,301.43	3,126,876.85			3,010,301.43	3,126,876.85
Unallocated Depreciation Expense	7,371,747.62	5,454,828.68			7,371,747.62	5,454,828.68
Heartland Educational Consortium - ARRA			28,470.00		28,470.00	
Heartland Educational Consortium			1,004,904.51	926,170.62	1,004,904.51	926,170.62
Total Functions/Program Expenses	118,446,529.64	122,570,865.54	1,033,374.51	926,170.62	119,479,904.15	123,497,036.16
Increase in Net Assets	\$ 1,013,190.71	\$ 505,078.84	\$ 37,758.96	\$ 83,540.06	\$ 1,050,949.67	\$ 588,618.90

One of the largest revenue sources is the State of Florida (36 percent). In total, State revenues decreased by \$9,096,452 or 17.5 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. State Public Education Capital Outlay and Classrooms for Kids funding, accounted for as capital grants and contributions, decreased \$6,251,299 from the 2008-09 fiscal year.

The reduction in State revenues was partially offset by an increase in Federal revenues totaling \$8,653,713 or 50.5 percent. This increase was mainly due to funding received in connection with the ARRA funding.

Instruction and instruction related technology expenses represent 49.8 percent of total governmental expenses in the 2009-10 fiscal year. Instruction and instruction related technology expenses decreased by \$1,456,356, or 2.4 percent, from the previous fiscal year.

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$5,011,607, while the total fund balance is \$5,602,300. The unreserved fund balance increased by \$2,507,615, and the total fund balance increased by \$2,547,836 during the fiscal year. Key factors in this change are as follows:

- General Fund revenues decreased \$3,098,800 or 3.6 percent caused by decrease of instructional material revenues and the FEFP allocation.
- Total General Fund expenditures decreased by \$9,737,089 or 10.7 percent, due mainly to decreases in instruction, instructional media services, and instructional staff trainings. Expenditures on instruction, instructional media services, and instructional staff training were funded, in part, by ARRA grants and reported in the Special Revenue - ARRA Economic Stimulus Fund.

The Special Revenue – Other Fund is used to account for various Federal awards for the enhancement of educational programs. Federal awards are received based on applications submitted to various granting agencies. Total awards received in the 2009-10 fiscal year accounted for in the Special Revenue – Other Fund were \$11,205,659. In addition, the Special Revenue – ARRA Economic Stimulus Fund has total revenues and expenditures of \$7,889,302 each, and the funding was mainly used for instruction. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in special revenue funds generally do not accumulate fund balances.

The Capital Projects – Other Fund has a total fund balance of \$5,068,502, most of which is restricted for projects financed by the Certificate of Participation, Series 2006A. The fund balance decreased by \$7,328,481 this fiscal year due to construction expenditures for additions at Lake Placid Middle School and Lake Placid High School.

Proprietary Funds

Unrestricted net assets of the Heartland Educational Consortium Enterprise Fund increased \$45,964 to \$910,445 at June 30, 2010. This increase occurred primarily because of the increase in charges for tutoring services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2009-10 fiscal year, the District amended its General Fund budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the year. The final category includes the Board approved transfers between expenditure functions and objects.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As discussed in Note 11, beginning capital assets increased \$17 million due to the capitalization of prior years' expenses for the renovation and remodeling of District buildings. For the current fiscal year, net capital assets increased \$3.7 million from the previous fiscal year due to capital asset additions in excess of depreciation expense,

primarily as a result of additions at Lake Placid Middle School and Lake Placid High School. Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt

The District's long-term debt decreased by \$2,980,000 during the fiscal year or approximately 4.2 percent, due to payments of current debt issues. Additional information on the District's long-term debt can be found in Notes 6 through 8 to financial statements.

OTHER MATTERS OF SIGNIFICANCE

Approximately 51 percent of the total General Fund revenues are from the State of Florida. The primary source of revenue for the State is the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida, will impact the amount of revenue received by the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment have a significant impact on establishing the State budget, as well as the District budget.

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

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 13,103,328.74	\$ 953,699.91	\$ 14,057,028.65	\$ 20,873.95
Cash with Fiscal Agent	4,106,082.80		4,106,082.80	
Investments	921,758.95		921,758.95	
Accounts Receivable	115,481.01		115,481.01	
Due from Other Agencies	931,623.46		931,623.46	
Inventories	881,312.94		881,312.94	
Capital Assets:				
Nondepreciable Capital Assets	5,700,278.49	126,607.00	5,826,885.49	
Depreciable Capital Assets, Net	140,859,767.65	304,784.11	141,164,551.76	
TOTAL ASSETS	\$ 166,619,634.04	\$ 1,385,091.02	\$ 168,004,725.06	\$ 20,873.95
LIABILITIES				
Salaries and Benefits Payable	\$ 192,710.44	\$ 110.55	\$ 192,820.99	\$
Payroll Deductions and Withholdings	4,104,233.42	5,689.57	4,109,922.99	
Accounts Payable	435,266.70	1,062.01	436,328.71	
Construction Contracts Payable	350,096.88		350,096.88	
Construction Contracts Payable - Retainage	358,325.84		358,325.84	
Due to Other Agencies	67.82		67.82	
Deferred Revenue	350,501.20		350,501.20	
Estimated Insurance Claims Payable	36,986.33		36,986.33	
Long-Term Liabilities:				
Portion Due Within One Year	3,525,000.00	7,700.00	3,532,700.00	
Portion Due After One Year	69,292,624.31	28,693.06	69,321,317.37	
Total Liabilities	78,645,812.94	43,255.19	78,689,068.13	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	84,065,365.47	431,391.11	84,496,756.58	
Restricted for:				
State Required Carryover Programs	259,098.79		259,098.79	
Debt Service	398,414.96		398,414.96	
Capital Projects	2,149,820.76		2,149,820.76	
Food Service	668,287.08		668,287.08	
Unrestricted	432,834.04	910,444.72	1,343,278.76	20,873.95
Total Net Assets	87,973,821.10	1,341,835.83	89,315,656.93	20,873.95
TOTAL LIABILITIES AND NET ASSETS	\$ 166,619,634.04	\$ 1,385,091.02	\$ 168,004,725.06	\$ 20,873.95

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 57,396,996.46	\$	\$	\$
Pupil Personnel Services	5,925,160.89			
Instructional Media Services	1,265,268.04			
Instruction and Curriculum Development Services	2,544,441.31			
Instructional Staff Training Services	1,883,104.00			
Instruction Related Technology	1,571,499.47			
School Board	421,297.07			
General Administration	827,960.44			
School Administration	6,325,265.71			
Facilities Acquisition and Construction	493,040.69			348,865.78
Fiscal Services	797,618.85			
Food Services	7,686,106.46	1,718,844.42	6,401,303.91	
Central Services	1,180,981.90			
Pupil Transportation Services	6,479,776.01		2,523,232.00	
Operation of Plant	9,977,892.67			
Maintenance of Plant	2,231,528.60			
Administrative Technology Services	398,232.09			
Community Services	658,309.93			
Unallocated Interest on Long-Term Debt	3,010,301.43			371,932.31
Unallocated Depreciation Expense*	7,371,747.62			
Total Governmental Activities	118,446,529.64	1,718,844.42	8,924,535.91	720,798.09
Business-Type Activities:				
Heartland Educational Consortium	1,004,904.51	759,396.46	232,749.08	
Heartland Educational Consortium - ARRA	28,470.00		28,470.00	
Total Business-Type Activities	1,033,374.51	759,396.46	261,219.08	
Total Primary Government	\$ 119,479,904.15	\$ 2,478,240.88	\$ 9,185,754.99	\$ 720,798.09
Component Unit				
Highlands County Education Foundation, Inc.	\$ 91,746.81	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:
 Taxes:
 Property Taxes, Levied for Operational Purposes
 Property Taxes, Levied for Capital Projects
 Grants and Contributions Not Restricted to Specific Programs
 Unrestricted Investment Earnings
 Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Prior Period Adjustment

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Primary Government		Component Unit
	Business-Type Activities	Total	
\$ (57,396,996.46)	\$	\$ (57,396,996.46)	\$
(5,925,160.89)		(5,925,160.89)	
(1,265,268.04)		(1,265,268.04)	
(2,544,441.31)		(2,544,441.31)	
(1,883,104.00)		(1,883,104.00)	
(1,571,499.47)		(1,571,499.47)	
(421,297.07)		(421,297.07)	
(827,960.44)		(827,960.44)	
(6,325,265.71)		(6,325,265.71)	
(144,174.91)		(144,174.91)	
(797,618.85)		(797,618.85)	
434,041.87		434,041.87	
(1,180,981.90)		(1,180,981.90)	
(3,956,544.01)		(3,956,544.01)	
(9,977,892.67)		(9,977,892.67)	
(2,231,528.60)		(2,231,528.60)	
(398,232.09)		(398,232.09)	
(658,309.93)		(658,309.93)	
(2,638,369.12)		(2,638,369.12)	
(7,371,747.62)		(7,371,747.62)	
<u>(107,082,351.22)</u>		<u>(107,082,351.22)</u>	
	(12,758.97)	(12,758.97)	
	<u>(12,758.97)</u>	<u>(12,758.97)</u>	
<u>(107,082,351.22)</u>	<u>(12,758.97)</u>	<u>(107,095,110.19)</u>	
			<u>(91,746.81)</u>
37,734,101.61		37,734,101.61	
8,623,435.12		8,623,435.12	
59,083,108.40		59,083,108.40	
139,413.63	7,008.21	146,421.84	174.11
<u>2,515,483.17</u>	<u>43,509.72</u>	<u>2,558,992.89</u>	<u>78,298.08</u>
<u>108,095,541.93</u>	<u>50,517.93</u>	<u>108,146,059.86</u>	<u>78,472.19</u>
1,013,190.71	37,758.96	1,050,949.67	(13,274.62)
<u>69,982,712.91</u>	<u>1,304,076.87</u>	<u>71,286,789.78</u>	<u>34,148.57</u>
<u>16,977,917.48</u>		<u>16,977,917.48</u>	
<u>\$ 87,973,821.10</u>	<u>\$ 1,341,835.83</u>	<u>\$ 89,315,656.93</u>	<u>\$ 20,873.95</u>

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

	<u>General Fund</u>	<u>Special Revenue - Other Fund</u>	<u>Special Revenue - ARRA Economic Stimulus Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 8,262,905.37	\$ 549,754.53	\$ 568,897.12
Investments			
Accounts Receivable	115,481.01		
Due from Other Agencies	189,716.27	77,371.22	2,621.34
Inventories	570,382.82		
Restricted Cash with Fiscal Agent			
Investments in SBA Fund B Surplus Funds Trust Fund	90,163.27		
TOTAL ASSETS	<u><u>\$ 9,228,648.74</u></u>	<u><u>\$ 627,125.75</u></u>	<u><u>\$ 571,518.46</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 122,979.37	\$ 40,548.36	\$ 17,344.19
Payroll Deductions and Withholdings	3,320,707.76	342,831.86	356,165.31
Accounts Payable	182,661.24	48,485.09	71,849.64
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Agencies		67.82	
Deferred Revenue		195,192.62	126,159.32
Total Liabilities	<u><u>3,626,348.37</u></u>	<u><u>627,125.75</u></u>	<u><u>571,518.46</u></u>
Fund Balances:			
Reserved for State Required Carryover Programs	259,098.79		
Reserved for Encumbrances	241,431.41		
Reserved for Debt Service			
Reserved for SBA Fund B Investments	90,163.27		
Unreserved:			
Undesignated, Reported in:			
General Fund	5,011,606.90		
Special Revenue Funds			
Capital Projects Funds			
Total Fund Balances	<u><u>5,602,300.37</u></u>		
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 9,228,648.74</u></u>	<u><u>\$ 627,125.75</u></u>	<u><u>\$ 571,518.46</u></u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 682,665.41	\$ 2,449,863.21	\$ 12,514,085.64
	60,720.56	60,720.56
		115,481.01
187,702.88	474,211.75	931,623.46
	310,930.12	881,312.94
4,097,018.69	9,064.11	4,106,082.80
770,875.12		861,038.39
<u>\$ 5,738,262.10</u>	<u>\$ 3,304,789.75</u>	<u>\$ 19,470,344.80</u>
\$	\$ 11,838.52	\$ 192,710.44
	84,528.49	4,104,233.42
33,699.27	98,571.46	435,266.70
277,734.54	72,362.34	350,096.88
358,325.84		358,325.84
		67.82
	29,149.26	350,501.20
<u>669,759.65</u>	<u>296,450.07</u>	<u>5,791,202.30</u>
		259,098.79
395,942.26	434,367.93	1,071,741.60
	398,414.96	398,414.96
770,875.12		861,038.39
		5,011,606.90
	615,977.91	615,977.91
3,901,685.07	1,559,578.88	5,461,263.95
<u>5,068,502.45</u>	<u>3,008,339.68</u>	<u>13,679,142.50</u>
<u>\$ 5,738,262.10</u>	<u>\$ 3,304,789.75</u>	<u>\$ 19,470,344.80</u>

HIGHLANDS 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 \$ 13,679,142.50

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. 146,560,046.14

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 552,256.77

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

Certificates of Participation Payable	\$ 63,940,000.00	
Bonds Payable	3,415,000.00	
Other Postemployment Benefits Payable	665,311.00	
Compensated Absences Payable	4,797,313.31	<u>(72,817,624.31)</u>

Total Net Assets - Governmental Activities \$ 87,973,821.10

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 155,667.84	\$ 390,458.23	\$
Federal Through State and Local State	441,392.30 41,851,921.19	10,815,200.80	7,889,301.75
Local:			
Property Taxes	37,734,101.61		
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	2,042,423.83		
Total Revenues	82,225,506.77	11,205,659.03	7,889,301.75
Expenditures			
Current - Education:			
Instruction	47,175,564.60	5,565,213.32	4,606,021.70
Pupil Personnel Services	4,623,709.97	1,269,921.62	24,092.27
Instructional Media Services	166,320.89		1,099,488.13
Instruction and Curriculum Development Services	818,162.99	1,594,812.25	134,787.43
Instructional Staff Training Services	114,611.65	1,097,777.03	670,715.32
Instruction Related Technology	386,379.86	654,931.16	525,187.61
School Board	419,956.42		
General Administration	456,663.23	297,738.19	93,760.88
School Administration	6,243,508.58		79,898.13
Facilities Acquisition and Construction			
Fiscal Services	795,080.66		
Food Services			12,597.23
Central Services	1,188,642.07		
Pupil Transportation Services	5,477,414.08	268,467.25	14,241.76
Operation of Plant	9,948,222.78	2,485.47	
Maintenance of Plant	2,187,035.24		
Administrative Technology Services	396,964.83		
Community Services	654,497.99		1,717.06
Fixed Capital Outlay:			
Facilities Acquisition and Construction	16,010.67		
Other Capital Outlay	77,085.47	454,312.74	626,794.23
Debt Service:			
Principal			
Interest and Fiscal Charges			
Dues, Fees and Issuance Costs			
Total Expenditures	81,145,831.98	11,205,659.03	7,889,301.75
Excess (Deficiency) of Revenues Over Expenditures	1,079,674.79		
Other Financing Sources (Uses)			
Transfers In	1,468,160.89		
Transfers Out			
Total Other Financing Sources (Uses)	1,468,160.89		
Net Change in Fund Balances	2,547,835.68		
Fund Balances, Beginning	3,054,464.69		
Fund Balances, Ending	\$ 5,602,300.37	\$ 0.00	\$ 0.00

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	6,103,174.18	546,126.07
	1,078,169.55	25,249,069.03
	8,623,435.12	42,930,090.74
3,156.56		46,357,536.73
	1,718,844.42	3,156.56
360,144.00	155,605.47	1,718,844.42
<u>363,300.56</u>	<u>17,679,228.74</u>	<u>2,558,173.30</u>
		57,346,799.62
		5,917,723.86
		1,265,809.02
		2,547,762.67
		1,883,104.00
		1,566,498.63
		419,956.42
		848,162.30
118,306.26	374,639.43	6,323,406.71
		492,945.69
	7,649,050.45	795,080.66
		7,661,647.68
		1,188,642.07
		5,760,123.09
		9,950,708.25
		2,187,035.24
		396,964.83
		656,215.05
7,517,751.59	2,003,010.17	9,536,772.43
55,724.15	1,067,022.20	2,280,938.79
	2,980,000.00	2,980,000.00
	3,004,068.29	3,004,068.29
	6,233.14	6,233.14
<u>7,691,782.00</u>	<u>17,084,023.68</u>	<u>125,016,598.44</u>
<u>(7,328,481.44)</u>	<u>595,205.06</u>	<u>(5,653,601.59)</u>
	5,427,015.49	6,895,176.38
	<u>(6,895,176.38)</u>	<u>(6,895,176.38)</u>
	<u>(1,468,160.89)</u>	
<u>(7,328,481.44)</u>	<u>(872,955.83)</u>	<u>(5,653,601.59)</u>
<u>12,396,983.89</u>	<u>3,881,295.51</u>	<u>19,332,744.09</u>
<u>\$ 5,068,502.45</u>	<u>\$ 3,008,339.68</u>	<u>\$ 13,679,142.50</u>

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

Net Change in Fund Balances - Governmental Funds \$ (5,653,601.59)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. 3,695,637.81

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 2,980,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current period. 229,094.99

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. (334,664.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. 96,723.50

Change in Net Assets - Governmental Activities \$ 1,013,190.71

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2010**

	Business-Type Activities-Enterprise Fund		Total	Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 953,699.91	\$	\$ 953,699.91	\$ 589,243.10
Total Current Assets	<u>953,699.91</u>		<u>953,699.91</u>	<u>589,243.10</u>
Noncurrent Assets:				
Land	126,607.00		126,607.00	
Buildings and Fixed Equipment, Net	296,261.16		296,261.16	
Furniture, Fixtures, and Equipment, Net	8,233.30		8,233.30	
Computer Software, Net	289.65		289.65	
Total Noncurrent Assets	<u>431,391.11</u>		<u>431,391.11</u>	
TOTAL ASSETS	<u>\$ 1,385,091.02</u>	<u>\$ 0.00</u>	<u>\$ 1,385,091.02</u>	<u>\$ 589,243.10</u>
LIABILITIES				
Current Liabilities:				
Salaries and Benefits Payable	\$ 110.55	\$	\$ 110.55	\$
Payroll Deductions and Withholdings	5,689.57		5,689.57	
Accounts Payable	1,062.01		1,062.01	
Compensated Absence Payable - Due in one year	7,700.00		7,700.00	
Total Current Liabilities	<u>14,562.13</u>		<u>14,562.13</u>	
Noncurrent Liabilities:				
Compensated Absence Payable	28,693.06		28,693.06	
Estimated Unpaid Claims				36,986.33
Total Noncurrent Liabilities	<u>28,693.06</u>		<u>28,693.06</u>	<u>36,986.33</u>
Total Liabilities	<u>43,255.19</u>		<u>43,255.19</u>	<u>36,986.33</u>
NET ASSETS				
Invested in Capital Assets	431,391.11		431,391.11	
Unrestricted	910,444.72		910,444.72	552,256.77
Total Net Assets	<u>1,341,835.83</u>		<u>1,341,835.83</u>	<u>552,256.77</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,385,091.02</u>	<u>\$ 0.00</u>	<u>\$ 1,385,091.02</u>	<u>\$ 589,243.10</u>

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

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

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
OPERATING REVENUES				
Charges for Services	\$ 759,396.46	\$	\$ 759,396.46	\$
Premium Revenues				920,030.05
Other Operating Revenues	276,258.80	28,470.00	304,728.80	
Total Operating Revenues	1,035,655.26	28,470.00	1,064,125.26	920,030.05
OPERATING EXPENSES				
Salaries	266,589.12	12,791.23	279,380.35	
Employee Benefits	73,580.62	3,678.77	77,259.39	
Purchased Services	423,656.59	12,000.00	435,656.59	790,474.55
Energy Services	14,489.24		14,489.24	
Materials and Supplies	38,445.97		38,445.97	
Capital Outlay	2,407.82		2,407.82	
Other Expenses	175,604.96		175,604.96	32,832.00
Depreciation	10,130.19		10,130.19	
Total Operating Expenses	1,004,904.51	28,470.00	1,033,374.51	823,306.55
Operating Income	30,750.75		30,750.75	96,723.50
NONOPERATING REVENUES				
Interest	7,008.21		7,008.21	
Total Nonoperating Revenues	7,008.21		7,008.21	
Change in Net Assets	37,758.96		37,758.96	96,723.50
Total Net Assets - Beginning	1,304,076.87		1,304,076.87	455,533.27
Total Net Assets - Ending	\$ 1,341,835.83	\$ 0.00	\$ 1,341,835.83	\$ 552,256.77

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

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

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Services	\$ 759,396.46	\$	\$ 759,396.46	\$ 920,030.05
Cash Received from Other Operating Revenues	276,258.80	28,470.00	304,728.80	
Cash Payments to Suppliers for Goods and Services	(663,711.41)	(12,000.00)	(675,711.41)	(32,832.00)
Cash Payments for Insurance Claims				(786,713.44)
Cash Payments to Employees for Services	(304,414.39)	(16,470.00)	(320,884.39)	
Net Cash Provided by Operating Activities	<u>67,529.46</u>		<u>67,529.46</u>	<u>100,484.61</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(1,925.36)		(1,925.36)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	7,008.21		7,008.21	
Net Increase in Cash and Cash Equivalents	72,612.31		72,612.31	100,484.61
Cash and Cash Equivalents, Beginning	881,087.60		881,087.60	488,758.49
Cash and Cash Equivalents, Ending	<u>\$ 953,699.91</u>	<u>\$ 0.00</u>	<u>\$ 953,699.91</u>	<u>\$ 589,243.10</u>

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

Operating Income	\$ 30,750.75	\$	\$ 30,750.75	\$ 96,723.50
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	10,130.19		10,130.19	
Changes in Assets and Liabilities:				
Decrease in Accounts Payable	(9,106.83)		(9,106.83)	
Increase in Payroll Deductions and Withholdings	533.93		533.93	
Decrease in Salaries and Benefits Payable	(1,171.64)		(1,171.64)	
Increase in Compensated Absence Payable	36,393.06		36,393.06	
Increase in Estimated Insurance Claims Payable				3,761.11
Total Adjustments	<u>36,778.71</u>		<u>36,778.71</u>	<u>3,761.11</u>
Net Cash Provided by Operating Activities	<u>\$ 67,529.46</u>	<u>\$ 0.00</u>	<u>\$ 67,529.46</u>	<u>\$ 100,484.61</u>

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

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

	<u>Private-Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	<u>\$ 10,540.00</u>
Investment Earnings:	
Interest	<u>2,146.43</u>
Total Additions	<u>12,686.43</u>
DEDUCTIONS	
Scholarship Payments	<u>22,850.00</u>
Change in Net Assets Held in Trust for:	
Scholarships for Individuals	(10,163.57)
Net Assets - Beginning	<u>289,756.07</u>
Net Assets - Ending	<u><u>\$ 279,592.50</u></u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 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 Highlands County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Highlands County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Highlands County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Based on these criteria, the following component units are included within the District's reporting entity:

- **Blended Component Unit.** The Highlands County School Board Leasing Corporation, (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the 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.
- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements, include the financial data of the District's other component unit. The Highlands County Education Foundation, Inc., (Foundation) is a separate not-for-profit corporation organized and operated as a direct support organization under Section 1001.453, Florida Statutes, to provide charitable and educational aid to the School Board, to promote education; and to encourage research, learning, and dissemination of information. The Foundation is considered a component unit of the District because the District must approve all members of the Foundation Board, and the District has the ability to impose its will on the Foundation. It is considered a discretely presented component unit because the two boards are not the same, and the Foundation does not provide services entirely or nearly entirely to the District. The financial data reported in the accompanying basic financial statements was derived from audited financial information from the organization for the fiscal year ended June 30, 2010, on file in the District's administrative office.

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

➤ **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. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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

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

The effects of interfund activity have been eliminated from the government-wide financial statements, except for interfund services provided and used, and the net residual amounts between governmental and business-type activities.

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

The District reports the following major governmental funds:

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

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

The District reports the following major enterprise funds:

- Enterprise Fund – Heartland Educational Consortium – to account for the Consortium, for which the District is the fiscal agent.
- Enterprise Fund – Heartland Educational Consortium – ARRA– to account for Federal ARRA grant program resources administered through the Consortium.

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

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds’ principal ongoing operations. The principal operating revenues of the District’s enterprise fund are charges for services and operating grants. Operating expenses include personnel costs, purchased services, and related costs. The principal operating revenues of the District’s internal service fund are charges for employee dental insurance premiums. Operating expenses include insurance claims and

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

excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Highlands County Education Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, and amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. These 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 at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost on the moving average basis except transportation supplies are stated at last invoice, which approximates the first-in, first-out basis, and 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.

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

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

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

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

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

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

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

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

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

The Board adopted the 2009 tax levy on September 8, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

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

➤ **Educational Impact Fee**

Highlands County (County) imposes an educational impact fee based on an ordinance adopted by the Highlands County Commission in 2007. In June 2008, the ordinance was amended, in part, to establish revised collection rates for the fee. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fee shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses of the fee include, but are not limited to, land acquisition, facility design and construction costs, furniture and equipment, and payment of principal, interest, and related costs of indebtedness. Because the fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements. The County approved the suspension of the fee for one year effective July 1, 2009.

➤ **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.
- 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.

**HIGHLANDS 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) (2)	46 Day Average	\$ 4,132,347.78
Fund B Surplus Funds Trust Fund (Fund B) (2)	8.05 Year Average	861,038.39
Debt Service Accounts	6 Months	60,720.56
Total Investments		\$ 5,054,106.73

Notes:

- (1) Investments are considered cash equivalents for financial statement reporting purposes.
- (2) Investments totaling \$4,097,018.69 in Florida PRIME and \$770,875.12 in Fund B are held under trust agreements pursuant to financing agreements for the Certificates of Participation, Series 2000, 2005, and 2006.

Interest Rate Risk

- The District’s investment policy limits investments to a maximum of five years; the investment of tax-exempt debt issues to three years; and the investment of current funds to twelve months.
- 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(16), Florida Statutes, provides that those units of local government electing to adopt a written investment policy as provided in subsections (1)-(15) may by resolution invest and reinvest any surplus public funds in their control or possession in: the SBA Local Governmental 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; direct obligations of the United States Treasury; Federal agencies and instrumentalities; rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel; securities of, or other interests in, any open-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States

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

- Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and other investments authorized by law or by resolution for a school district or a special district.
- The District's investment policy limits investments to Florida PRIME; United States Treasury securities, including but not limited to notes, bills, bonds, strips, and State and local government series; obligations of United States Government Agencies, provided such obligations are backed by the full faith and credit of the United States Government; SEC registered money market funds with the highest rating and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; securities or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940; certificates of deposit in State qualified public depositories; and other investments permitted by the State statute and not prohibited by this policy. Securities of United States Government Enterprises and Instrumentalities are not eligible investments under this policy.
 - The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
 - As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

**HIGHLANDS 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	\$ 5,694,078.49	\$ 6,200.00	\$	\$ 5,700,278.49
Construction in Progress	603,103.29		603,103.29	
Total Capital Assets Not Being Depreciated	6,297,181.78	6,200.00	603,103.29	5,700,278.49
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	10,848,472.02	324,199.69		11,172,671.71
Buildings and Fixed Equipment	169,418,985.45 (1)	9,809,381.03		179,228,366.48
Furniture, Fixtures, and Equipment	14,021,127.59	1,069,191.20	1,153,285.43	13,937,033.36
Motor Vehicles	11,137,143.42	450,340.68		11,587,484.10
Property Under Capital Lease	219,401.34			219,401.34
Audio Visual Materials and Computer Software	3,123,529.98	761,406.91	239,714.83	3,645,222.06
Total Capital Assets Being Depreciated	208,768,659.80	12,414,519.51	1,393,000.26	219,790,179.05
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	7,723,754.17	474,519.20		8,198,273.37
Buildings and Fixed Equipment	44,102,700.80 (1)	4,729,773.56		48,832,474.36
Furniture, Fixtures, and Equipment	9,839,931.06	1,376,167.43	1,153,285.43	10,062,813.06
Motor Vehicles	8,466,873.23	750,230.79		9,217,104.02
Property Under Capital Lease	188,058.12	31,343.22		219,401.34
Audio Visual Materials and Computer Software	1,880,115.87	759,944.21	239,714.83	2,400,345.25
Total Accumulated Depreciation	72,201,433.25	8,121,978.41	1,393,000.26	78,930,411.40
Total Capital Assets Being Depreciated, Net	136,567,226.55	4,292,541.10		140,859,767.65
Governmental Activities Capital Assets, Net	\$ 142,864,408.33	\$ 4,298,741.10	\$ 603,103.29	\$ 146,560,046.14

(1) See Prior Period Adjustment Note 11.

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 126,607.00	\$	\$	\$ 126,607.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	379,822.00			379,822.00
Furniture, Fixtures, and Equipment	68,068.89	1,925.36	8,517.00	61,477.25
Audio Visual Materials and Computer Software	1,448.29			1,448.29
Total Capital Assets Being Depreciated	449,339.18	1,925.36	8,517.00	442,747.54
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	75,964.40	7,596.44		83,560.84
Furniture, Fixtures, and Equipment	59,516.86	2,244.09	8,517.00	53,243.95
Audio Visual Materials and Computer Software	868.98	289.66		1,158.64
Total Accumulated Depreciation	136,350.24	10,130.19	8,517.00	137,963.43
Total Capital Assets Being Depreciated, Net	312,988.94	(8,204.83)		304,784.11
Governmental Activities Capital Assets, Net	\$ 439,595.94	\$ (8,204.83)	\$ 0.00	\$ 431,391.11

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 712,719.25
Maintenance of Plant	37,511.54
Unallocated	7,371,747.62
Total Depreciation Expense - Governmental Activities	\$ 8,121,978.41
BUSINESS-TYPE ACTIVITIES	
Heartland Educational Consortium	\$ 10,130.19

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

5. REVOLVING LINE OF CREDIT

Pursuant to the provisions of Section 1011.13, Florida Statutes, the Board entered into a revolving line of credit (tax anticipation note) on October 7, 2009, in the amount of \$7,500,000 with Heartland National Bank. This line of credit allows the District to borrow funds for the purpose of paying all outstanding obligations and lawful expenses incurred in operating the schools of the District. The outstanding principal amount of the note shall bear interest at the Prime Rate, as published daily in the *Wall Street Journal*, minus 1.25 percent (125 basis points). The note is secured by a pledge of anticipated ad valorem tax proceeds. As of June 30, 2010, no funds are outstanding under this line of credit.

6. CERTIFICATES OF PARTICIPATION

Certificates of Participation at June 30, 2010, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
2005, Refunding	\$ 9,900,000	3.5 - 4.75	2025	\$ 9,900,000
2006A and 2006B Refunding	54,040,000	3.6 -5.0	2027	59,090,000
Total Certificates of Participation	\$ 63,940,000			\$ 68,990,000

The District entered into financing arrangements which were characterized as lease-purchase agreements, with the Highlands County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangements, the District gave ground leases on District property to the Leasing Corporation with a rental fee of \$1 and \$10 per year for Certificates of Participation, Series 2005 and Series 2006, respectively. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securities of the certificates for a period of time specified by the arrangements.

The District properties included in the various ground leases under these arrangements include:

Certificates	Description of Properties
Series 2005, Refunding	Avon Park Elementary School, Lake Placid Elementary School, Memorial Elementary School, and the Kindergarten Learning Center.
Series 2006, A & B	Memorial Elementary School, renovation of the Kindergarten Learning Center, new classroom additions and ancillary facilities at Sebring High School, Lake Placid High School, Avon Park High School, Avon Park Middle School, Hill-Gustat Middle School, Lake Placid Middle School, and Lake Country Elementary School.

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

The lease payments are payable by the District, semiannually on March 1 and September 1 for Certificates of Participation, Series 2005 and annually on March 1 for Certificates of Participation, Series 2006.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 5,413,323.76	\$ 2,700,000.00	\$ 2,713,323.76
2012	5,414,423.76	2,805,000.00	2,609,423.76
2013	5,413,443.76	2,905,000.00	2,508,443.76
2014	5,418,137.52	3,015,000.00	2,403,137.52
2015	5,416,418.76	3,145,000.00	2,271,418.76
2016-2020	27,078,785.02	17,690,000.00	9,388,785.02
2021-2025	27,072,450.00	21,610,000.00	5,462,450.00
2026-2027	10,830,750.00	10,070,000.00	760,750.00
Total Minimum Lease Payments	\$ 92,057,732.58	\$ 63,940,000.00	\$ 28,117,732.58

7. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A, Refunding	\$ 1,625,000	5.0	2016
Series 2005B, Refunding	260,000	5.0	2018
Series 2009A, Refunding	110,000	3.0 - 5.0	2019
District Revenue Bonds:			
Series 1999A	1,420,000	5.000 - 5.375	2018
Total Bonds Payable	\$ 3,415,000		

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

➤ **State School Bonds**

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

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

➤ **District Revenue Bonds**

The School Board issued \$2,425,000 in Refunding Certificates of Indebtedness, Series 1999, dated September 1, 1999. The proceeds were used to refund the Certificates of Indebtedness, Series 1978A, and for the acquisition and construction of certain capital school projects. These bonds are secured by a pledge of funds accruing to the District from the State’s Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes).

The District has pledged a combined total of \$1,773,225 of pari-mutuel tax revenues in connection with the 1999A District Revenue Bonds, described above. During the 2009-10 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$197,894 (89 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on September 1, 2018. Approximately 79 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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	\$ 374,100.00	\$ 275,000.00	\$ 99,100.00
2012	375,550.00	290,000.00	85,550.00
2013	376,150.00	305,000.00	71,150.00
2014	376,000.00	320,000.00	56,000.00
2015	370,000.00	330,000.00	40,000.00
2016-2019	<u>508,500.00</u>	<u>475,000.00</u>	<u>33,500.00</u>
Total State School Bonds	<u>2,380,300.00</u>	<u>1,995,000.00</u>	<u>385,300.00</u>
District Revenue Bonds:			
2011	196,858.76	125,000.00	71,858.76
2012	195,483.76	130,000.00	65,483.76
2013	278,663.76	220,000.00	58,663.76
2014	198,912.51	150,000.00	48,912.51
2015	200,715.63	160,000.00	40,715.63
2016-2018	<u>702,590.65</u>	<u>635,000.00</u>	<u>67,590.65</u>
Total District Revenue Bonds	<u>1,773,225.07</u>	<u>1,420,000.00</u>	<u>353,225.07</u>
Total	<u>\$ 4,153,525.07</u>	<u>\$ 3,415,000.00</u>	<u>\$ 738,525.07</u>

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

8. 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	\$ 3,795,000.00	\$	\$ 380,000.00	\$ 3,415,000.00	\$ 400,000.00
Certificates of Participation Payable	66,540,000.00		2,600,000.00	63,940,000.00	2,700,000.00
Compensated Absences Payable	5,026,408.30	257,541.55	486,636.54	4,797,313.31	425,000.00
Other Postemployment Benefits Payable	330,647.00	702,086.00	367,422.00	665,311.00	
Total Governmental Activities	<u>\$ 75,692,055.30</u>	<u>\$ 959,627.55</u>	<u>\$ 3,834,058.54</u>	<u>\$ 72,817,624.31</u>	<u>\$ 3,525,000.00</u>
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	\$ 0.00	\$ 47,089.30	\$ 10,696.24	\$ 36,393.06	\$ 7,700.00

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

9. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfer In	Transfers Out
Major:		
General	\$ 1,468,160.89	\$
Nonmajor Governmental	5,427,015.49	6,895,176.38
Total	<u>\$ 6,895,176.38</u>	<u>\$ 6,895,176.38</u>

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

10. RESERVE FOR ENCUMBRANCES

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

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

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

Because revenues of grants accounted for in the Special Revenue – Other Fund and Special Revenue - ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund and Special Revenue – ARRA Economic Stimulus Fund total \$177,668 and \$51,574, respectively, at June 30, 2010.

11. PRIOR PERIOD ADJUSTMENT

In prior years, the District improperly expensed costs associated with remodeling and renovations. Accounting principles require that such costs be capitalized if they extend or prolong the useful life of the asset. As a result, building values and accumulated depreciation for buildings at July 1, 2009, has been increased by \$23,686,047.10, and \$6,708,129.62, respectively. Therefore, the net effect of this correction is an increase to beginning net assets totaling \$16,977,917.48.

12. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program:	
Supplemental Academic Instruction	\$ 2,544,927.00
Transportation	2,523,232.00
Instructional Materials	1,007,992.00
Reading	504,999.00
Safe Schools	314,570.00
Florida Teachers Lead	158,870.00
Other	21,220,168.00
Categorical Educational Program - Class Size Reduction	12,726,727.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	452,989.53
School Recognition	376,203.00
Gross Receipts Tax (Public Education Capital Outlay)	264,652.00
Mobile Home License Tax	235,263.18
Food Service Supplement	142,624.00
Voluntary Prekindergarten	50,493.71
Discretionary Lottery Funds	32,566.00
Miscellaneous	373,814.32
Total	<u>\$ 42,930,090.74</u>

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

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

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	5.264	\$ 32,402,062.44
Basic Discretionary Local Effort	0.748	4,604,247.12
Critical Operating Needs	0.250	1,538,852.64
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.425</u>	<u>8,771,477.44</u>
Total	<u><u>7.687</u></u>	<u><u>\$47,316,639.64</u></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 Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

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

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service Deferred Retirement Option Program - Applicable to	0.00	13.12
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 \$5,683,424.86, \$5,690,326.64, and \$5,318,796.69, respectively, which were equal to the required contributions for each fiscal year. There were 227 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$690,084.01.

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.

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

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 healthcare and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired 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. The District does not offer any explicit subsidies for retiree coverage. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 272 retirees received other postemployment benefits. The District provided required contributions of \$367,422 toward the annual OPEB cost, net of retiree contributions totaling \$619,723, which represents 1 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 333,669
Amortization of Unfunded Actuarial Accrued Liability	340,440
Interest on Normal Cost and Amortization	31,735
Annual Required Contribution	705,844
Interest on Net OPEB Obligation	12,399
Adjustment to Annual Required Contribution	(16,157)
Annual OPEB Cost (Expense)	702,086
Contribution Toward the OPEB Cost	(367,422)
Increase in Net OPEB Obligation	334,664
Net OPEB Obligation, Beginning of Year	330,647
Net OPEB Obligation, End of Year	\$ 665,311

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010 and the preceding year, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0.0%	\$ 0
2008-09	679,521	51.3%	330,647
2009-10	702,086	52.3%	665,311

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

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

**HIGHLANDS 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 initial OPEB actuarial valuation as of October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010 and to estimate the District’s 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested funds. The actuarial assumptions also included a payroll growth rate of 4 percent and an initial annual healthcare cost trend rate of 13 percent as of October 1, 2008, reduced by various decrements each year to an ultimate trend rate of 5 percent beginning October 1, 2019. 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 18 years.

16. OPERATING LEASE COMMITMENTS

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

Fiscal Year Ending June 30	Amount
2011	\$ 95,000
2012	95,000
2013	95,000
2014	95,000
2015	95,000
2016-2019	380,000
Total Minimum Payments Required	\$ 855,000

17. CONSORTIUM

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

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

18. 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 District is a member of the South Central Educational Risk Management Program (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 the 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. However, member school boards are 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 the fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of reinsurance policies or excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except wind/hail/flood). The named wind or named flood deductible is 5 percent of replacement cost value with a minimum of \$250,000 per occurrence. Deductibles for unnamed wind or flood events is \$100,000 plus \$100,000 time element for any one occurrence. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents. SCERMP's purchased reinsurance property loss limit 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. The SCERMP purchases excess reinsurance coverage through commercial insurance carriers covering aggregate group workers' compensation loss claims in 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 individual 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 is self-insured for employee dental coverage, which is administered by a third-party provider. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

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

	Beginning-of- Fiscal -Year Liability	Current-Year Claims and Changes Estimates	Claims Payments	Balance at Fiscal Year- End
2008-09	\$ 40,597.20	\$ 803,051.34	\$ (810,423.32)	\$ 33,225.22
2009-10	33,225.22	790,474.55	(786,713.44)	36,986.33

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 114,390.00	\$ 155,667.84	\$ 155,667.84	\$
Federal Through State and Local	350,000.00	441,392.30	441,392.30	
State	42,970,635.00	41,830,941.63	41,851,921.19	20,979.56
Local:				
Property Taxes	36,393,987.00	37,734,101.61	37,734,101.61	
Miscellaneous	1,510,628.00	1,880,560.93	2,042,423.83	161,862.90
Total Revenues	81,339,640.00	82,042,664.31	82,225,506.77	182,842.46
Expenditures				
Current - Education:				
Instruction	48,631,694.28	48,362,278.06	47,175,564.60	1,186,713.46
Pupil Personnel Services	3,807,920.00	4,648,669.79	4,623,709.97	24,959.82
Instructional Media Services	102,600.67	182,651.77	166,320.89	16,330.88
Instruction and Curriculum Development Services	1,225,852.00	1,353,219.26	818,162.99	535,056.27
Instructional Staff Training Services	130,520.00	153,318.28	114,611.65	38,706.63
Instruction Related Technology	393,324.00	401,617.89	386,379.86	15,238.03
School Board	546,431.00	540,057.79	419,956.42	120,101.37
General Administration	423,200.00	475,906.93	456,663.23	19,243.70
School Administration	6,083,883.39	6,370,227.76	6,243,508.58	126,719.18
Facilities Acquisition and Construction		41.00		41.00
Fiscal Services	755,961.00	806,114.72	795,080.66	11,034.06
Food Services				
Central Services	1,359,599.00	1,353,279.37	1,188,642.07	164,637.30
Pupil Transportation Services	5,813,003.00	6,090,350.59	5,477,414.08	612,936.51
Operation of Plant	10,562,504.66	10,109,315.79	9,948,222.78	161,093.01
Maintenance of Plant	2,295,118.00	2,365,749.71	2,187,035.24	178,714.47
Administrative Technology Services	377,459.00	399,637.26	396,964.83	2,672.43
Community Services	414,745.00	684,062.42	654,497.99	29,564.43
Fixed Capital Outlay:				
Facilities Acquisition and Construction		183,077.89	16,010.67	167,067.22
Other Capital Outlay	12,258.00	115,290.35	77,085.47	38,204.88
Total Expenditures	82,936,073.00	84,594,866.63	81,145,831.98	3,449,034.65
Excess (Deficiency) of Revenues Over Expenditures	(1,596,433.00)	(2,552,202.32)	1,079,674.79	3,631,877.11
Other Financing Sources				
Transfers In	1,596,433.00	1,596,433.00	1,468,160.89	(128,272.11)
Total Other Financing Sources	1,596,433.00	1,596,433.00	1,468,160.89	(128,272.11)
Net Change in Fund Balances		(955,769.32)	2,547,835.68	3,503,605.00
Fund Balances, Beginning	3,054,464.69	3,054,464.69	3,054,464.69	
Fund Balances, Ending	\$ 3,054,464.69	\$ 2,098,695.37	\$ 5,602,300.37	\$ 3,503,605.00

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 8,873,094.80	\$ 517,662.34 12,375,545.60	\$ 390,458.23 10,815,200.80	\$ (127,204.11) (1,560,344.80)	\$ 9,452,435.04	\$ 10,162,440.14	\$ 7,889,301.75	\$ (2,273,138.39)
<u>8,873,094.80</u>	<u>12,893,207.94</u>	<u>11,205,659.03</u>	<u>(1,687,548.91)</u>	<u>9,452,435.04</u>	<u>10,162,440.14</u>	<u>7,889,301.75</u>	<u>(2,273,138.39)</u>
4,283,507.00	6,246,131.99	5,565,213.32	680,918.67	5,582,273.00	5,282,479.69	4,606,021.70	676,457.99
1,212,763.80	1,400,400.66	1,269,921.62	130,479.04	48,047.04	53,635.04	24,092.27	29,542.77
				1,004,318.00	1,099,488.13	1,099,488.13	
1,005,107.00	1,868,047.29	1,594,812.25	273,235.04	246,680.00	394,555.50	134,787.43	259,768.07
989,868.00	1,492,143.55	1,097,777.03	394,366.52	764,931.00	964,569.50	670,715.32	293,854.18
602,295.00	660,952.12	654,931.16	6,020.96	489,826.00	655,148.50	525,187.61	129,960.89
274,013.00	313,403.68	297,738.19	15,665.49	135,020.00	147,427.29 79,903.00	93,760.88 79,898.13	53,666.41 4.87
					12,597.23	12,597.23	
203,579.00	322,224.00 4,454.12	268,467.25 2,485.47	53,756.75 1,968.65	132,165.00	46,000.00 12,000.00	14,241.76 12,000.00	31,758.24 12,000.00
					2,073.53	1,717.06	356.47
<u>301,962.00</u>	<u>585,450.53</u>	<u>454,312.74</u>	<u>131,137.79</u>	<u>1,049,175.00</u>	<u>1,412,562.73</u>	<u>626,794.23</u>	<u>785,768.50</u>
<u>8,873,094.80</u>	<u>12,893,207.94</u>	<u>11,205,659.03</u>	<u>1,687,548.91</u>	<u>9,452,435.04</u>	<u>10,162,440.14</u>	<u>7,889,301.75</u>	<u>2,273,138.39</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HIGHLANDS 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)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 1,649,677.48	\$
National School Lunch Program	10.555	300, 350	3,902,107.87	
Summer Food Service Program for Children	10.559	323	254,897.83	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	437,358.06	
Total Child Nutrition Cluster			6,244,041.24	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	136,319.60	
Total United States Department of Agriculture			6,380,360.84	
United States Department of Labor:				
Indirect:				
Heartland Workforce Investment Board, Inc.:				
ARRA - WIA Youth Activities, Recovery Act	17.259	None	90,289.26	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	390,458.23	23,710.64
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	3,185,874.87	266,876.25
Special Education - Preschool Grants	84.173	266, 267	181,033.08	92,231.67
ARRA - Special Education Grants to States, Recovery Act	84.391	263	1,879,128.95	
ARRA - Special Education Preschool Grants, Recovery Act	84.392	267	38,678.76	
Total Special Education Cluster			5,284,715.66	359,107.92
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	4,278,163.22	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 222, 223, 226	1,550,924.94	
Total Title I, Part A Cluster			5,829,088.16	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	17,805.95	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	72,615.03	
Total Educational Technology State Grants Cluster			90,420.98	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	3,832,890.00	1,717.06
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	407,214.47	
Total State Fiscal Stabilization Fund Cluster			4,240,104.47	1,717.06
United States Department of Education (Continued):				
Florida Department of Education:				
Migrant Education - State Grant Program	84.011	217	818,464.03	
Title I Program for Neglected and Delinquent Children	84.013	223	15,857.38	
Career and Technical Education - Basic Grants to States	84.048	151, 161	250,549.74	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	61,037.59	
Twenty-First Century Community Learning Centers	84.287	244	612,664.02	63,485.33
Reading First State Grants	84.357	211	16,089.08	
Rural Education	84.358	110	311,894.43	
English Language Acquisition Grants	84.365	102	133,910.61	
Improving Teacher Quality State Grants	84.367	224	682,982.58	
School Improvement Grants	84.377	126	1,185.68	
Washington County District School Board:				
Reading First State Grants	84.357	None	28,050.00	
University of South Florida:				
Mathematics and Science Partnerships	84.366	None	157,399.28	301.26
Total Indirect			18,534,413.69	424,611.57
Total United States Department of Education			18,924,871.92	448,322.21

HIGHLANDS 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)	Amount Provided to Subrecipients
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	\$ 155,667.84	\$
Total Expenditures of Federal Awards			\$ 25,551,189.86	\$ 448,322.21

- 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.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board as of and for the fiscal year ended June 30, 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 discretely presented component unit, as described in our report on the Highlands County District School Board's financial statements. For the school internal funds and the discretely presented component unit, 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 a 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, 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

March 15, 2011



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The President of the Senate, the Speaker of the
House of Representatives, and the
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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 Highlands 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 fiscal year ended June 30, 2010.

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.

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

Respectfully submitted,



David W. Martin, CPA
March 15, 2011

**HIGHLANDS 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)? None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*? No

Identification of major programs: ARRA - 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 Cluster (CFDA Nos. 84.394 - ARRA and 84.397-ARRA); and Migrant Education (CFDA No. 84.011)

Dollar threshold used to distinguish between Type A and Type B programs: \$766,535

Auditee qualified as low-risk auditee? Yes

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

FINANCIAL STATEMENT FINDING

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.

Generally accepted accounting principles and Chapter 4, Object Codes, of the Florida Department of Education publication titled *Financial and Program Cost Accounting and Reporting for Florida Schools*, require the District to capitalize costs that extend or prolong the useful lives of District assets. However, the District expensed remodeling and renovation costs in the government-wide statements because they were not aware of the requirement to capitalize such costs. As a result, capital assets reported in the government-wide statement of net assets were understated by approximately \$17.2 million (net of \$8.4 million in accumulated depreciation), as well as a corresponding understatement of the net asset account: invested in capital assets, net of related debt. In addition, approximately \$1.9 million in renovation expenditures were improperly classified as current rather than capital on the government-wide statements. We were able to extend our audit procedures to determine the adjustments necessary to properly report these amounts on the financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting.

Recommendation: To ensure the accuracy and completeness of its financial statements, the District should enhance procedures to properly capitalize the cost of remodeling and renovation projects.

ADDITIONAL MATTERS

Finding No. 2: 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 instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that the instructional personnel were not evaluated based primarily on student performance, such as FCAT scores. District personnel indicated that because the FCAT results were not available until June 2010, and the District is required, pursuant to Section 1012.33(3)(4), Florida Statutes, to provide the evaluations to instructional personnel no later than six weeks before the end of the school year, these performance assessments were not based primarily on student performance. The Superintendent performed performance assessments of school administrators after receipt of the FCAT scores, and the assessments were based primarily on student performance. However, the District made no performance assessments of instructional personnel after receipt of the FCAT scores to ensure appropriate consideration of student performance. Without measuring employee performance by the required criteria, performance assessments of instructional personnel are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel include consideration of student performance.

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the District to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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

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

- **Instructional Personnel.** The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes. In addition, neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven-hour day, such as supplements for athletic coaches and department chairpersons, and for critical shortage areas, such as speech pathologists, social workers, and program specialists. However, District records did not sufficiently evidence the basis for identifying the selected critical shortage areas. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties by providing 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. 4: Information Technology – Written Policies and Procedures

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

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.
- Administrator user identification codes (IDs), administrator passwords, and vendor-supplied IDs and passwords.
- Configuring and administering security devices (such as firewalls and routers)
- Defining access privileges granted and the responsibilities of the help desk staff.
- Prohibiting administrator rights on the workstations of end users.
- Reporting suspected, and responding to actual, security incidents.

Similar findings were noted in previous audits, most recently in our report No. 2010-112. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

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

Finding No. 5: Information Technology – Security Controls – User Authentication and Logging, Monitoring, and Review of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication and logging, monitoring, and review of system activity that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Similar findings were noted in previous audits, most recently in our report No. 2010-112. Without adequate security controls related to user authentication and logging, monitoring, and review of system activity, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-112.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-132 (1)	Title I Grants to Local Educational Agencies(CFDA No. 84.010)/Special Tests and Provisions and Earmarking	Improvements were needed in procedures associated with coordination of supplemental educational services to ensure that parents have sufficient time and information to make informed decisions. The District earmarked \$612,947 but only spent \$370,628 on such costs, resulting in questioned costs of \$242,318.	No further action warranted.	Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse. The Federal agency (or pass thru entity) is not currently following up with the District on the audit finding and a management decision was not issued.

EXHIBIT A
MANAGEMENT'S RESPONSE



The School Board of Highlands County

426 School Street • Sebring, FL 33870-4048

(863) 471-5555 • FAX (863) 471-5600 TDD (863) 382-3693

Wally Cox
Superintendent

Donna Howerton
Chairperson

J. Ned Hancock
Vice Chairperson

Andy Tuck

Ronnie Jackson

Bill Brantley

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

Date: February 24, 2011
Subject: Audit Response

Dear Mr. Martin:

We have enclosed our responses to the preliminary and tentative audit findings of the audit conducted by your office for the period ending June 30, 2010.

Finding No. 1: Financial Reporting

The School District will review its procedures to ensure that remodeling and renovation projects are properly capitalized.

Finding No. 2: Performance Assurances

FCAT scores were not available to meet the reappointment dates for teachers by statute. The district used Board approved Individual Professional Development Plans (IPDP). Area 8 of the plan measures teacher performance based on student growth and achievement. Indicators may include: teacher-made test, textbook pre/post tests, criterion and norm referenced standardized tests, professional team interaction, analysis reports, documented parent interaction, student discipline records, and other indicators as deemed appropriated by the district and/or required by adopted curriculum standards. The School District is currently in the process of revising its performance appraisal instruments for teachers and administrators to include 50% weighting for student growth and achievement to meet the requirements for the Race to the Top grant.

Finding No. 3: Compensation and Salary Schedules

The district currently uses a Board approved/Union ratified multi-metric performance appraisal instrument comprised of eight (8) areas to determine performance. While area #8, Student Growth/Achievement is a priority, the other seven (7) areas aligned with the Florida Educator Accomplished Practices provide

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EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

strong consideration for final determination of performance rating levels. The seven areas are as follows:

1. Planning and Preparation, 2. Classroom Management, 3. Assessment and Evaluation, 4. Intervention/Direct Services, 5. Collaboration, 5. Staff Development, and 7. Professional Responsibilities

The Board’s Salary Schedule includes Differentiated Pay designations determined by committee for both instructional personnel and school-based administrative personnel. Supplements and indexes are paid for additional responsibilities, additional days/hours worked for level of job performance difficulties, and district-determined critical shortage areas. Currently a committee is in progress to further define Differentiated Pay designations to also include school demographics for teachers and district-determined critical shortage areas for school-based administrators. Once completed, the work will be reviewed by the Superintendent and recommended for placement on the Board’s agenda for approval.

Finding No. 4: Information Technology – Written Policies and Procedures

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

Finding No. 5: Information Technology – User authentication and Logging, Monitoring, and Review of System Activity

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

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

Sincerely,



Wally Cox
Superintendent