

HAMILTON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

| | <u>District No.</u> |
|--|---------------------|
| Damon Deas, Vice Chair to 11-15-10, Chair from 11-16-10 | 1 |
| William Gary Godwin, Vice Chair from 11-16-10 | 2 |
| Jeanie Daniels | 3 |
| Joyce Law Shaw to 11-15-10 | 4 |
| Johnny Bullard from 11-16-10 | 4 |
| Don J. Fenneman to 11-15-10, Chair | 5 |
| Sammy McCoy from 11-16-10 | 5 |

Martha W. Butler, Superintendent

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

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

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

HAMILTON COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, as summarized below. However, the significant deficiencies are not considered to be material weaknesses.

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

SIGNIFICANT DEFICIENCIES

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

Finding No. 2: Three employees had excessive information technology (IT) access privileges.

ADDITIONAL MATTERS

Finding No. 3: The District could enhance the monthly financial reports provided to the Board.

Finding No. 4: The District needed to improve its financial reporting procedures.

Finding No. 5: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 6: 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 (2010), 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 (2010).

Finding No. 7: Controls over electronic funds transfers could be enhanced.

Finding No. 8: The District could improve IT security controls related to data loss prevention.

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; State Fiscal Stabilization Fund Cluster; Educational Technology State Grants Cluster; School Improvement Grants Cluster; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on the major Federal programs tested.

Audit Objectives and Scope

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

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

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2011-090.

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, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of and for the fiscal year ended June 30, 2011, 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 46 percent of the assets and 67 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Hamilton County District School Board as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Hamilton County District School Board's internal control over financial reporting and on our tests of its compliance with

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, 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
February 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- The District's total net assets decreased by \$197,325 (or .6 percent), from \$32,452,206 at June 30, 2010, to \$32,254,881 at June 30, 2011.
- During the 2010-11 fiscal year, General Fund expenditures exceeded revenues by \$349,797.
- The General Fund's unassigned fund balance, which is similar to the previously reported unreserved, undesignated fund balance, decreased from \$442,630 as of June 30, 2010, to \$328,695 (or 2.4 percent of expenditures) as of June 30, 2011.
- The District's student enrollment increased by 15 students (or .9 percent) over the preceding fiscal year. The student ending enrollment was 1,713 for the 2010-11 fiscal year. See the MD&A's **OTHER MATTERS OF SIGNIFICANCE** for further evaluation of enrollment changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the District presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's governmental activities. Most of the District's services include its educational programs: basic, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the state's education finance program provide most of the resources that support these activities.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

| | Net Assets, End of Year | |
|------------------------------|--------------------------------|----------------------|
| | Governmental Activities | |
| | 6-30-11 | 6-30-10 |
| Current and Other Assets | \$ 3,662,843 | \$ 4,041,869 |
| Capital Assets | 30,925,700 | 31,223,734 |
| Total Assets | 34,588,543 | 35,265,603 |
| Long-Term Liabilities | 1,784,176 | 1,917,404 |
| Other Liabilities | 549,486 | 895,993 |
| Total Liabilities | 2,333,662 | 2,813,397 |
| Net Assets: | | |
| Invested in Capital Assets - | | |
| Net of Related Debt | 30,585,700 | 30,843,734 |
| Restricted | 1,461,262 | 1,799,815 |
| Unrestricted (Deficit) | 207,919 | (191,343) |
| Total Net Assets | \$ 32,254,881 | \$ 32,452,206 |

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

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 6-30-11 | 6-30-10 |
| Program Revenues: | | |
| Charges for Services | \$ 250,432 | \$ 235,982 |
| Operating Grants and Contributions | 884,569 | 826,220 |
| Capital Grants and Contributions | 470,259 | 141,119 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 4,657,638 | 5,005,555 |
| Property Taxes, Levied for Capital Projects | 1,090,023 | 1,153,428 |
| Grants and Contributions Not Restricted to Specific Programs | 13,652,323 | 11,595,327 |
| Unrestricted Investment Earnings | 9,944 | 18,376 |
| Miscellaneous | 535,065 | 452,457 |
| Total Revenues | 21,550,253 | 19,428,464 |
| Functions/Program Expenses: | | |
| Instruction | 9,506,517 | 9,263,198 |
| Pupil Personnel Services | 1,090,460 | 990,757 |
| Instructional Media Services | 175,738 | 177,854 |
| Instruction and Curriculum Development Services | 1,235,699 | 879,871 |
| Instructional Staff Training Services | 947,400 | 613,852 |
| Instruction Related Technology | 546,318 | 115,695 |
| School Board | 327,246 | 238,161 |
| General Administration | 402,930 | 818,183 |
| School Administration | 793,635 | 835,795 |
| Facilities Acquisition and Construction | 292,529 | 301,198 |
| Fiscal Services | 292,192 | 333,126 |
| Food Services | 1,147,591 | 1,065,279 |
| Central Services | 229,065 | 102,745 |
| Pupil Transportation Services | 1,421,681 | 1,296,010 |
| Operation of Plant | 1,830,504 | 1,378,264 |
| Maintenance of Plant | 334,969 | 327,593 |
| Administrative Technology Services | 55,915 | 76,016 |
| Community Services | 148,378 | 152,633 |
| Unallocated Interest on Long-Term Debt | 19,038 | 21,074 |
| Unallocated Depreciation Expense | 949,773 | 965,508 |
| Total Functions/Program Expenses | 21,747,578 | 19,952,812 |
| Decrease in Net Assets | \$ (197,325) | \$ (524,348) |

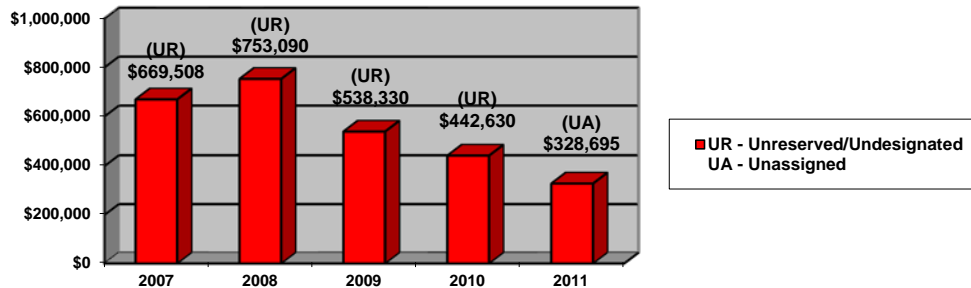
The largest revenue source is the State of Florida (37.2 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Revenues increased approximately \$2,121,789, due primarily to additional Federal revenues through the American Recovery and Reinvestment Act and Education Jobs Fund programs. Expenses increased approximately \$1,794,766 as a result of these additional Federal revenues.

Instruction expense represents 43.7 percent of total governmental expenses for the 2010-11 fiscal year. Instruction expense increased by \$243,319, or 2.6 percent, from the previous fiscal year due mainly to additional Federal grants.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

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

Unassigned and Unreserved/Undesignated General Fund Balances. The unassigned fund balance of the General Fund at June 30, 2011, was \$113,935 less than the amount reported as unreserved, undesignated fund balance at June 30, 2010. The unreserved, undesignated fund balance of the General Fund steadily decreased from June 30, 2008, to the unassigned fund balance at June 30, 2011. This trend is due, in part, to reductions in FEFP. The following chart reflects these fund balances at June 30 for the past five fiscal year ends.



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

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

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,273,633, which is restricted for expenditures related to capital outlay. The fund balance increased by \$218,534 because there was only one minor renovation project in the current fiscal year, leading to an accumulation of fund balance.

BUDGET VARIANCES IN THE GENERAL FUND

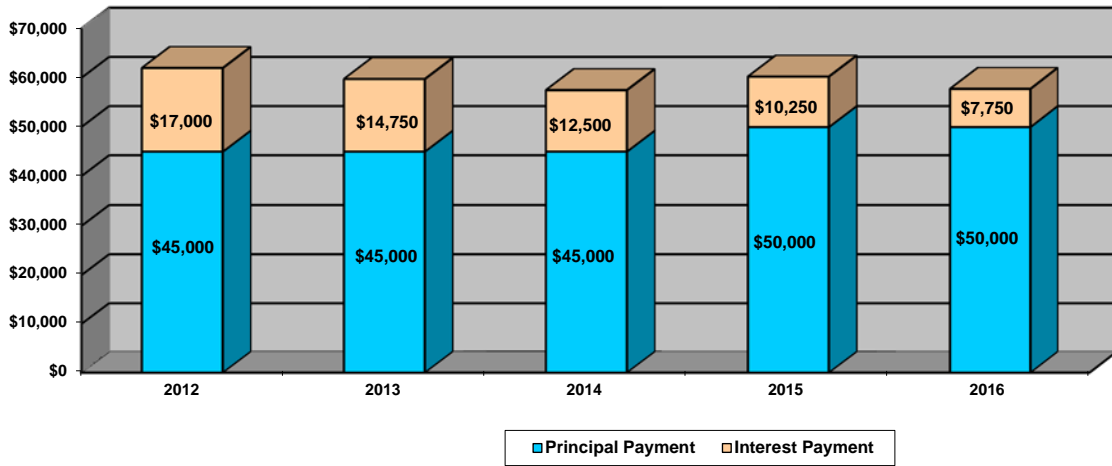
Original and final budget amounts did not change significantly. Actual revenues were \$977,740 more than final budgeted amounts while actual expenditures were \$814,214 less than final budgeted amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

The District’s investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$30,925,700 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. There were no significant capital asset events for the 2010-11 fiscal year.

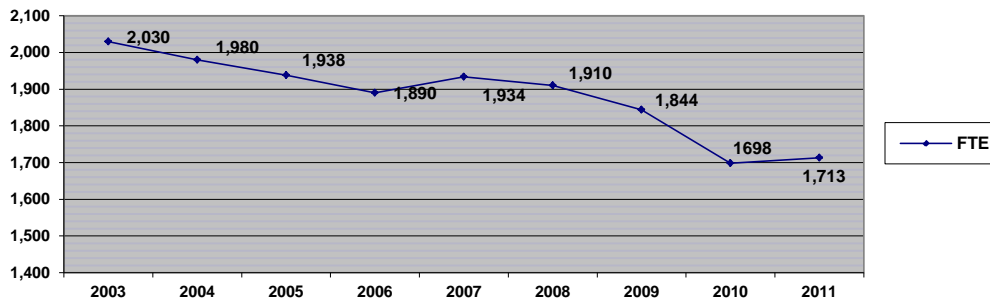
The District did not issue any long-term debt during the 2010-11 fiscal year, and at this time, there are no plans for issuing any new debt.

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



OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. In the General Fund, revenues from State sources comprise 57.6 percent of total available resources of the District. Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 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. As shown in the following chart, the District has experienced a significant decline in FTE, which is used for funding purposes over the past several years, but in the current year there was a slight increase. It is anticipated that the overall declining trend will continue.



REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 2,623,618.08 |
| Investments | 12,201.44 |
| Due from Other Agencies | 835,378.11 |
| Inventories | 191,645.30 |
| Capital Assets: | |
| Nondepreciable Capital Assets | 1,025,568.95 |
| Depreciable Capital Assets, Net | <u>29,900,131.32</u> |
| TOTAL ASSETS | <u><u>\$ 34,588,543.20</u></u> |
| LIABILITIES | |
| Salaries and Benefits Payable | \$ 168,801.94 |
| Accounts Payable | 333,617.06 |
| Construction Contracts Payable - Retainage | 47,067.00 |
| Long-Term Liabilities: | |
| Portion Due Within One Year | 130,000.00 |
| Portion Due After One Year | <u>1,654,176.24</u> |
| Total Liabilities | <u>2,333,662.24</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 30,585,700.27 |
| Restricted for: | |
| State Required Carryover Programs | 98,112.75 |
| Debt Service | 12,201.44 |
| Capital Projects | 1,350,947.17 |
| Unrestricted | <u>207,919.33</u> |
| Total Net Assets | <u>32,254,880.96</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 34,588,543.20</u></u> |

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|-------------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction | \$ 9,506,516.84 | \$ 40,756.90 | \$ | \$ | \$ (9,465,759.94) |
| Pupil Personnel Services | 1,090,460.26 | | | | (1,090,460.26) |
| Instructional Media Services | 175,737.99 | | | | (175,737.99) |
| Instruction and Curriculum Development Services | 1,235,699.36 | | | | (1,235,699.36) |
| Instructional Staff Training Services | 947,399.66 | | | | (947,399.66) |
| Instruction Related Technology | 546,317.56 | | | | (546,317.56) |
| School Board | 327,245.61 | | | | (327,245.61) |
| General Administration | 402,929.66 | | | | (402,929.66) |
| School Administration | 793,634.61 | | | | (793,634.61) |
| Facilities Acquisition and Construction | 292,529.43 | | | 412,242.70 | 119,713.27 |
| Fiscal Services | 292,191.76 | | | | (292,191.76) |
| Food Services | 1,147,590.94 | 185,602.67 | 884,569.06 | | (77,419.21) |
| Central Services | 229,065.15 | | | | (229,065.15) |
| Pupil Transportation Services | 1,421,681.05 | 24,071.95 | | | (1,397,609.10) |
| Operation of Plant | 1,830,503.56 | | | | (1,830,503.56) |
| Maintenance of Plant | 334,969.27 | | | | (334,969.27) |
| Administrative Technology Services | 55,914.84 | | | | (55,914.84) |
| Community Services | 148,378.15 | | | | (148,378.15) |
| Unallocated Interest on Long-Term Debt | 19,037.97 | | | 58,015.82 | 38,977.85 |
| Unallocated Depreciation Expense* | 949,772.86 | | | | (949,772.86) |
| Total Governmental Activities | \$ 21,747,576.53 | \$ 250,431.52 | \$ 884,569.06 | \$ 470,258.52 | (20,142,317.43) |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 4,657,638.21 |
| | | | | | 1,090,022.94 |
| | | | | | 13,652,322.73 |
| | | | | | 9,944.19 |
| | | | | | 535,064.53 |
| Total General Revenues | | | | | 19,944,992.60 |
| Change in Net Assets | | | | | (197,324.83) |
| Net Assets - Beginning | | | | | 32,452,205.79 |
| Net Assets - Ending | | | | | \$ 32,254,880.96 |

* 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.

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**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011**

| | General Fund | Special Revenue - Other Fund | Special Revenue - Federal Economic Stimulus Fund |
|--|------------------------|---------------------------------------|---|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,120,836.91 | \$ | \$ |
| Investments | | | |
| Due from Other Funds | 830,505.37 | | |
| Due from Other Agencies | | 378,775.34 | 435,840.71 |
| Inventories | 148,650.22 | | |
| TOTAL ASSETS | \$ 2,099,992.50 | \$ 378,775.34 | \$ 435,840.71 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Salaries and Benefits Payable | \$ 168,801.94 | \$ | \$ |
| Accounts Payable | 180,982.24 | 15,280.40 | 14,174.45 |
| Construction Contracts Payable - Retainage | | | |
| Due to Other Funds | | 363,494.94 | 421,666.26 |
| Total Liabilities | 349,784.18 | 378,775.34 | 435,840.71 |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Inventory | 148,650.22 | | |
| Restricted for: | | | |
| State Required Carryover Programs | 98,112.75 | | |
| Debt Service | | | |
| Capital Projects | | | |
| Total Restricted Fund Balance | 98,112.75 | | |
| Assigned for 2011-12 Fiscal Year Budget | 1,174,749.89 | | |
| Unassigned Fund Balance | 328,695.46 | | |
| Total Fund Balances | 1,750,208.32 | | |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 2,099,992.50 | \$ 378,775.34 | \$ 435,840.71 |

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

| Capital Projects - Local Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------------------|--------------------------------|
| \$ 1,425,467.00 | \$ 77,314.17 | \$ 2,623,618.08 |
| | 12,201.44 | 12,201.44 |
| | | 830,505.37 |
| | 20,762.06 | 835,378.11 |
| | 42,995.08 | 191,645.30 |
| <u>\$ 1,425,467.00</u> | <u>\$ 153,272.75</u> | <u>\$ 4,493,348.30</u> |
| | | |
| \$ 104,767.00 | \$ 18,412.97 | \$ 168,801.94 |
| 47,067.00 | | 333,617.06 |
| | 45,344.17 | 47,067.00 |
| | | 830,505.37 |
| <u>151,834.00</u> | <u>63,757.14</u> | <u>1,379,991.37</u> |
| | | |
| | 42,995.08 | 191,645.30 |
| | | 98,112.75 |
| | 12,201.44 | 12,201.44 |
| 1,273,633.00 | 77,314.17 | 1,350,947.17 |
| <u>1,273,633.00</u> | <u>89,515.61</u> | <u>1,461,261.36</u> |
| | | 1,174,749.89 |
| | (42,995.08) | 285,700.38 |
| <u>1,273,633.00</u> | <u>89,515.61</u> | <u>3,113,356.93</u> |
| <u>\$ 1,425,467.00</u> | <u>\$ 153,272.75</u> | <u>\$ 4,493,348.30</u> |

HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances - Governmental Funds \$ 3,113,356.93

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. 30,925,700.27

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

| | | |
|---------------------------------------|---------------------|-----------------------|
| Bonds Payable | \$ 340,000.00 | |
| Other Postemployment Benefits Payable | 94,643.00 | |
| Compensated Absences Payable | <u>1,349,533.24</u> | <u>(1,784,176.24)</u> |

Total Net Assets - Governmental Activities \$ 32,254,880.96

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

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**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011**

| | General Fund | Special Revenue - Other Fund | Special Revenue - Federal Economic Stimulus Fund |
|--|-----------------|---------------------------------------|---|
| Revenues | | | |
| Intergovernmental: | | | |
| Federal Direct | \$ 178,016.36 | \$ | \$ |
| Federal Through State and Local | 119,479.70 | 2,889,598.74 | 2,949,785.27 |
| State | 7,552,745.90 | | |
| Local: | | | |
| Property Taxes | 4,657,638.21 | | |
| Charges for Services - Food Service | | | |
| Miscellaneous | 603,821.29 | | |
| Total Revenues | 13,111,701.46 | 2,889,598.74 | 2,949,785.27 |
| Expenditures | | | |
| Current - Education: | | | |
| Instruction | 7,106,306.48 | 1,328,531.59 | 1,123,849.58 |
| Pupil Personnel Services | 373,353.11 | 375,387.16 | 347,723.48 |
| Instructional Media Services | 56,188.93 | | 120,609.80 |
| Instruction and Curriculum Development Services | 358,872.31 | 660,330.10 | 224,112.68 |
| Instructional Staff Training Services | 23,585.03 | 377,797.13 | 549,774.04 |
| Instruction Related Technology | 75,473.18 | | 471,293.40 |
| School Board | 328,233.95 | | |
| General Administration | 271,489.02 | 76,499.07 | 56,294.31 |
| School Administration | 784,753.57 | 2,675.00 | 11,298.89 |
| Facilities Acquisition and Construction | | | |
| Fiscal Services | 293,787.97 | | |
| Food Services | | | |
| Central Services | 192,713.00 | | 37,148.10 |
| Pupil Transportation Services | 1,210,705.46 | 6,337.92 | |
| Operation of Plant | 1,824,328.75 | 8,272.41 | 840.46 |
| Maintenance of Plant | 336,492.99 | | |
| Administrative Technology Services | 56,273.96 | | |
| Community Services | 148,378.15 | | |
| Fixed Capital Outlay: | | | |
| Facilities Acquisition and Construction | | | |
| Other Capital Outlay | 20,562.17 | 53,768.36 | 6,840.53 |
| Debt Service: | | | |
| Principal | | | |
| Interest and Fiscal Charges | | | |
| Total Expenditures | 13,461,498.03 | 2,889,598.74 | 2,949,785.27 |
| Excess (Deficiency) of Revenues Over Expenditures | (349,796.57) | | |
| Other Financing Sources (Uses) | | | |
| Transfers In | 384,774.00 | | |
| Insurance Loss Recoveries | 4,674.70 | | |
| Transfers Out | (88,528.69) | | |
| Total Other Financing Sources (Uses) | 300,920.01 | | |
| Net Change in Fund Balances | (48,876.56) | | |
| Fund Balances, Beginning | 1,799,084.88 | | |
| Fund Balances, Ending | \$ 1,750,208.32 | \$ 0.00 | \$ 0.00 |

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

| Capital Projects - Local Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------------------|--------------------------------|
| \$ | \$ | \$ |
| | 178,016.36 | 6,815,120.24 |
| | 856,256.53 | 8,014,013.71 |
| | 461,267.81 | |
| 1,090,022.94 | | 5,747,661.15 |
| | 185,602.67 | 185,602.67 |
| 109.57 | 1,232.01 | 605,162.87 |
| <u>1,090,132.51</u> | <u>1,504,359.02</u> | <u>21,545,577.00</u> |
| | | 9,558,687.65 |
| | | 1,096,463.75 |
| | | 176,798.73 |
| | | 1,243,315.09 |
| | | 951,156.20 |
| | | 546,766.58 |
| | | 328,233.95 |
| | | 404,282.40 |
| | | 798,727.46 |
| 292,529.43 | | 292,529.43 |
| | | 293,787.97 |
| | 1,150,523.14 | 1,150,523.14 |
| | | 229,861.10 |
| | | 1,217,043.38 |
| | | 1,833,441.62 |
| | | 336,492.99 |
| | | 56,273.96 |
| | | 148,378.15 |
| 97,602.77 | 437,966.18 | 535,568.95 |
| 236,466.00 | 7,763.00 | 325,400.06 |
| | 40,000.00 | 40,000.00 |
| | 19,037.97 | 19,037.97 |
| <u>626,598.20</u> | <u>1,655,290.29</u> | <u>21,582,770.53</u> |
| <u>463,534.31</u> | <u>(150,931.27)</u> | <u>(37,193.53)</u> |
| | 88,528.69 | 473,302.69 |
| | | 4,674.70 |
| (245,000.00) | (139,774.00) | (473,302.69) |
| <u>(245,000.00)</u> | <u>(51,245.31)</u> | <u>4,674.70</u> |
| 218,534.31 | (202,176.58) | (32,518.83) |
| 1,055,098.69 | 291,692.19 | 3,145,875.76 |
| <u>\$ 1,273,633.00</u> | <u>\$ 89,515.61</u> | <u>\$ 3,113,356.93</u> |

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

Net Change in Fund Balances - Governmental Funds \$ (32,518.83)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (298,033.85)

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 fiscal year. 40,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year. 93,227.85

Change in Net Assets - Governmental Activities \$ (197,324.83)

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS & LIABILITIES -
FIDUCIARY FUNDS
June 30, 2011**

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 129,841.00</u> |
| LIABILITIES | |
| Internal Accounts Payable | <u>\$ 129,841.00</u> |

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Hamilton County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Hamilton County School District (District) is considered part of the Florida system of public education. The governing body of the District is the 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 Hamilton County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

➤ **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 District.

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

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

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other stimulus programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

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

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

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. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **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 Florida PRIME investment pool created by Sections 218.405, Florida Statutes. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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

➤ **Inventories**

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. On July 1, 2010, the capitalization threshold was changed from \$500 to \$1,000; this change is being made prospectively. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

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

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the 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 Hamilton County Property Appraiser, and property taxes are collected by the Hamilton County Tax Collector.

The Board adopted the 2010 tax levy on September 13, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- 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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

amended by resolution at any School Board meeting prior to the due date for the annual financial report.

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

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

| Investments | Maturities | Fair Value |
|--------------------------------------|----------------|---------------------|
| State Board of Administration (SBA): | | |
| Florida PRIME (1) | 31 Day Average | \$ 2,357.77 |
| Debt Service Accounts | 6 Months | 12,201.44 |
| | | <u>14,559.21</u> |
| Total Investments | | <u>\$ 14,559.21</u> |

Notes: (1) Investments reported as a cash equivalent for financial statement reporting purposes.

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

Credit Risk

- Credit risk is the risk than an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that would further limit its investment choices.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|-------------------------|------------------------|-------------------|-------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 490,000.00 | \$ | \$ | \$ 490,000.00 |
| Construction in Progress | | 535,568.95 | | 535,568.95 |
| Total Capital Assets Not Being Depreciated | 490,000.00 | 535,568.95 | | 1,025,568.95 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 2,333,515.90 | | | 2,333,515.90 |
| Buildings and Fixed Equipment | 32,359,824.85 | | | 32,359,824.85 |
| Furniture, Fixtures, and Equipment | 4,217,834.66 | 98,114.06 | 268,932.97 | 4,047,015.75 |
| Motor Vehicles | 2,656,205.77 | 227,286.00 | | 2,883,491.77 |
| Audio Visual Materials and Computer Software | 810,311.63 | | 59,206.32 | 751,105.31 |
| Total Capital Assets Being Depreciated | 42,377,692.81 | 325,400.06 | 328,139.29 | 42,374,953.58 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 518,597.36 | 54,587.90 | | 573,185.26 |
| Buildings and Fixed Equipment | 5,061,663.48 | 648,202.44 | | 5,709,865.92 |
| Furniture, Fixtures, and Equipment | 3,772,577.55 | 246,982.52 | 268,932.97 | 3,750,627.10 |
| Motor Vehicles | 1,480,808.67 | 209,230.00 | | 1,690,038.67 |
| Audio Visual Materials and Computer Software | 810,311.63 | | 59,206.32 | 751,105.31 |
| Total Accumulated Depreciation | 11,643,958.69 | 1,159,002.86 | 328,139.29 | 12,474,822.26 |
| Total Capital Assets Being Depreciated, Net | 30,733,734.12 | (833,602.80) | | 29,900,131.32 |
| Governmental Activities Capital Assets, Net | \$ 31,223,734.12 | \$ (298,033.85) | \$ 0.00 | \$ 30,925,700.27 |

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Depreciation expense was charged to functions as follows:

| Function | Amount |
|--|------------------------|
| GOVERNMENTAL ACTIVITIES | |
| Pupil Transportation Services | \$ 209,230.00 |
| Unallocated | 949,772.86 |
| | <u>949,772.86</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 1,159,002.86</u> |

5. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

| Bond Type | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|-------------------------|-----------------------|--------------------------------|--------------------------|
| State School Bonds: | | | |
| Series 2005B, Refunding | <u>\$ 340,000</u> | 5.0 | 2018 |

These bonds were issued by the State Board of Education on behalf of the District to finance capital outlay projects 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 SBA.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|----------------------------------|----------------------|----------------------|---------------------|
| State School Bonds: | | | |
| 2012 | \$ 62,000.00 | \$ 45,000.00 | \$ 17,000.00 |
| 2013 | 59,750.00 | 45,000.00 | 14,750.00 |
| 2014 | 57,500.00 | 45,000.00 | 12,500.00 |
| 2015 | 60,250.00 | 50,000.00 | 10,250.00 |
| 2016 | 57,750.00 | 50,000.00 | 7,750.00 |
| 2017-2018 | <u>113,000.00</u> | <u>105,000.00</u> | <u>8,000.00</u> |
| Total State School Bonds | <u>\$ 410,250.00</u> | <u>\$ 340,000.00</u> | <u>\$ 70,250.00</u> |

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

6. CHANGES IN LONG-TERM LIABILITIES

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

| Description | Beginning Balance | Additions | Deductions | Ending Balance | Due In One Year |
|---------------------------------------|------------------------|----------------------|----------------------|------------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds Payable | \$ 380,000.00 | \$ | \$ 40,000.00 | \$ 340,000.00 | \$ 45,000.00 |
| Compensated Absences Payable | 1,442,761.09 | 127,345.73 | 220,573.58 | 1,349,533.24 | 85,000.00 |
| Other Postemployment Benefits Payable | <u>94,643.00</u> | <u>150,529.00</u> | <u>150,529.00</u> | <u>94,643.00</u> | |
| Total Governmental Activities | <u>\$ 1,917,404.09</u> | <u>\$ 277,874.73</u> | <u>\$ 411,102.58</u> | <u>\$ 1,784,176.24</u> | <u>\$ 130,000.00</u> |

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. Due to the nature of the liability, there is no amount of other postemployment benefits due in one year.

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| Funds | Interfund | |
|---------------------------|----------------------|----------------------|
| | Receivables | Payables |
| Major: | | |
| General | \$ 830,505.37 | \$ |
| Special Revenue: | | |
| Other | | 363,494.94 |
| Federal Economic Stimulus | | 421,666.26 |
| Nonmajor Governmental | | <u>45,344.17</u> |
| Total | <u>\$ 830,505.37</u> | <u>\$ 830,505.37</u> |

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

| Funds | Interfund | |
|---------------------------|---------------|---------------|
| | Transfers In | Transfers Out |
| Major: | | |
| General | \$ 384,774.00 | \$ 88,528.69 |
| Capital Projects: | | |
| Local Capital Improvement | | 245,000.00 |
| Nonmajor Governmental | 88,528.69 | 139,774.00 |
| Total | \$ 473,302.69 | \$473,302.69 |

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

8. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

The District reports its governmental fund balances in the following categories, as applicable:

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories as nonspendable.

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Director of Business Services and not included in other categories.

➤ **Unassigned**

The portion of fund balance that is residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue sources for the 2010-11 fiscal year:

| <u>Source</u> | <u>Amount</u> |
|---|-----------------------------------|
| Florida Education Finance Program | \$ 5,162,631.00 |
| Categorical Educational Program - Class Size Reduction | 1,800,624.00 |
| Gross Receipts Tax (Public Education Capital Outlay) | 364,333.00 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 76,301.90 |
| Workforce Development Program | 72,972.00 |
| School Recognition | 47,131.00 |
| Food Service Supplement | 21,472.00 |
| Mobile Home License Tax | 7,927.06 |
| Discretionary Lottery Funds | 6,155.00 |
| Miscellaneous | <u>454,466.75</u> |
| Total | <u><u>\$ 8,014,013.71</u></u> |

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

10. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

| | <u>Millages</u> | <u>Taxes Levied</u> |
|-----------------------------------|-----------------|---------------------|
| <u>GENERAL FUND</u> | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 5.408 | \$ 4,044,980.32 |
| Basic Discretionary Local Effort | 0.748 | 559,475.55 |
| Critical Operating Needs | 0.250 | 186,990.49 |
| <u>CAPITAL PROJECTS FUNDS</u> | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.500 | 1,121,944.90 |
| Total | 7.906 | \$ 5,913,391.26 |

11. FLORIDA RETIREMENT SYSTEM

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

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

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 2010-11 fiscal year, contribution rates were as follows:

| Class | Percent of Gross Salary | |
|--|-------------------------|-----------------|
| | Employee | Employer (A) |
| Florida Retirement System, Regular | 0.00 | 10.77 |
| Florida Retirement System, Elected County Officers | 0.00 | 18.64 |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes | 0.00 | 12.25 |
| 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 0.03 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, 2009, June 30, 2010, and June 30, 2011, totaled \$980,972.18, \$854,375.06, and \$1,096,791.47, respectively, which were equal to the required contributions for each fiscal year. There were 37 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$140,902.77.

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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval each year. Under this retirement incentive, retirees receive a \$50 per month rate subsidy until the retiree reaches age 65. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 32 retirees received other postemployment benefits. The District provided required contributions of \$150,529 toward the annual OPEB cost, net of retiree contributions totaling \$212,848, which represents 3.1 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB 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:

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

| Description | Amount |
|---|-----------|
| Normal Cost (service cost for one year) | \$ 83,718 |
| Amortization of Unfunded Actuarial Accrued Liability | 64,570 |
| Interest on Normal Cost and Amortization | 2,241 |
| Annual Required Contribution - OPEB Cost (Expense) | 150,529 |
| Contribution Toward the OPEB Cost | (150,529) |
| Increase in Net OPEB Obligation | |
| Net OPEB Obligation, Beginning of Year | 94,643 |
| Net OPEB Obligation, End of Year | \$ 94,643 |

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, 2011 and the preceding years, were as follows:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------|---------------------|---|------------------------|
| 2008-09 | \$ 173,987 | 70.2% | \$ 51,780 |
| 2009-10 | 173,987 | 75.4% | 94,643 |
| 2010-11 | 150,529 | 100.0% | 94,643 |

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

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District’s OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2011, and to estimate the District’s 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.7 percent initially for the 2008-09 fiscal year, reduced gradually over 60 years to an ultimate rate of 4.9 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 27 years.

13. OTHER SIGNIFICANT COMMITMENTS

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 following is a schedule of encumbrances at June 30, 2011:

| Major Funds | | | | | |
|--------------------|-------------------------------|---|---|-----------------------------------|--------------------------------|
| General | Special Revenue - Other | Special Revenue - Federal Economic Stimulus | Capital Projects - Local Capital Improvement | Nonmajor Governmental Funds | Total Governmental Funds |
| \$ 79,439 | \$ 39,111 | \$ 52,576 | \$ 54,415 | \$ 150,212 | \$ 375,753 |

14. RISK MANAGEMENT PROGRAMS

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 have not exceeded commercial coverage in any of the past three fiscal years.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011**

| | General Fund | | | |
|--|-----------------------|-----------------------|------------------------|--|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Direct | \$ 50,000.00 | \$ 198,458.00 | \$ 178,016.36 | \$ (20,441.64) |
| Federal Through State and Local | 85,000.00 | 118,611.00 | 119,479.70 | 868.70 |
| State | 7,342,023.36 | 7,014,262.26 | 7,552,745.90 | 538,483.64 |
| Local: | | | | |
| Property Taxes | 4,638,361.65 | 4,638,361.65 | 4,657,638.21 | 19,276.56 |
| Miscellaneous | 160,000.00 | 164,268.97 | 603,821.29 | 439,552.32 |
| Total Revenues | 12,275,385.01 | 12,133,961.88 | 13,111,701.46 | 977,739.58 |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 7,385,123.58 | 7,200,762.54 | 7,106,306.48 | 94,456.06 |
| Pupil Personnel Services | 636,226.84 | 526,226.84 | 373,353.11 | 152,873.73 |
| Instructional Media Services | 174,920.52 | 174,980.84 | 56,188.93 | 118,791.91 |
| Instruction and Curriculum Development Services | 266,951.05 | 367,560.78 | 358,872.31 | 8,688.47 |
| Instructional Staff Training Services | 8,150.55 | 27,328.54 | 23,585.03 | 3,743.51 |
| Instruction Related Technology | 72,050.62 | 78,050.62 | 75,473.18 | 2,577.44 |
| School Board | 310,034.53 | 347,259.53 | 328,233.95 | 19,025.58 |
| General Administration | 242,157.53 | 306,987.53 | 271,489.02 | 35,498.51 |
| School Administration | 777,707.14 | 785,922.43 | 784,753.57 | 1,168.86 |
| Facilities Acquisition and Construction | 13,016.01 | 13,016.01 | | 13,016.01 |
| Fiscal Services | 292,088.00 | 304,177.00 | 293,787.97 | 10,389.03 |
| Central Services | 278,482.09 | 225,510.09 | 192,713.00 | 32,797.09 |
| Pupil Transportation Services | 1,141,728.34 | 1,214,460.57 | 1,210,705.46 | 3,755.11 |
| Operation of Plant | 1,888,552.84 | 1,832,260.12 | 1,824,328.75 | 7,931.37 |
| Maintenance of Plant | 402,715.05 | 442,215.05 | 336,492.99 | 105,722.06 |
| Administrative Technology Services | 55,595.46 | 59,267.46 | 56,273.96 | 2,993.50 |
| Community Services | 28,441.71 | 349,163.42 | 148,378.15 | 200,785.27 |
| Fixed Capital Outlay: | | | | |
| Other Capital Outlay | | 20,562.17 | 20,562.17 | |
| Total Expenditures | 13,973,941.86 | 14,275,711.54 | 13,461,498.03 | 814,213.51 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,698,556.85) | (2,141,749.66) | (349,796.57) | 1,791,953.09 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 381,774.00 | 381,774.00 | 384,774.00 | 3,000.00 |
| Insurance Loss Recoveries | | | 4,674.70 | 4,674.70 |
| Transfers Out | (30,000.00) | (125,000.00) | (88,528.69) | 36,471.31 |
| Total Other Financing Sources (Uses) | 351,774.00 | 256,774.00 | 300,920.01 | 44,146.01 |
| Net Change in Fund Balances | (1,346,782.85) | (1,884,975.66) | (48,876.56) | 1,836,099.10 |
| Fund Balances, Beginning | 1,799,084.88 | 1,799,084.88 | 1,799,084.88 | |
| Fund Balances, Ending | \$ 452,302.03 | \$ (85,890.78) | \$ 1,750,208.32 | \$ 1,836,099.10 |

| Special Revenue - Other Fund | | | | Special Revenue - Federal 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) |
| \$ 733,237.81 | \$ 3,881,630.83 | \$ 2,889,598.74 | \$ (992,032.09) | \$ 1,257,423.45 | \$ 3,748,363.97 | \$ 2,949,785.27 | \$ (798,578.70) |
| <u>733,237.81</u> | <u>3,881,630.83</u> | <u>2,889,598.74</u> | <u>(992,032.09)</u> | <u>1,257,423.45</u> | <u>3,748,363.97</u> | <u>2,949,785.27</u> | <u>(798,578.70)</u> |
| 503,630.25 | 1,897,427.94 | 1,328,531.59 | 568,896.35 | 514,461.45 | 1,248,521.85 | 1,123,849.58 | 124,672.27 |
| 27,717.15 | 449,660.24 | 375,387.16 | 74,273.08 | | 349,701.98 | 347,723.48 | 1,978.50 |
| | | | | | 121,590.02 | 120,609.80 | 980.22 |
| 64,662.33 | 836,319.99 | 660,330.10 | 175,989.89 | | 426,721.45 | 224,112.68 | 202,608.77 |
| 116,757.09 | 494,279.15 | 377,797.13 | 116,482.02 | 202,210.09 | 826,676.87 | 549,774.04 | 276,902.83 |
| | | | | 495,101.00 | 495,101.00 | 471,293.40 | 23,807.60 |
| 15,174.28 | 115,895.81 | 76,499.07 | 39,396.74 | 10,798.91 | 221,743.80 | 56,294.31 | 165,449.49 |
| | 2,675.00 | 2,675.00 | | | 11,850.00 | 11,298.89 | 551.11 |
| | | | | 34,852.00 | 37,852.00 | 37,148.10 | 703.90 |
| 4,893.39 | 22,983.39 | 6,337.92 | 16,645.47 | | | | |
| 403.32 | 8,620.95 | 8,272.41 | 348.54 | | 1,725.00 | 840.46 | 884.54 |
| | <u>53,768.36</u> | <u>53,768.36</u> | | | <u>6,880.00</u> | <u>6,840.53</u> | <u>39.47</u> |
| <u>733,237.81</u> | <u>3,881,630.83</u> | <u>2,889,598.74</u> | <u>992,032.09</u> | <u>1,257,423.45</u> | <u>3,748,363.97</u> | <u>2,949,785.27</u> | <u>798,578.70</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> |

**HAMILTON 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) (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|--------------------------------|---|--|-------------------------------------|---------------------------|----------------------------|--|
| March 1, 2009 | \$ 0 | \$ 1,937,109 | \$ 1,937,109 | 0.0% | \$ 6,793,522 | 28.5% |

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011**

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) |
|--|---|-------------------------------|----------------------------|
| United States Department of Agriculture: | | | |
| Indirect: | | | |
| Child Nutrition Cluster: | | | |
| Florida Department of Education: | | | |
| School Breakfast Program | 10.553 | 321 | \$ 226,434.24 |
| National School Lunch Program | 10.555 | 300, 350 | 529,284.38 |
| Summer Food Service Program for Children | 10.559 | 323 | 46,584.11 |
| Florida Department of Agriculture and Consumer Services: | | | |
| National School Lunch Program | 10.555 (2) | None | 46,352.00 |
| Total Child Nutrition Cluster | | | 848,654.73 |
| Florida Department of Education: | | | |
| ARRA - Child Nutrition Discretionary Grants Limited Availability | 10.579 | 371 | 6,840.53 |
| Total United States Department of Agriculture | | | 855,495.26 |
| United States Department of Education: | | | |
| Indirect: | | | |
| Special Education Cluster: | | | |
| Florida Department of Education: | | | |
| Special Education - Grants to States | 84.027 | 262, 263 | 771,912.83 |
| Special Education - Preschool Grants | 84.173 | 266, 267 | 121,256.37 |
| ARRA - Special Education - Grants to States, Recovery Act | 84.391 | 263 | 196,793.30 |
| ARRA - Special Education - Preschool Grants, Recovery Act | 84.392 | 267 | 14,646.00 |
| Total Special Education Cluster | | | 1,104,608.50 |
| Title I, Part A Cluster: | | | |
| Florida Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 222, 223, 226, 228 | 1,298,376.41 |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 226 | 350,948.05 |
| Total Title I, Part A Cluster | | | 1,649,324.46 |
| Education for Homeless Children and Youth Cluster: | | | |
| Florida Department of Education: | | | |
| Education for Homeless Children and Youth | 84.196 | 127 | 47,700.81 |
| ARRA - Education for Homeless Children and Youth, Recovery Act | 84.387 | 127 | 34,176.35 |
| Total Education for Homeless Children and Youth Cluster | | | 81,877.16 |
| Educational Technology State Grants Cluster: | | | |
| Florida Department of Education: | | | |
| Education Technology State Grants | 84.318 | 121 | 875.61 |
| ARRA - Education Technology State Grants, Recovery Act | 84.386 | 121 | 631,510.63 |
| Total Educational Technology State Grants Cluster | | | 632,386.24 |
| School Improvement Grants Cluster: | | | |
| Florida Department of Education: | | | |
| School Improvement Grants | 84.377 | 126 | 299,063.99 |
| ARRA - School Improvement Grants, Recovery Act | 84.388 | 126 | 837,002.41 |
| Total School Improvement Grants Cluster | | | 1,136,066.40 |
| State Fiscal Stabilization Fund Cluster: | | | |
| Florida Department of Education: | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | 591 | 523,862.00 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | 592 | 10,459.00 |
| Total State Fiscal Stabilization Fund Cluster | | | 534,321.00 |
| Florida Department of Education: | | | |
| Adult Education - Basic Grants to States | 84.002 | 191 | 28,000.00 |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 77,961.89 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 103 | 6,032.56 |
| Rural Education | 84.358 | 110 | 41,656.12 |
| English Language Acquisition Grants | 84.365 | 102 | 11,584.18 |
| Improving Teacher Quality State Grants | 84.367 | 224 | 185,177.97 |
| Education Jobs Fund | 84.410 | 541 | 343,547.00 |
| Total United States Department of Education | | | 5,832,543.48 |

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011**

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) |
|---|---|--|----------------------------------|
| United States Department of Health and Human Services: | | | |
| Direct: | | | |
| Drug-Free Communities Support Program Grants | 93.276 | N/A | \$ 135,391.11 |
| Indirect: | | | |
| Florida State University: Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | None | <u>13,097.39</u> |
| Total United States Department of Health and Human Services | | | <u>148,488.50</u> |
| United States Department of Defense: | | | |
| Direct: | | | |
| Air Force Junior Reserve Officers Training Corps | None | N/A | <u>60,267.80</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 6,896,795.04</u> |

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

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Hamilton County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 and 2, that we consider to be significant deficiencies 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
February 17, 2012



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Hamilton County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2011.

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
February 17, 2012

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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:

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); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SIGNIFICANT DEFICIENCIES

Finding No. 1: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. The District reported cash and cash equivalents balances at June 30, 2011, totaling approximately \$2.6 million, including cash in bank totaling approximately \$2.5 million.

The District maintained four bank accounts (payroll clearing, accounts payable clearing, food service, and operating), and the finance director reconciled these accounts to the general ledger as of November 2010 for the months of April through June 2010. However, as of December 2011, the District had not performed the bank reconciliations for the months of July 2010 through November 2011. District personnel indicated that the bank reconciliation process was delayed because of other priorities. We extended our audit procedures and determined that the amounts recorded as cash in bank were materially correct and properly classified; however, our procedures do not substitute for management's responsibility to timely reconcile cash assets with amounts recorded in the accounting records. Absent timely bank account reconciliations, errors or fraud could occur, without timely detection. A similar finding was noted in our report No. 2011-090.

Recommendation: The District should establish procedures to ensure that bank account reconciliations are prepared timely.

Finding No. 2: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls over IT resources provide safeguards to assist in the prevention or detection of errors or fraud. As part of these controls, a security administrator should limit employee access privileges to the computer system based on an employee's job responsibilities. To safeguard access to the computer system by the security administrator, internal controls should be in place to timely detect errors or unauthorized use of the system by the administrator. In addition, an appropriate separation of duties is typically enforced through system access privileges that restrict employees to performing only those system functions that are necessary for their job duties.

We reviewed the IT access privileges to the finance and human resources applications and identified three employees with excessive access privileges, as follows:

- An inadequate separation of duties existed in that the director of business services, responsible for reviewing and approving finance and payroll transactions, was also the District's security administrator and, thereby, had

full update capability to the accounting records. Consequently, the director had update capability over finance and payroll transactions such that errors or fraud, should they occur, may not be detected in a timely manner.

- Two fiscal assistants had the ability to update certain screens in the finance applications as part of their assigned duties, but also had update access to human resources (HR) applications that were unnecessary for their job functions. With access to update the finance and HR applications, the fiscal assistants could establish and revise employee information and record financial entries, increasing the risk of unauthorized or inappropriate expenditure transactions. District personnel indicated that the fiscal assistants had HR access privileges to enable them to substitute for personnel who perform HR functions if the personnel were unavailable to perform their primary responsibilities. However, instead of allowing the fiscal assistants to constantly have the HR access privileges, the security administrator could assign HR duties to designated employees, upon proper supervisory approval, in those isolated instances that required those services.

To compensate, in part, for the deficiencies above, the payroll clerk periodically reconciles contract amounts in the payroll system to the Board-approved contracts to ensure the accuracy of compensation payments and, as discussed in our Finding No. 3, Board members review monthly warrant lists for budgetary control purposes. However, given the number of payroll and other disbursements recorded on the warrant lists, these controls may not necessarily detect unauthorized expenditures that may occur. In addition, the lack of timely bank account reconciliations discussed in Finding No. 1 increases the risks related to excessive access privileges. We extended our procedures and did not note any errors or fraud resulting from the above deficiencies; however, such tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should assign the security administrator function to an employee who is not responsible for reviewing and approving finance and payroll transactions, and deactivate the HR access privileges of the two fiscal assistants.

ADDITIONAL MATTERS

Finding No. 3: Monthly Financial Statements

State Board of Education Rule 6A-1.008, Florida Administrative Code, requires that monthly financial statements be prepared and submitted to the Board. Board policy provides that, at least monthly, the Superintendent shall submit, for use and consideration by the Board, a financial statement in a form prescribed by the Board and shall include a cumulative report to date of all receipts and expenditures for the fiscal year.

The District provided monthly warrant lists to the Board and the Board approved budget amendments to ensure that amounts expended did not exceed the District's available resources. Further, at June 30, 2011, the District had no functional budgetary overexpenditures in the General Fund, the Fund's total assigned and unassigned fund balance was approximately 11.5 percent of the total revenues of the Fund, and the Board approved the District's annual financial report in September 2011. However, contrary to Board policy, the Board had not prescribed a monthly financial statement form nor was the Board provided a monthly cumulative report to date of all receipts and expenditures for any of the months during the 2010-11 fiscal year.

Without monthly financial statements that clearly present the District's financial condition, Board members may have limited understanding of the District's financial status, which could lead to instances of financial mismanagement, including denying expenditures when funds are available, authorizing purchases when funds are not available, and not identifying or remedying critical budget shortfalls in a timely manner. Monthly financial statements that provide practical and understandable summary financial information, such as total revenues and expenditures by fund,

projected and revised student enrollment counts and the effects of such revisions, and current anticipated ending fund balance amounts, would allow the Board to monitor the District's financial condition and provide information for financial decision-making.

Recommendation: The Board should prescribe a monthly financial statement form, and monthly financial statements provided to the Board should include accurate, practical, and understandable summary financial information for monitoring the District's overall financial condition.

Finding No. 4: Financial Reporting

Our review of the District's 2010-11 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved as follows:

- **Government-wide Accumulated Depreciation and Depreciation Expense.** The District reported accumulated depreciation and depreciation expense of \$5,440,666 and \$456,213, respectively, for furniture, fixtures, and equipment and motor vehicles (i.e., tangible personal property). In previous fiscal years, the District calculated depreciation of tangible personal property (TPP) on the straight-line basis; however, the District reported the 2009-10 fiscal year TPP accumulated depreciation and depreciation expense amounts for the 2010-11 fiscal year, without consideration of TPP activity that occurred during the 2010-11 fiscal year.
- **Government-wide Compensated Absences Liability and Related Expenses.** Generally accepted accounting principles (GAAP) provide that a governmental entity may estimate its accrued sick leave liability based on the termination method or the vesting method. The termination method provides that an entity may estimate its liability based on the actual amount of termination payments of recent years, whereas the vesting method provides that the liability be based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. The District computed this liability in previous years using the vesting method; however, at June 30, 2011, the District did not follow one of the two GAAP methods for determining this liability but computed the liability, totaling \$1,349,533, based only on the total leave balances at fiscal year-end.
- **General Fund Inventories and Related Expenditures.** The District reported transportation, maintenance, and janitorial inventories totaling \$148,650 at June 30, 2011, in the General Fund based on a physical count conducted by District personnel of inventories on hand at fiscal year-end. However, District personnel did not always perform the physical counts and record the counts into the inventory records properly. Our comparison of 20 inventory items physically observed to the inventory records disclosed that 16 of the items were recorded materially correct, but inventory records did not list 4 of the items, resulting in an understatement of \$14,396. A similar finding was noted in our report No. 2011-090.

According to District personnel, the above errors occurred, in part, because the District diverted its attention from financial reporting to new Federal reporting requirements, and personnel misunderstood which items should be recorded in inventory. We extended our audit procedures and determined that the amounts reported for the account balances and transaction classes discussed above were materially correct and properly classified. However, without determining account balances and transactions classes in accordance with GAAP, amounts are not properly determined and supported, increasing the risk of misstatements on the financial statements.

Recommendation: The District should enhance its procedures to ensure that account balances and transaction classes reported on the financial statements are accurately computed based on GAAP and properly supported.

Finding No. 5: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),¹ required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that District records did not sufficiently evidence that instructional personnel and school administrators were evaluated based primarily on student performance. While the performance appraisal forms included student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessments nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that, at the beginning of the 2011-12 fiscal year, employees were informed of newly revised performance assessment forms based primarily on student performance for implementation for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-090.

Recommendation: **The District should continue its efforts to document that performance assessments of instructional personnel and school administrators consider student performance as required by law.**

Finding No. 6: 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

¹ Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Statutes (2010),² provided 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 (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide 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 to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and 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 (2010). 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 2010-11 fiscal year salary schedule and applicable union contract 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 (2010), could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contract 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 (2010). While these documents provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for after school activities, neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).
- **School-based Administrators.** The school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary schools versus the high school based on the additional responsibilities, school demographics, and level of difficulties for the different types of schools. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements implemented in other school districts. However, 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 differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-090.

² Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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. 7: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2010-11 fiscal year, the District regularly made electronic disbursements to a bank for the purchasing card program and for direct deposit of employee pay and other payroll related activity, such as annuity and flexible benefit. The Board established an agreement with a bank, which contained the manual signatures of the Board chair and Superintendent. While the District used informal processes including verbal instructions, e-mail directions, and other reviews to monitor and control electronic transmission of funds, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. In addition, the bank agreement did not identify the employees authorized to initiate and authorize EFTs, and employees did not execute signed confirmations to authenticate the EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, to compensate, in part, for the lack of formal policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 8: Information Technology – Security Controls - Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to data loss prevention, 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 security controls related to data loss prevention 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. 2011-090.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011*

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

| Audit Report No. and Federal Awards Finding No. | Program/Area | Brief Description | Status | Comments |
|---|---|---|------------------------------|---|
| 2008-102 (2) | Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Eligibility | Based on applications and other documentation on file, five students should have been denied reduced price meals and one student should have been denied free meals, resulting in questioned costs totaling \$1,820.70. | No further action warranted. | Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse. The grantor is not currently following up with the District on the audit finding and a management decision was not issued. |
| 2011-090 (1) | Special Education - Grants to States, Recovery Act (CFDA No. 84.391) - Allowable Costs/Cost Principles | Three employees, paid from the Special Education, Recovery Act program, did not perform services consistent with the program requirements, resulting in \$46,280.57 of questioned costs. | Corrected. | Overcharge was repaid to the program. |
| 2011-090 (2) | Special Education - Grants to States, Recovery Act (CFDA No. 84.391); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.392); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Reporting | Improvements were needed in District procedures for reporting ARRA program information and related expenditures on the Schedule of Expenditures of Federal Awards. | Corrected. | |

EXHIBIT A
MANAGEMENT'S RESPONSE



Hamilton County School District

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

Martha W. Butler, Superintendent

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

February 17, 2012

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

Dear Mr. Martin:

The Hamilton School District's staff has reviewed the preliminary and tentative audit findings and offers the following responses:

Finding No. 1: District personnel have developed appropriate procedures for the reconciliation of bank accounts and are working to make the reconciliations current.

Finding No. 2: During the implementation of the Skyward software package, we had the opportunity to cross-train finance personnel to a greater extent than before. To accomplish the training and allow for a greater understanding of the system, additional access was given. Based on this audit finding we will re-evaluate the access.

Finding No. 3: Monthly financial statements are being provided to the Board beginning with November 2011.

Finding No. 4: During the first year of use of the new financial accounting software, modules were implemented in a timeline with critical applications focused on first. In the 2011-12 fiscal year compensated absences estimates and depreciation calculations will be processed as required by GAAP. We will continue to improve the accuracy of inventory counts at our warehouse.

Finding No. 5: A performance assessment tool that incorporates student performance has been developed and approved by the Board and FDOE. It is our intent to use these assessments for the 2011-12 year.

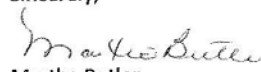
Finding No. 6: It is the intent of the Board to develop compensation scales based on performance now that the performance based assessment has been developed.

Finding No. 7: District staff is reviewing this requirement to determine the most reasonable solution to adhere to the Rule and Law.

Finding No. 8: District personnel are working with the Northeast Educational Consortium to determine appropriate documentation and controls related to confidential data.

As always, we appreciate the professionalism and competency your staff brings when they are here performing the audit.

Sincerely,


Martha Butler
Superintendent

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