

HAMILTON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Damon Deas, Chair	1
Gary Godwin, Vice Chair	2
Jeanie Daniels	3
Johnny Bullard	4
Sammy McCoy	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
TABLE OF CONTENTS

PAGE
NO.

EXECUTIVE SUMMARY..... i

INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS.....1

MANAGEMENT’S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

 Statement of Net Assets10

 Statement of Activities..... 11

 Balance Sheet – Governmental Funds12

 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets.....14

 Statement of Revenues, Expenditures, and Changes in
 Fund Balances – Governmental Funds16

 Reconciliation of the Governmental Funds Statement of
 Revenues, Expenditures, and Changes in Fund Balances
 to the Statement of Activities18

 Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....19

 Notes to Financial Statements 20

OTHER REQUIRED SUPPLEMENTARY INFORMATION

 Budgetary Comparison Schedule – General and Major Special Revenue Funds..... 36

 Schedule of Funding Progress – Other Postemployment Benefits Plan..... 38

 Notes to Required Supplementary Information..... 39

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... 40

**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*..... 42**

**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..... 44**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 46

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS..... 52

EXHIBIT A MANAGEMENT’S RESPONSE 53

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District did not obtain an actuarial valuation supporting the amount of the reported liability for other postemployment benefits provided by the District.

Finding No. 2: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: Controls over electronic funds transfers could be enhanced.

Finding No. 4: The District could improve information technology 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 Child Nutrition Cluster and School Improvement Cluster 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 each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Required documentation to support personnel charges of Federal programs tested were not always maintained, contrary to Federal regulations.

Federal Awards Finding No. 2: Controls could be improved to ensure the accuracy of meals claimed for Federal reimbursement.

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. 2012-108.

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, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of and for the fiscal year ended June 30, 2012, 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 44 percent of the assets and 81 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, 2012, 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 (OMB) 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 basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Hamilton County has 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 2011-12 fiscal year are as follows:

- The District's total net assets decreased by \$236,166 (or 0.7 percent) from \$32,254,881 at June 30, 2011, to \$32,018,715 at June 30, 2012.
- During the 2011-12 fiscal year, General Fund expenditures exceeded revenues by \$471,196.
- The General Fund's unassigned fund balance decreased from \$328,695 as of June 30, 2011 to \$327,812 (or 2.6 percent of expenditures) as of June 30, 2012.
- The District's student enrollment decreased by 120 students (or 7 percent) from the preceding fiscal year. The student ending enrollment was 1,713 for the 2010-11 fiscal year and reduced to 1,593 for the 2011-12 fiscal year. See the MD&A's **OTHER MATTERS OF SIGNIFICANCE** for further evaluation of enrollment changes.

OVERVIEW OF 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; and
- Notes to financial statements.

In addition, this report presents certain required supplementary information, which includes management 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. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year, 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental	
	Activities	
	<u>6-30-12</u>	<u>6-30-11</u>
Current and Other Assets	\$ 3,294,583	\$ 3,662,843
Capital Assets	<u>30,962,812</u>	<u>30,925,700</u>
Total Assets	<u>34,257,395</u>	<u>34,588,543</u>
Long-Term Liabilities	1,691,854	1,784,176
Other Liabilities	<u>546,826</u>	<u>549,486</u>
Total Liabilities	<u>2,238,680</u>	<u>2,333,662</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	30,667,812	30,585,700
Restricted	1,450,028	1,461,262
Unrestricted (Deficit)	<u>(99,125)</u>	<u>207,919</u>
Total Net Assets	<u><u>\$ 32,018,715</u></u>	<u><u>\$ 32,254,881</u></u>

The largest portion of the District’s net assets (95.8 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, 2012, and June 30, 2011, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	\$ 252,171	\$ 250,432
Operating Grants and Contributions	1,102,439	884,569
Capital Grants and Contributions	15,347	470,259
General Revenues:		
Property Taxes, Levied for Operational Purposes	4,731,441	4,657,638
Property Taxes, Levied for Capital Projects	1,088,977	1,090,023
Grants and Contributions Not Restricted to Specific Programs	10,760,904	13,652,323
Unrestricted Investment Earnings	4,193	9,944
Miscellaneous	453,541	535,065
Total Revenues	18,409,013	21,550,253
Functions/Program Expenses:		
Instruction	7,973,095	9,506,517
Pupil Personnel Services	997,558	1,090,460
Instructional Media Services	170,260	175,738
Instruction and Curriculum Development Services	915,596	1,235,699
Instructional Staff Training Services	1,137,847	947,400
Instruction Related Technology	150,398	546,318
School Board	286,699	327,246
General Administration	434,497	402,930
School Administration	896,097	793,635
Facilities Acquisition and Construction	351,620	292,529
Fiscal Services	261,650	292,192
Food Services	1,151,654	1,147,591
Central Services	174,250	229,065
Pupil Transportation Services	1,257,694	1,421,681
Operation of Plant	1,632,807	1,830,504
Maintenance of Plant	302,346	334,969
Administrative Technology Services	56,858	55,915
Community Services	134,492	148,378
Unallocated Interest on Long-Term Debt	17,052	19,038
Unallocated Depreciation Expense	325,931	949,773
Loss on Disposal of Capital Assets	16,778	
Total Functions/Program Expenses	18,645,179	21,747,578
Decrease in Net Assets	\$ (236,166)	\$ (197,325)

The largest revenue source is the State of Florida (35 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. Federal sources comprise 29.6 percent of revenues, and 31.6 percent of revenues is derived from local property tax collections.

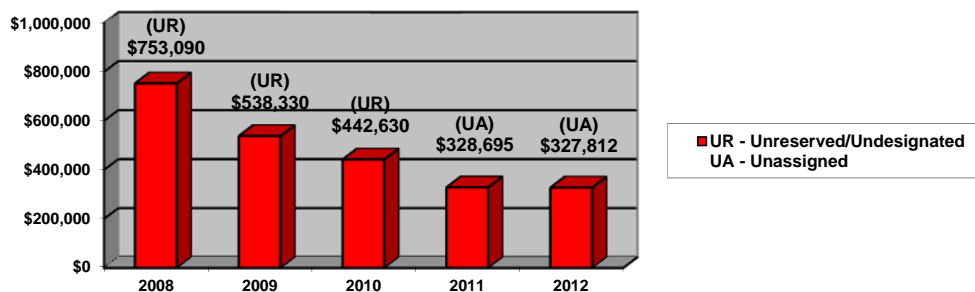
Total revenues decreased \$3,141,240 (or 14.6 percent), due primarily to decreased enrollment and the loss of Federal revenues through the American Recovery and Reinvestment Act and Education Jobs Act programs. Expenses decreased correspondingly by \$3,102,399.

FINANCIAL ANALYSIS OF THE DISTRICT’S 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.

Major Governmental Funds

General Fund. The General Fund is the District’s chief operating fund. Unassigned fund balance of the General Fund at June 30, 2012, was \$883 less than the amount reported as unassigned fund balance at June 30, 2011. The unreserved, undesignated, and unassigned fund balance of the General Fund steadily decreased from June 30, 2008, to the unassigned balance at June 30, 2012. This trend is due, in part, to reductions in FEFP revenues from the State. The following chart reflects these fund balances at June 30 for the past five fiscal years.



Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund. The Special Revenue – Other Fund is used to account for certain Federal grant programs and the Special Revenue – Federal Economic Stimulus Fund is used to account for the Federal economic stimulus grant programs. Allowed expenditures for these funds are specified by grant agreements and, since the revenues are equal to amounts expended, there are no ending fund balances. The Special Revenue – Federal Economic Stimulus Fund revenues and expenditures declined \$1,350,721 each from expiration of certain Federal stimulus grants.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has total fund balance of \$1,115,501, which is restricted for the expenditures related to capital outlay. The fund balance decreased by \$158,132 for the purchase of school buses and other capital outlay.

GENERAL FUND BUDGETARY HIGHLIGHTS

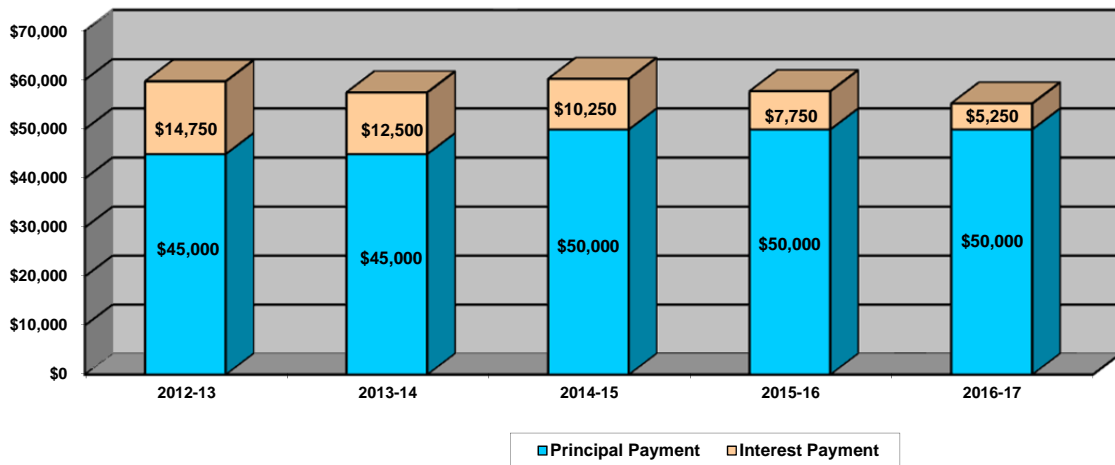
Significant variances between the original, final and actual appropriations and expenditures were the result of State funding reductions, declining enrollment, and terminal leave payouts.

CAPITAL ASSETS AND LONG-TERM DEBT

The District’s investment in capital assets for its governmental activities at June 30, 2012, is \$30,962,812 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. There were no significant capital asset events for the 2011-12 fiscal year.

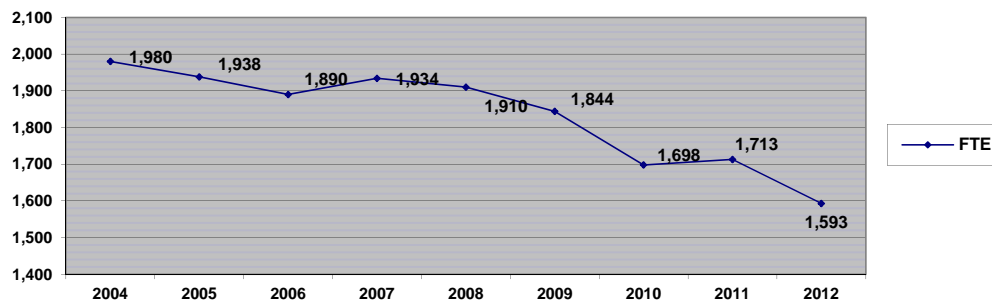
The District did not issue any long-term debt during the 2011-12 fiscal year and, at this time, there are no plans for issuing any new debt.

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



OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. In the General Fund, revenues from State sources comprise 52.8 percent of total available resources revenues of the District. Revenues from State sources for current operations are primarily from the FEFP 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. It is anticipated that the overall declining trend will continue. The decline in the 2011-12 school year was made more significant by the closing of the juvenile justice program.



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, 2012**

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,817,754.41
Investments	11,076.44
Accounts Receivable	57,458.17
Due from Other Agencies	214,606.66
Inventories	193,687.18
Capital Assets:	
Nondepreciable Capital Assets	490,000.00
Depreciable Capital Assets, Net	<u>30,472,812.31</u>
TOTAL ASSETS	<u>\$ 34,257,395.17</u>
LIABILITIES	
Salaries and Benefits Payable	\$ 317,965.86
Accounts Payable	228,859.74
Long-Term Liabilities:	
Portion Due Within One Year	130,000.00
Portion Due After One Year	<u>1,561,854.27</u>
Total Liabilities	<u>2,238,679.87</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	30,667,812.31
Restricted for:	
State Required Carryover Programs	260,744.85
Debt Service	11,076.44
Capital Projects	1,178,206.69
Unrestricted	<u>(99,124.99)</u>
Total Net Assets	<u>32,018,715.30</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,257,395.17</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, 2012**

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	\$ 7,973,094.73	\$ 45,246.46	\$ 216,103.38	\$	\$ (7,711,744.89)
Pupil Personnel Services	997,557.66				(997,557.66)
Instructional Media Services	170,259.58				(170,259.58)
Instruction and Curriculum Development Services	915,596.11				(915,596.11)
Instructional Staff Training Services	1,137,847.27				(1,137,847.27)
Instruction Related Technology	150,397.86				(150,397.86)
School Board	286,699.48				(286,699.48)
General Administration	434,496.77				(434,496.77)
School Administration	896,097.18				(896,097.18)
Facilities Acquisition and Construction	351,619.81			15,347.23	(336,272.58)
Fiscal Services	261,649.82				(261,649.82)
Food Services	1,151,654.17	163,504.92	886,335.39		(101,813.86)
Central Services	174,250.32				(174,250.32)
Pupil Transportation Services	1,257,693.81	43,419.16			(1,214,274.65)
Operation of Plant	1,632,807.29				(1,632,807.29)
Maintenance of Plant	302,345.60				(302,345.60)
Administrative Technology Services	56,857.98				(56,857.98)
Community Services	134,492.01				(134,492.01)
Unallocated Interest on Long-Term Debt	17,052.38				(17,052.38)
Unallocated Depreciation Expense*	325,930.69				(325,930.69)
Loss on Disposal of Capital Assets	16,778.53				(16,778.53)
Total Governmental Activities	\$ 18,645,179.05	\$ 252,170.54	\$ 1,102,438.77	\$ 15,347.23	(17,275,222.51)
General Revenues:					
Taxes:					
					4,731,441.33
					1,088,977.04
					10,760,903.64
					4,193.54
					453,541.30
Total General Revenues					17,039,056.85
Change in Net Assets					(236,165.66)
Net Assets - Beginning					32,254,880.96
Net Assets - Ending					\$ 32,018,715.30

* 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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,651,244.35	\$	\$
Investments			
Accounts Receivable	57,458.17		
Due from Other Funds	116,933.84		
Due from Other Agencies	18,282.31	157,684.14	1,422.95
Inventories	136,687.94		
TOTAL ASSETS	\$ 1,980,606.61	\$ 157,684.14	\$ 1,422.95
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 317,965.86	\$	\$
Accounts Payable	153,628.41	51,217.78	
Due to Other Funds		106,466.36	1,422.95
Total Liabilities	471,594.27	157,684.14	1,422.95
Fund Balances:			
Nonspendable:			
Inventory	136,687.94		
Restricted for:			
State Required Carryover Programs	260,744.85		
Debt Service			
Capital Projects			
Total Restricted Fund Balance	260,744.85		
Assigned for 2012-13 Fiscal Year Budget	783,767.81		
Unassigned Fund Balance	327,811.74		
Total Fund Balances	1,509,012.34		
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,980,606.61	\$ 157,684.14	\$ 1,422.95

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
\$ 1,103,803.88	\$ 62,706.18	\$ 2,817,754.41
	11,076.44	11,076.44
		57,458.17
		116,933.84
16,455.20	20,762.06	214,606.66
	56,999.24	193,687.18
<u>\$ 1,120,259.08</u>	<u>\$ 151,543.92</u>	<u>\$ 3,411,516.70</u>
\$ 4,758.57	\$ 19,254.98	\$ 317,965.86
	9,044.53	228,859.74
		116,933.84
<u>4,758.57</u>	<u>28,299.51</u>	<u>663,759.44</u>
	56,999.24	193,687.18
		260,744.85
	11,076.44	11,076.44
1,115,500.51	62,706.18	1,178,206.69
<u>1,115,500.51</u>	<u>73,782.62</u>	<u>1,450,027.98</u>
		783,767.81
	(7,537.45)	320,274.29
<u>1,115,500.51</u>	<u>123,244.41</u>	<u>2,747,757.26</u>
<u>\$ 1,120,259.08</u>	<u>\$ 151,543.92</u>	<u>\$ 3,411,516.70</u>

HAMILTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances - Governmental Funds \$ 2,747,757.26

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. 30,962,812.31

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 fiscal year-end consist of:

Bonds Payable	\$ 295,000.00	
Compensated Absences Payable	1,302,211.27	
Other Postemployment Benefits Payable	94,643.00	(1,691,854.27)

Total Net Assets - Governmental Activities \$ 32,018,715.30

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, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 243,661.87	\$	\$ 1,599,063.83
Federal Through State and Local	150,144.32	2,583,555.39	
State	6,340,043.15		
Local:			
Property Taxes	4,731,441.33		
Charges for Services - Food Service			
Miscellaneous	546,383.56	771.52	
Total Local Revenues	<u>5,277,824.89</u>	<u>771.52</u>	
Total Revenues	<u>12,011,674.23</u>	<u>2,584,326.91</u>	<u>1,599,063.83</u>
Expenditures			
Current - Education:			
Instruction	6,296,789.54	1,120,295.43	584,091.03
Pupil Personnel Services	520,301.94	338,368.58	141,234.32
Instructional Media Services	162,676.49		8,334.09
Instruction and Curriculum Development Services	322,511.73	397,186.23	197,444.92
Instructional Staff Training Services	26,880.18	569,604.77	541,432.87
Instruction Related Technology	133,741.36		17,104.00
School Board	287,411.96		
General Administration	231,116.73	118,210.93	86,014.43
School Administration	884,727.01	2,262.02	13,504.21
Facilities Acquisition and Construction	2,876.00		
Fiscal Services	262,744.16		
Food Services	25,757.84		
Central Services	170,648.38	4,259.35	
Pupil Transportation Services	1,034,972.15	8,353.89	9,644.48
Operation of Plant	1,619,929.92	14,479.65	259.48
Maintenance of Plant	303,713.28		
Administrative Technology Services	57,123.22		
Community Services	134,520.63		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	4,427.69	11,306.06	
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>12,482,870.21</u>	<u>2,584,326.91</u>	<u>1,599,063.83</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(471,195.98)</u>		
Other Financing Sources (Uses)			
Transfers In	340,000.00		
Transfers Out	(110,000.00)		
Total Other Financing Sources (Uses)	<u>230,000.00</u>		
Net Change in Fund Balances	(241,195.98)		
Fund Balances, Beginning	1,750,208.32		
Fund Balances, Ending	<u>\$ 1,509,012.34</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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
\$	\$	\$
	866,480.39	243,661.87
	94,965.52	5,199,243.93
		6,435,008.67
1,088,977.04		5,820,418.37
	163,504.92	163,504.92
6.99	13.56	547,175.63
<u>1,088,984.03</u>	<u>163,518.48</u>	<u>6,531,098.92</u>
<u>1,088,984.03</u>	<u>1,124,964.39</u>	<u>18,409,013.39</u>
		8,001,176.00
		999,904.84
		171,010.58
		917,142.88
		1,137,917.82
		150,845.36
		287,411.96
		435,342.09
		900,493.24
319,922.68	28,821.13	351,619.81
		262,744.16
	1,110,362.08	1,136,119.92
		174,907.73
		1,052,970.52
		1,634,669.05
		303,713.28
		57,123.22
		134,520.63
64,293.85		64,293.85
522,899.99		538,633.74
	45,000.00	45,000.00
	17,052.38	17,052.38
<u>907,116.52</u>	<u>1,201,235.59</u>	<u>18,774,613.06</u>
<u>181,867.51</u>	<u>(76,271.20)</u>	<u>(365,599.67)</u>
	110,000.00	450,000.00
<u>(340,000.00)</u>		<u>(450,000.00)</u>
<u>(340,000.00)</u>	<u>110,000.00</u>	
(158,132.49)	33,728.80	(365,599.67)
<u>1,273,633.00</u>	<u>89,515.61</u>	<u>3,113,356.93</u>
<u>\$ 1,115,500.51</u>	<u>\$ 123,244.41</u>	<u>\$ 2,747,757.26</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, 2012**

Net Change in Fund Balances - Governmental Funds \$ (365,599.67)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 53,890.57

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (16,778.53)

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. 45,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal 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. 47,321.97

Change in Net Assets - Governmental Activities \$ (236,165.66)

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 118,836.00
LIABILITIES	
Internal Accounts Payable	\$ 118,836.00

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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 and food service departments are allocated to the pupil transportation services and food services functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function 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, 2012**

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 Federal 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 fund 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.

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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, 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.

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. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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 the 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 the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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 2011 tax levy on September 12, 2011. 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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any 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, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 2,473.71
Debt Service Accounts	6 Months	11,076.44
Total Investments		\$ 13,550.15

Note: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ 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 38 days at June 30, 2012. 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 that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

The District's investments in the 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 the SBA for managing interest rate risk and credit risk for this account.

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, 2012**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Adjustments (1)	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	1,025,568.95			535,568.95	490,000.00
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	2,333,515.90				2,333,515.90
Buildings and Fixed Equipment	32,359,824.85	122,251.00	599,862.80		33,081,938.65
Furniture, Fixtures, and Equipment	4,047,015.75	(122,251.00)	15,829.38	77,378.23	3,863,215.90
Motor Vehicles	2,883,491.77		521,698.00	141,679.80	3,263,509.97
Audio Visual Materials and Computer Software	751,105.31		1,106.36	31,094.62	721,117.05
Total Capital Assets Being Depreciated	42,374,953.58		1,138,496.54	250,152.65	43,263,297.47
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	573,185.26		54,587.90		627,773.16
Buildings and Fixed Equipment	5,709,865.92	68,072.74	668,390.98		6,446,329.64
Furniture, Fixtures, and Equipment	3,750,627.10	(570,495.77)	200,794.21	77,378.23	3,303,547.31
Motor Vehicles	1,690,038.67	(75,817.62)	226,975.79	141,679.80	1,699,517.04
Audio Visual Materials and Computer Software	751,105.31	(23,471.21)		14,316.09	713,318.01
Total Accumulated Depreciation	12,474,822.26	(601,711.86)	1,150,748.88	233,374.12	12,790,485.16
Total Capital Assets Being Depreciated, Net	29,900,131.32	(601,711.86)	(12,252.34)	16,778.53	30,472,812.31
Governmental Activities Capital Assets, Net	\$ 30,925,700.27	\$ (601,711.86)	\$ (12,252.34)	\$ 552,347.48	\$ 30,962,812.31

(1) These adjustments reclassified certain assets and corrected depreciation expense.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 207,421.89
Food Services	15,684.44
Unallocated	325,930.69
Total Depreciation Expense - Governmental Activities (1)	\$ 549,037.02

(1) This amount is composed of \$1,150,748.88 unallocated additions to depreciation, less the adjustments of \$601,711.86.

5. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 295,000	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 State Board of Administration.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 59,750	\$ 45,000	\$ 14,750
2014	57,500	45,000	12,500
2015	60,250	50,000	10,250
2016	57,750	50,000	7,750
2017	55,250	50,000	5,250
2018	57,750	55,000	2,750
Total State School Bonds	\$ 348,250	\$ 295,000	\$ 53,250

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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	\$ 340,000.00	\$	\$ 45,000.00	\$ 295,000.00	\$ 45,000.00
Compensated Absences Payable	1,349,533.24	109,651.70	156,973.67	1,302,211.27	85,000.00
Other Postemployment Benefits Payable	94,643.00	144,656.00	144,656.00	94,643.00	
Total Governmental Activities	<u>\$ 1,784,176.24</u>	<u>\$ 254,307.70</u>	<u>\$ 346,629.67</u>	<u>\$ 1,691,854.27</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.

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	\$ 116,933.84	\$
Special Revenue:		
Other		106,466.36
Federal Economic Stimulus		1,422.95
Nonmajor Governmental		9,044.53
Total	<u>\$ 116,933.84</u>	<u>\$ 116,933.84</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.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 340,000.00	\$ 110,000.00
Capital Projects:		
Local Capital Improvement		340,000.00
Nonmajor Governmental	110,000.00	
Total	<u>\$ 450,000.00</u>	<u>\$ 450,000.00</u>

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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 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.

➤ 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.

➤ 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, 2012.

➤ 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 of the Director of Business Services and Board approval and not included in other categories.

➤ Unassigned

The portion of fund balance that is the 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.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue sources for the 2011-12 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 4,061,138.00
Categorical Educational Program - Class Size Reduction	1,670,362.00
School Recognition	87,274.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	76,274.61
Workforce Development Program	71,194.00
Food Service Supplement	19,294.00
Mobile Home License Tax	8,715.99
Discretionary Lottery Funds	4,899.00
Miscellaneous	<u>435,857.07</u>
 Total	 <u><u>\$ 6,435,008.67</u></u>

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

10. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.513	\$ 4,129,669
Basic Discretionary Local Effort	0.748	560,311
Critical Operating Needs	0.250	187,269
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>1,123,617</u>
 Total	 <u><u>8.011</u></u>	 <u><u>\$ 6,000,866</u></u>

11. FLORIDA RETIREMENT SYSTEM

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable 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, death benefits, and annual cost-of-living adjustments.

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 the Investment Plan.

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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$854,375.06, \$1,096,791.47, and \$654,801.28, respectively, which were equal to the required contributions for each fiscal year.

There were 34 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$106,119.33, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB 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 OPEB 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 OPEB 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 OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB 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 OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 25 retirees received other postemployment benefits. The District provided required contributions of \$144,656 toward the annual OPEB cost, net of retiree contributions totaling \$202,223, which represents 3 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

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 77,845
Amortization of Unfunded Actuarial Accrued Liability	64,570
Interest on Normal Cost and Amortization	<u>2,241</u>
Annual Required Contribution - OPEB Cost (Expense)	144,656
Contribution Toward the OPEB Cost	<u>(144,656)</u>
Increase in Net OPEB Obligation	
Net OPEB Obligation, Beginning of Year	<u>94,643</u>
Net OPEB Obligation, End of Year	<u><u>\$ 94,643</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 173,987	75.4%	\$ 94,643
2010-11	150,529	100.0%	94,643
2011-12	144,656	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 OPEB 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 OPEB 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 OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

The District's OPEB actuarial valuation as of March 1, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 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, 2012, was 26 years.

13. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hamilton County District School Board is a member of the North East Florida Educational Consortium (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 Putnam County District School Board serves as fiscal agent for the Consortium.

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, 2012**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 58,000.00	\$ 190,938.34	\$ 243,661.87	\$ 52,723.53
Federal Through State and Local State	95,000.00	133,658.71	150,144.32	16,485.61
	6,529,886.00	6,156,145.75	6,340,043.15	183,897.40
Local:				
Property Taxes	4,668,346.00	4,678,346.00	4,731,441.33	53,095.33
Miscellaneous	151,500.00	410,166.40	546,383.56	136,217.16
Total Local Revenues	4,819,846.00	5,088,512.40	5,277,824.89	189,312.49
Total Revenues	11,502,732.00	11,569,255.20	12,011,674.23	442,419.03
Expenditures				
Current - Education:				
Instruction	6,566,692.70	6,688,271.22	6,296,789.54	391,481.68
Pupil Personnel Services	552,150.63	568,387.63	520,301.94	48,085.69
Instructional Media Services	143,882.18	165,853.05	162,676.49	3,176.56
Instruction and Curriculum Development Services	290,589.75	324,132.01	322,511.73	1,620.28
Instructional Staff Training Services		26,901.10	26,880.18	20.92
Instruction Related Technology	106,996.64	176,851.05	133,741.36	43,109.69
School Board	306,408.52	316,785.35	287,411.96	29,373.39
General Administration	216,578.16	231,146.83	231,116.73	30.10
School Administration	757,537.51	885,572.71	884,727.01	845.70
Facilities Acquisition and Construction		14,912.43	2,876.00	12,036.43
Fiscal Services	258,193.53	271,589.81	262,744.16	8,845.65
Food Services		25,816.08	25,757.84	58.24
Central Services	212,533.63	181,981.52	170,648.38	11,333.14
Pupil Transportation Services	851,467.72	1,059,379.19	1,034,972.15	24,407.04
Operation of Plant	1,643,324.04	1,697,523.45	1,619,929.92	77,593.53
Maintenance of Plant	312,778.61	331,946.00	303,713.28	28,232.72
Administrative Technology Services	52,787.28	59,977.45	57,123.22	2,854.23
Community Services		178,438.37	134,520.63	43,917.74
Fixed Capital Outlay:				
Other Capital Outlay		5,000.00	4,427.69	572.31
Total Expenditures	12,271,920.90	13,210,465.25	12,482,870.21	727,595.04
Excess (Deficiency) of Revenues Over Expenditures	(769,188.90)	(1,641,210.05)	(471,195.98)	1,170,014.07
Other Financing Sources (Uses)				
Transfers In	340,000.00	340,000.00	340,000.00	
Transfers Out	(120,000.00)	(111,990.00)	(110,000.00)	1,990.00
Total Other Financing Sources (Uses)	220,000.00	228,010.00	230,000.00	1,990.00
Net Change in Fund Balances	(549,188.90)	(1,413,200.05)	(241,195.98)	1,172,004.07
Fund Balances, Beginning	1,827,259.29	1,750,208.32	1,750,208.32	
Fund Balances, Ending	\$ 1,278,070.39	\$ 337,008.27	\$ 1,509,012.34	\$ 1,172,004.07

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1) (2)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
March 1, 2009	\$ 0	\$ 1,937,109	\$ 1,937,109	0.0%	\$ 6,793,522	28.5%

Notes: (1) The District did not obtain an actuarial valuation to support the other postemployment benefits liability at June 30, 2012.
 (2) The District's OPEB valuation at March 1, 2009, used the projected unit credit method to estimate the actuarial accrued liability as of June 30, 2012.

HAMILTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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, 2012**

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	\$ 92,932.05
National School Lunch Program	10.555	300, 350	198,856.03
Summer Food Service Program for Children	10.559	323	39,709.25
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	156,215.67
National School Lunch Program	10.555(2)	300, 350	348,163.21
Total Child Nutrition Cluster			835,876.21
Florida Department of Education:			
Fresh Fruit and Vegetable Program	10.582	330	11,323.55
Florida Department of Agriculture and Consumer Services:			
Fresh Fruit and Vegetable Program	10.582	330	19,280.63
Total United States Department of Agriculture			866,480.39
United States Department of Education:			
Indirect:			
Florida Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,014,373.07
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212,223,226	152,016.51
Total Title I, Part A Cluster			1,166,389.58
Special Education Cluster:			
Special Education - Grants to States	84.027	262, 266	909,244.62
Special Education - Preschool Grants	84.173	266, 267	124,975.52
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	82,978.18
Total Special Education Cluster			1,117,198.32
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	127	53,441.23
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	2,104.65
Total Education for Homeless Children and Youth Cluster			55,545.88
School Improvement Grants Cluster:			
School Improvement Grants	84.377	126	194,251.39
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,286,346.12
Total School Improvement Grants Cluster			1,480,597.51
Adult Education - Basic Grants to States	84.002	191	54,553.75
Career and Technical Education - Basic Grants to States	84.048	161	54,054.77
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	97.21
Rural Education	84.358	110	45,352.78
English Language Acquisition Grants	84.365	102	8,280.01
Improving Teacher Quality State Grants	84.367	224	121,678.69
ARRA - Education Technology State Grants, Recovery Act	84.386	122	75,618.37
Total United States Department of Education			4,179,366.87

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2012**

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	\$ 178,603.21
Indirect:			
Florida State University:			
Substance Abuse and Mental Health Services - Projects Regional and National Significance	93.243	None	<u>9,728.07</u>
Total United States Department of Health and Human Services			<u>188,331.28</u>
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	<u>63,268.93</u>
Total Expenditures of Federal Awards			<u>\$ 5,297,447.47</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. Includes \$28,749 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board as of and for the fiscal year ended June 30, 2012, 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 includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Hamilton County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

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

Our **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*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 18, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Compliance

We have audited the Hamilton County District School Board's compliance with the types of compliance requirements described in the *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, 2012. 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA

March 18, 2013

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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)? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

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

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

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

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); and School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA)

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

Auditee qualified as low-risk auditee? Yes

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Actuary Valuation

Generally accepted accounting principles (GAAP) require the District to report an other postemployment benefits (OPEB) liability for its coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. GAAP further require that the District obtain an actuarial valuation of its OPEB plan at least biennially since, at June 30, 2012, its plan had 345 plan members, exceeding the minimum 200-member plan requirement for the actuarial study. In addition, according to GAAP, certain Actuarial Standards of Practice (ASOPs) must guide preparation of the actuarial study. For example, Section 3.1.5 of the *Introduction to the Actuarial Standards of Practice, October 2008*, provides, in part, that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon the ASOPs.

Contrary to GAAP, District personnel indicated that they elected to forego the services of a certified actuary as a cost savings measure and did not obtain the required biennial actuarial valuation. District personnel estimated that cost for the actuarial services would be \$7,800. The District also reported the OPEB liability of \$94,643 and related note disclosures for the 2011-12 fiscal year the same as reported for the 2010-11 fiscal year. Based on our analytical comparison with other similarly sized districts, the difference between the reported amount and the amount that should have been reported based on an actuarially-prepared study may not be quantitatively significant; however, there is an increased need for the District to obtain an actuarially-prepared study as the OPEB liability amount rises in future years due to its cumulative nature.

Recommendation: The District should obtain an actuarial valuation of its OPEB plan biennially in accordance with GAAP.

Finding No. 2: 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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must 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 established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be

used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for after school activities. However, neither the salary schedule nor union contract evidenced consideration of differentiated pay based on school demographics, level of job performance difficulties, or critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that, as of January 2013, salary schedule revisions to comply with the differentiated pay requirements were delayed to coincide with implementing instructional personnel performance pay plans. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-090 and 2012-108.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: Electronic Fund Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities.

In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (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. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 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. According to District records, cash and cash equivalents, and investments, totaling \$2.8 million were available for electronic transfer at June 30, 2012. The Board established an agreement with a bank, which contained the manual signatures of the Board chair and Superintendent, to provide various services, such as EFTs.

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 for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Further, the bank agreement did not contain the signatures of the employees authorized to initiate and authorize EFTs nor did the District maintain documentation signed by initiators and authorizers of EFTs to authenticate EFTs, contrary to SBE Rule 6A-1.0012, FAC.

The District had implemented controls that compensated, in part, for the lack of Board approved policies and procedures, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, and our tests did not disclose any EFTs for unauthorized purposes. However, while our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy establishing policies and procedures governing EFT activities and addressing the use of electronic signatures, the lack of signatures on the bank agreement of employees designated to initiate and authorize EFTs, and the lack of documentation signed by initiators and authorizers of EFTs, increases the risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-108.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures. In addition, the banking agreement should contain the signatures of employees authorized to initiate and authorize EFTs, and the District should maintain documentation signed by initiators and authorizers of EFTs to authenticate EFTs.

Finding No. 4: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain District security controls related to data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-108.

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

Federal Awards Finding No. 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entities: Florida Department of Agriculture and Consumer Services;
 Florida Department of Education
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget Circular A-87, Attachment A, Section C.1, provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated, and be signed by the employee.

For the 2011-12 fiscal year, the District reported Child Nutrition Cluster program expenditures of approximately \$866,000, of which salaries and benefits totaled approximately \$473,000. Our review of salaries and benefits expenditures disclosed that most employees worked solely for the program and only one employee was paid partially from the program. However, the one employee did not maintain personnel activity reports or equivalent documentation to support salary and benefit expenditures totaling \$52,931 charged to the program. Subsequent to our inquiry, we obtained documentation evidencing that the employee's duties and responsibilities were properly charged to the program.

Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that required documentation is maintained to support salary and benefit charges to Federal programs for employees working on multiple cost objectives.

District Contact Person: Ida Daniels, Director of Food Service

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entities: Florida Department of Agriculture and Consumer Services (FDACS);
Florida Department of Education (FDOE)

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$3,528

Eligibility. Title 7, Section 210.8 and 220.11, Code of Federal Regulations, requires the District to establish internal controls that ensure the accuracy of meal counts prior to the submission of monthly Federal claims for reimbursement. To be entitled to Federal reimbursement, claims are limited to the number of free, reduced price, and paid meals that are served to students eligible for free, reduced price and paid lunches for each day of operation. The District operated a school food service program at each District school that provided meals to participating students, and the District received Federal reimbursements totaling approximately \$866,000 for the 2011-12 fiscal year. The District processed food service collections through a point-of-sale computer system which utilized codes assigned to students to determine student payment status (free, reduced price, or paid) and to classify food sales collections. The number of free, reduced price, and paid meals served was submitted monthly to the FDOE for reimbursement at the agreed-upon Federal rate.

Our tests of student breakfast and lunch participation, meal counts, and claims for reimbursement at two of the District's six school sites disclosed student breakfast participation exceeded actual student attendance at Central Hamilton Elementary (CHE). District personnel indicated that breakfast was served in the CHE classroom for the 2011-12 fiscal year to increase participation in the school breakfast program. Class rosters were provided each morning to classrooms with breakfast and participation was recorded on the rosters by each teacher. At the completion of meals, school custodians retrieved the class rosters and provided them to other personnel for entry into the food service accounting system.

District personnel maintained food-based production records that documented the breakfast meals prepared and served at CHE; however, according to District personnel, the class rosters were discarded after the 2011-12 fiscal year. To determine the reasonableness of Federal reimbursements for meals served, we extended procedures by reviewing and comparing school attendance records with production records and meals claimed for Federal reimbursement.

For the 10 days tested, we noted that daily student participation for breakfast meals served at CHE exceeded attendance from 101 percent to 127 percent each day. By comparing daily attendance records to daily meal counts for the 2011-12 fiscal year, we estimated 1,960 breakfast meals were claimed for reimbursement at CHE in excess of amount that should have been claimed based on actual attendance, resulting in \$3,528 of questioned costs.

District personnel indicated the excessive participation occurred from errors by cashiers entering meal data from the class rosters into the accounting system; teachers improperly completing in-class participation records; and attendance records not being reconciled to food service accounting data. When records are not sufficiently and appropriately maintained to support meal counts, there is an increased risk that Federal reimbursements may be over claimed.

Recommendation: The District should enhance its procedures to ensure the accuracy of meals claimed for Federal reimbursement. The District should also contact the grantors (FDACS and FDOE) to determine the extent of any Federal overreimbursements and restore amounts overreimbursed to the respective grantor.

District Contact Person: Ida Daniels, Director of Food Service

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-108. The following table provides information on recurring District findings:

Current Fiscal Year Finding Numbers	Preceding Fiscal Year Audit Report and Finding Numbers	Second Preceding Fiscal Year Audit Report and Finding Numbers
2	Audit Report No. 2012-108, Finding No. 6	Audit Report No. 2011-090, Finding No. 4
3	Audit Report No. 2012-108, Finding No. 7	NA
4	Audit Report No. 2012-108, Finding No. 8	NA

NA – Not Applicable

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, 2012*

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
2012-108		There were no prior Federal audit findings.		

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

Thomas P. Moffses, Jr., 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 22, 2013

Mr. David Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

The management of the Hamilton County School District has reviewed the preliminary and tentative audit findings and offers the following in response:

- Finding No. 1: District personnel will continue to evaluate the need to comply with GAAP, the materiality of the liability with the actual costs of determining that liability. While we strive to comply with GAAP, we also struggle with the difficulties felt during the last several budget cycles.
- Finding No. 2: The District continues to negotiate the requirements of the law with union officials. Focus has been on providing pay differentials for personnel working at or willing to transfer to our low performing schools. We recognize that the law requires pay differentials for other factors and we will make every effort to evaluate those requirements.
- Finding No. 3: District personnel will work with bank personnel to create a banking agreement that complies with the law. Procedures have been submitted to the Board subsequent to this audit. We will continue to improve this process as able to comply with the law.
- Finding No. 4: The District believes it has adequately implemented measures relating to data loss, we simply have not documented all aspects to the degree requested on audit. The District will work with the Northeast Florida Educational Consortium to create the written documentation of the controls in place.

Federal Awards

- Finding No. 1: The District will obtain the appropriate certifications and work logs for the food service program as is already obtained for other federal programs.
- Finding No. 2: Personnel at the school in question have implemented appropriate measures to ensure accurate counts of meals served are used in claiming reimbursement for the breakfast program.

The District appreciates the efforts of the Auditor General staff during this audit. Their professionalism and knowledge helped make the process effective and positive.

Sincerely,

Thomas P. Moffses, Jr., Superintendent