

# HENDRY COUNTY DISTRICT SCHOOL BOARD

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## Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended  
June 30, 2011



## BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Ray Clinard	1
Dr. Sally Berg, Chair to 11-15-10, Vice Chair from 11-16-10	2
Patrick B. Langford	3
Dwayne E. Brown	4
Matthew A. Beatty, Vice Chair to 11-15-10, Chair from 11-16-10	5

Richard A. "Rick" Murphy, Superintendent

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

The audit team leader was William D. Foster, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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HENDRY COUNTY DISTRICT SCHOOL BOARD  
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## EXECUTIVE SUMMARY

### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

#### ADDITIONAL MATTERS

Finding No. 2: District records did not evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

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

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The JAG Program Cluster; Title I, Part A Cluster; Special Education Cluster; Educational Technology State Grants Cluster; School Improvement Grants Cluster; State Fiscal Stabilization Fund Cluster; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

### Audit Objectives and Scope

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

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

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2011-091.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 19 percent of the assets and 90 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Hendry Public Schools Foundation, Inc. (Foundation), which represents less than 1 percent of the assets, liabilities, revenues, and expenditures of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the Foundation, is based on the reports of the other auditors.

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

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

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA  
February 29, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hendry County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2011. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

### FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$12,042,454, which represents a 23.6 percent increase over the 2009-10 fiscal year.
- General revenues total \$61,790,381, or 91 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$6,134,625, or 9 percent.
- Expenses totaled \$55,882,552. Only \$6,134,625 of these expenses are offset by program specific charges, with the remainder being paid from general revenues. Total revenues exceed total expenses by \$12,042,454.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$1,437,439 at June 30, 2011, or 3 percent of total General Fund revenues.
- The District's total long-term liabilities decreased by \$9,731,493, or approximately 45.6 percent. The decrease was due mainly to a decrease in the other postemployment benefits liability.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

#### **Government-wide Financial Statements**

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

The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the 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 activities in two categories:

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

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

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

### **Fund Financial Statements**

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

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

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

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

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

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

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

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

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

**Notes to Financial Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	<b>Net Assets, End of Year</b>		
	Governmental Activities		
	6/30/11	6/30/10	Change
Current and Other Assets	\$ 18,403,019	\$ 14,399,827	\$ 4,003,192
Capital Assets	56,711,230	58,761,066	(2,049,836)
<b>Total Assets</b>	<b>75,114,249</b>	<b>73,160,893</b>	<b>1,953,356</b>
Long-Term Liabilities	11,587,257	21,318,750	(9,731,493)
Other Liabilities	433,459	791,064	(357,605)
<b>Total Liabilities</b>	<b>12,020,716</b>	<b>22,109,814</b>	<b>(10,089,098)</b>
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	51,657,635	53,404,042	(1,746,407)
Restricted	7,034,336	6,873,830	160,506
Unrestricted (Deficit)	4,401,562	(9,226,793)	13,628,355
<b>Total Net Assets</b>	<b>\$ 63,093,533</b>	<b>\$ 51,051,079</b>	<b>\$ 12,042,454</b>

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

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

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

	Operating Results for the Fiscal Year Ended		
	Governmental Activities		
	6-30-11	6-30-10	Change
Program Revenues:			
Charges for Services	\$ 770,238	\$ 828,000	\$ (57,762)
Operating Grants and Contributions	4,636,149	4,584,625	51,524
Capital Grants and Contributions	728,238	443,290	284,948
General Revenues:			
Property Taxes, Levied for Operational Purposes	13,190,154	15,293,207	(2,103,053)
Property Taxes, Levied for Capital Projects	1,401,041	1,626,282	(225,241)
Grants and Contributions Not Restricted to Specific Programs	46,363,389	41,798,392	4,564,997
Unrestricted Investment Earnings	98,442	155,389	(56,947)
Miscellaneous	737,355	950,725	(213,370)
<b>Total Revenues</b>	<b>67,925,006</b>	<b>65,679,910</b>	<b>2,245,096</b>
Functions/Program Expenses:			
Instruction	30,122,131	35,271,267	(5,149,136)
Pupil Personnel Services	2,117,602	2,494,934	(377,332)
Instructional Media Services	646,433	801,079	(154,646)
Instruction and Curriculum Development Services	1,130,113	1,080,508	49,605
Instructional Staff Training Services	1,024,551	739,934	284,617
Instruction Related Technology	21,923	28,511	(6,588)
Board of Education	640,812	1,331,340	(690,528)
General Administration	692,246	980,699	(288,453)
School Administration	2,283,212	3,325,535	(1,042,323)
Facilities Acquisition and Construction	1,315,948	1,240,461	75,487
Fiscal Services	566,378	787,791	(221,413)
Food Services	3,545,840	3,502,268	43,572
Central Services	350,316	532,533	(182,217)
Pupil Transportation Services	2,567,043	2,906,920	(339,877)
Operation of Plant	3,898,372	5,126,611	(1,228,239)
Maintenance of Plant	1,087,043	1,354,199	(267,156)
Administrative Technology Services	676,417	1,228,395	(551,978)
Unallocated Interest on Long-Term Debt	107,656	122,799	(15,143)
Unallocated Depreciation Expense	3,050,048	3,043,608	6,440
Loss on Disposal of Capital Assets	38,468	13,098	25,370
<b>Total Functions/Program Expenses</b>	<b>55,882,552</b>	<b>65,912,490</b>	<b>(10,029,938)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 12,042,454</b>	<b>\$ (232,580)</b>	<b>\$ 12,275,034</b>

The largest revenue source is the State of Florida (51 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Grants and contributions not restricted to specific programs increased by \$4,564,997 or 10.9 percent, primarily due to an increase in Federal revenues. Property taxes levied decreased despite a small increase in the millage rate due to a decrease in assessed values.

Instruction expenses represent 53.9 percent of total governmental expenses in the 2010-11 fiscal year. Instruction expenses decreased by \$5,149,136, or 14.6 percent, from the previous fiscal year, due mainly to a reduction in staffing levels.

School administration decreased due to the elimination of assistant principal positions at the elementary schools. Operation of plant decreased due to a reduction in property insurance premiums from South Central Educational Risk Management Program.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

### **Major Governmental Funds**

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$1,437,439, while the total fund balance is \$10,314,742. The total fund balance increased by \$4,115,649 during the fiscal year, primarily due to a decrease in salaries.

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

The Capital Projects – Local Capital Improvement Fund, used to account for ad valorem (property) tax levies authorized by the Board, has a total fund balance of \$4,424,504, which is restricted for the acquisition, construction, and maintenance of capital assets.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

The District's ending fund balance of \$10,314,742 was more than the original and final budgets, because the District was aggressive in reducing expenditures, delaying mid-year hiring in noninstructional positions, and seeking other revenue sources to replace State funding.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

The District's long-term debt related to financing capital assets decreased by \$300,457 during the 2010-11 fiscal year primarily for bond payments. The changes in capital assets were not significant.

## **OTHER MATTERS OF SIGNIFICANCE**

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

## **REQUESTS FOR INFORMATION**

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

**BASIC FINANCIAL STATEMENTS**

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

		Governmental Activities
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	15,929,547
Investments		161,207
Accounts Receivable		1,090
Due from Other Agencies		1,225,611
Inventories		181,458
Restricted Cash		16,400
Restricted Investments		884,734
Deferred Charges		2,972
Capital Assets:		
Nondepreciable Capital Assets		1,278,483
Depreciable Capital Assets, Net		55,432,747
		\$ 75,114,249
<b>TOTAL ASSETS</b>		
 <b>LIABILITIES</b>		
Accounts Payable	\$	422,469
Due to Other Agencies		10,990
Long-Term Liabilities:		
Portion Due Within One Year		1,031,265
Portion Due After One Year		10,555,992
		12,020,716
<b>Total Liabilities</b>		
 <b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		51,657,635
Restricted for:		
State Required Carryover Programs		280,755
Debt Service		1,260,724
Capital Projects		4,584,612
Food Service		908,245
Unrestricted		4,401,562
		63,093,533
<b>Total Net Assets</b>		
 <b>TOTAL LIABILITIES AND NET ASSETS</b>		
	\$	75,114,249

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

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Instruction	\$ 30,122,131	\$ 2,096	\$	\$ (30,120,035)
Pupil Personnel Services	2,117,602			(2,117,602)
Instructional Media Services	646,433			(646,433)
Instruction and Curriculum Development Services	1,130,113			(1,130,113)
Instructional Staff Training Services	1,024,551			(1,024,551)
Instruction Related Technology	21,923			(21,923)
School Board	640,812			(640,812)
General Administration	692,246			(692,246)
School Administration	2,283,212			(2,283,212)
Facilities Acquisition and Construction	1,315,948		51,726	(1,264,222)
Fiscal Services	566,378			(566,378)
Food Services	3,545,840	629,600	3,267,661	351,421
Central Services	350,316			(350,316)
Pupil Transportation Services	2,567,043			(2,567,043)
Operation of Plant	3,898,372	138,542	1,368,488	(2,391,342)
Maintenance of Plant	1,087,043			(643,843)
Administrative Technology Services	676,417			(676,417)
Unallocated Interest on Long-Term Debt	107,656			125,656
Unallocated Depreciation Expense	3,050,048			(3,050,048)
Loss on Disposal of Capital Assets	38,468			(38,468)
<b>Total Governmental Activities</b>	<b>55,882,552</b>	<b>770,238</b>	<b>4,636,149</b>	<b>728,238</b>
General Revenues:				
Taxes:				
				13,190,154
				1,401,041
				46,363,389
				98,442
				737,355
<b>Total General Revenues</b>				<b>61,790,381</b>
<b>Change in Net Assets</b>				<b>12,042,454</b>
Net Assets - Beginning				51,051,079
<b>Net Assets - Ending</b>				<b>\$ 63,093,533</b>

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 9,360,285	\$	\$
Investments	47,526		
Accounts Receivable	1,090		
Due from Other Funds	1,027,452		
Due from Other Agencies	6,879	737,077	426,343
Inventories	164,887		
Restricted Cash			
Restricted Investments			
<b>TOTAL ASSETS</b>	<b>\$ 10,608,119</b>	<b>\$ 737,077</b>	<b>\$ 426,343</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 293,377	\$ 13,274	\$ 114,837
Due to Other Funds		712,813	311,506
Due to Other Agencies		10,990	
<b>Total Liabilities</b>	<b>293,377</b>	<b>737,077</b>	<b>426,343</b>
Fund Balances:			
Nonspendable:			
Inventory	164,887		
Restricted for:			
State Required Carryover Programs	280,755		
Debt Service			
Food Service			
Capital Projects			
Total Restricted Fund Balance	280,755		
Committed to Economic Stabilization	8,253,328		
Assigned to Other Purposes	178,333		
Unassigned Fund Balance	1,437,439		
<b>Total Fund Balances</b>	<b>10,314,742</b>		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,608,119</b>	<b>\$ 737,077</b>	<b>\$ 426,343</b>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,349,784	\$ 1,321,213	\$ 15,031,282
74,720	38,961	161,207
		1,090
		1,027,452
	55,312	1,225,611
	16,571	181,458
	16,400	16,400
	884,734	884,734
<u>\$ 4,424,504</u>	<u>\$ 2,333,191</u>	<u>\$ 18,529,234</u>
\$	\$ 981	\$ 422,469
	3,133	1,027,452
		10,990
	4,114	1,460,911
	16,571	181,458
		280,755
	1,260,724	1,260,724
	891,674	891,674
4,424,504	160,108	4,584,612
<u>4,424,504</u>	<u>2,312,506</u>	<u>7,017,765</u>
		8,253,328
		178,333
		1,437,439
<u>4,424,504</u>	<u>2,329,077</u>	<u>17,068,323</u>
<u>\$ 4,424,504</u>	<u>\$ 2,333,191</u>	<u>\$ 18,529,234</u>

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Total Fund Balances - Governmental Funds** \$ 17,068,323

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. 56,711,230

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 2,972

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 815,737

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

Bonds Payable	\$ 1,877,175	
Certificates of Participation	3,068,200	
Obligation Under Capital Lease	111,192	
Compensated Absences Payable	4,897,703	
Other Postemployment Benefits Payable	1,550,459	(11,504,729)

**Total Net Assets - Governmental Activities** \$ 63,093,533

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Through State and Local State	\$ 163,487	\$ 7,180,389	\$ 6,537,489
State	33,710,846		
Local:			
Property Taxes	13,190,154		
Charges for Services - Food Service			
Miscellaneous	859,691		
<b>Total Revenues</b>	<u>47,924,178</u>	<u>7,180,389</u>	<u>6,537,489</u>
<b>Expenditures</b>			
Current - Education:			
Instruction	26,869,696	4,041,297	5,586,288
Pupil Personnel Services	1,414,967	945,557	111,281
Instructional Media Services	720,719	28,596	60,623
Instruction and Curriculum Development Services	204,342	885,916	94,566
Instructional Staff Training Services	53,903	797,004	187,472
Instruction Related Technology	21,923		
School Board	689,811		
General Administration	629,394	151,590	36,906
School Administration	2,985,149	1,000	63,465
Facilities Acquisition and Construction	7,850		
Fiscal Services	740,320		538
Food Services			56,516
Central Services	430,262		
Pupil Transportation Services	2,667,374	205,365	149,077
Operation of Plant	4,228,632	4,001	71,734
Maintenance of Plant	1,363,398	128	640
Administrative Technology Services	775,386	22,194	1,006
Fixed Capital Outlay:			
Facilities Acquisition and Construction	2,000		
Other Capital Outlay	43,174	97,741	117,377
Debt Service:			
Principal	4,629		
Interest and Fiscal Charges	7,984		
<b>Total Expenditures</b>	<u>43,860,913</u>	<u>7,180,389</u>	<u>6,537,489</u>
<b>Excess of Revenues Over Expenditures</b>	<u>4,063,265</u>		
<b>Other Financing Sources (Uses)</b>			
Transfers In			
Insurance Loss Recoveries	52,384		
Transfers Out			
<b>Total Other Financing Sources (Uses)</b>	<u>52,384</u>		
<b>Net Change in Fund Balances</b>	4,115,649		
Fund Balances, Beginning	6,199,093		
<b>Fund Balances, Ending</b>	<u>\$ 10,314,742</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
\$	\$ 3,200,276	\$ 17,081,641
	935,289	34,646,135
1,401,041		14,591,195
	629,600	629,600
30,106	33,873	923,670
<u>1,431,147</u>	<u>4,799,038</u>	<u>67,872,241</u>
		36,497,281
		2,471,805
		809,938
		1,184,824
		1,038,379
		21,923
		689,811
		817,890
		3,049,614
927,050	390,298	1,325,198
		740,858
	3,489,324	3,545,840
		430,262
		3,021,816
		4,304,367
		1,364,166
		798,586
366,572	307,464	676,036
	95,102	353,394
43,375	245,000	293,004
620	106,134	114,738
<u>1,337,617</u>	<u>4,633,322</u>	<u>63,549,730</u>
<u>93,530</u>	<u>165,716</u>	<u>4,322,511</u>
	207,634	207,634
		52,384
<u>(163,580)</u>	<u>(44,054)</u>	<u>(207,634)</u>
<u>(163,580)</u>	<u>163,580</u>	<u>52,384</u>
(70,050)	329,296	4,374,895
<u>4,494,554</u>	<u>1,999,781</u>	<u>12,693,428</u>
<u>\$ 4,424,504</u>	<u>\$ 2,329,077</u>	<u>\$ 17,068,323</u>

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

**Net Change in Fund Balances - Governmental Funds** \$ 4,374,895

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period. (2,011,368)

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 year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (38,468)

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:

Bonds Principal Repaid	\$	252,455	
Capital Lease Principal Repaid		32,862	
Installment - Purchases Principal Repaid		15,140	300,457

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

Deferred Charges, June 30, 2011	\$	2,972	
Deferred Charges, June 30, 2010		(2,962)	10

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount used in the current fiscal year. (5,727)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the other postemployment benefits liability for the current fiscal year. 9,436,763

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (14,108)

**Change in Net Assets - Governmental Activities** \$ 12,042,454

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS -  
PROPRIETARY FUND  
June 30, 2011**

	Governmental Activities - Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ <u>898,265</u>
<b>LIABILITIES</b>	
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	<u>82,528</u>
<b>NET ASSETS</b>	
Unrestricted	<u>815,737</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>898,265</u></b>

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2011**

	Governmental Activities - Internal Service Fund
<b>OPERATING REVENUES</b>	
Premium Revenues from Board and Participants' Funds	\$ 435,789
<b>OPERATING EXPENSES</b>	
Insurance Claims	405,949
Administration	43,301
Flexible Benefits Reimbursements to Participants	1,028
<b>Total Operating Expenses</b>	450,278
<b>Operating Loss</b>	(14,489)
<b>NONOPERATING REVENUES</b>	
Interest Revenue	381
<b>Change in Net Assets</b>	(14,108)
Total Net Assets - Beginning	829,845
<b>Total Net Assets - Ending</b>	\$ 815,737

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2011**

		Governmental Activities - Internal Service Fund
		Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Board and Participants' Funds	\$	435,789
Cash Payments for Insurance Claims		(405,949)
Cash Payments for Administration and Other		(44,329)
		(14,489)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income		381
		(14,108)
<b>Net Decrease in Cash and Cash Equivalents</b>		(14,108)
Cash and Cash Equivalents, Beginning		912,373
		\$ 898,265

**Reconciliation of Operating Income Loss to Net Cash Provided Used by Operating Activities:**

Operating Loss	\$	(14,489)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
No Change in Assets and Liabilities		
		\$ (14,489)

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
June 30, 2011**

	Private-Purpose Trust Fund	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 14,353	\$ 761,115
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>		
Internal Accounts Payable		\$ 761,115
		<u>                    </u>
<b>NET ASSETS</b>		
Assets Held in Trust for Scholarships and Other Purposes	14,353	
	<u>                    </u>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 14,353</b>	
	<u>                    </u>	

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
For the Fiscal Year Ended June 30, 2011**

	Private-Purpose Trust Fund
<b>ADDITIONS</b>	
<b>Contributions:</b>	
Gifts, Grants, Endowments, and Bequests	\$ 14,453
<b>Investment Earnings:</b>	
Interest, Dividends, and Other	40
<b>Total Additions</b>	<b>14,493</b>
<b>DEDUCTIONS</b>	
Program Services - Mini-grants for School Programs	4,064
Program Services - Other	6,837
Administrative Expenses	1,426
<b>Total Deductions</b>	<b>12,327</b>
<b>Change in Net Assets</b>	2,166
Net Assets - Beginning	12,187
<b>Net Assets - Ending</b>	<b>\$ 14,353</b>

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

The Hendry 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 Hendry County School District (District) is considered part of the Florida system of public education. The governing body of the school 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 Hendry County.

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

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

➤ **Basis of Presentation**

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

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

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

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, except for interfund services provided and used.

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

The District reports the following major governmental funds:

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

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

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

➤ **Basis of Accounting**

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

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

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

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 healthcare benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. 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, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formally known as the Local Government Surplus Funds Trust Fund Investment Pool. Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of .78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities

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

to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a United States instrumentality obligation in the form of a Federal Home Loan Mortgage Corporation discount note held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 6). Investments made locally are valued at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Central warehouse, maintenance, and transportation inventories are stated at cost on a moving-average basis. Purchased food and cafeteria supplies are stated at actual cost. United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

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

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

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

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

➤ **Long-Term Liabilities**

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

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

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

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

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

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain categorical 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.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2010 tax levy on September 7, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
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JUNE 30, 2011**

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District.

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

➤ **Federal Revenue Sources**

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

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

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

**3. INVESTMENTS**

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	\$ 159,182
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	125,406
Debt Service Accounts	6 Months	35,801
	November 2012 to	
Certificates of Deposit (1)	September 2015	69,730
United States Agency Obligations:		
Federal Home Loan Mortgage Corporation (FHLMC)		
Discount Note (2)	December 15, 2011	884,734
Total Investments		<u>\$ 1,274,853</u>

- Notes: (1) Reported as Cash and Cash Equivalents.  
 (2) This investment is held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZAB's) financing arrangement (See Note 6).

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

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 State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered

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

money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

- The District's investments in SBA Debt Service account are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida Prime is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in the FLHMC discount note is authorized under a forward delivery agreement with the QZAB paying agent. The forward delivery agreement authorizes the investment of available sinking fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and the FHLMC. The eligible securities must have a maturity date that is on or before December 15, 2021. The FHLMC discount note is unrated.
- The District's investments in certificates of deposit are in qualified public depositories.

**Custodial Credit Risk**

- Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- Restricted investments of \$884,734 in a FHLMC discount note are held by the trustee for the QZAB in the District's name.

**Concentration Of Credit Risk**

- The District places no limit on the amount the District may invest in any one issuer. The District's QZAB investment of \$884,734 in a FHLMC discount note presents 73 percent of total investments and 96 percent of investments in the other governmental funds.

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

**4. CHANGE IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,278,483	\$	\$	\$ 1,278,483
Total Capital Assets Not Being Depreciated	1,278,483			1,278,483
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,672,197	34,333	15,616	3,690,914
Buildings and Fixed Equipment	82,533,826	335,022	64,400	82,804,448
Furniture, Fixtures, and Equipment	9,517,323	457,708	726,016	9,249,015
Motor Vehicles	4,950,121	206,657	64,153	5,092,625
Computer Software	912,064	4,960	45,148	871,876
Total Capital Assets Being Depreciated	101,585,531	1,038,680	915,333	101,708,878
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,843,726	226,326	14,575	3,055,477
Buildings and Fixed Equipment	30,042,649	1,748,864	51,649	31,739,864
Furniture, Fixtures, and Equipment	7,070,159	616,555	708,607	6,978,107
Motor Vehicles	3,265,461	447,082	63,862	3,648,681
Computer Software	880,953	11,221	38,172	854,002
Total Accumulated Depreciation	44,102,948	3,050,048	876,865	46,276,131
Total Capital Assets Being Depreciated, Net	57,482,583	(2,011,368)	38,468	55,432,747
Governmental Activities Capital Assets, Net	\$ 58,761,066	\$ (2,011,368)	\$ 38,468	\$ 56,711,230

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

The class of property under capital lease is presented in Note 5.

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

**5. OBLIGATION UNDER CAPITAL LEASE**

The class and amount of property being acquired under capital lease is as follows:

	Asset Balance
Lighting Retrofit	\$ 401,442

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

Fiscal Year Ending June 30	Total	Principal	Interest
2012	\$ 40,776	\$ 34,880	\$ 5,896
2013	40,776	37,020	3,756
2014	40,776	39,292	1,484
<b>Total Minimum Lease Payments</b>	<b>\$ 122,328</b>	<b>\$ 111,192</b>	<b>\$ 11,136</b>

The stated interest rate is 6 percent.

**6. CERTIFICATES OF PARTICIPATION**

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

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



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

tax revenues totaling \$143,300 and expended \$110,633 (77.2 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on November 2017. Approximately 89.3 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2012	\$ 239,000	\$ 180,000	\$ 59,000
2013	240,000	190,000	50,000
2014	240,500	200,000	40,500
2015	240,500	210,000	30,500
2016	245,000	225,000	20,000
2017-2020	<u>197,250</u>	<u>175,000</u>	<u>22,250</u>
Total Minimum Bond Payments	1,402,250	1,180,000	222,250
Plus: Unamortized Premiums	96,651	96,651	
Less: Unamortized Costs on Refunding	<u>(44,476)</u>	<u>(44,476)</u>	
Total State School Bonds	<u>1,454,425</u>	<u>1,232,175</u>	<u>222,250</u>
<b>District Revenue Bonds:</b>			
2012	111,295	80,000	31,295
2013	112,127	85,000	27,127
2014	112,620	90,000	22,620
2015	107,940	90,000	17,940
2016	108,130	95,000	13,130
2017-2018	<u>215,790</u>	<u>205,000</u>	<u>10,790</u>
Total District Revenue Bonds	<u>767,902</u>	<u>645,000</u>	<u>122,902</u>
Total	<u>\$ 2,222,327</u>	<u>\$ 1,877,175</u>	<u>\$ 345,152</u>

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

**8. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable	\$ 2,129,630	\$	\$ 252,455	\$ 1,877,175	\$ 260,000
Certificates of Participation Payable	3,068,200			3,068,200	
Obligation Under Capital Lease	144,054		32,862	111,192	34,880
Installment-Purchases Payable	15,140		15,140		
Estimated Insurance Claims Payable	82,528	405,948	405,948	82,528	82,528
Compensated Absences Payable	4,891,976	659,584	653,857	4,897,703	653,857
Other Postemployment Benefits Payable	<u>10,987,222</u>		<u>9,436,763</u>	<u>1,550,459</u>	
Total Governmental Activities	<u>\$ 21,318,750</u>	<u>\$ 1,065,532</u>	<u>\$ 10,797,025</u>	<u>\$ 11,587,257</u>	<u>\$ 1,031,265</u>

For the governmental activities, compensated absences and postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as discussed in Note 15.

**9. 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	\$ 1,027,452	
Special Revenue:		
Federal Economic Stimulus		311,506
Other		712,813
Nonmajor Governmental		<u>3,133</u>
Total	<u>\$ 1,027,452</u>	<u>\$ 1,027,452</u>

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

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
Capital Projects:		
Local Capital Improvement		\$ 163,580
Nonmajor Governmental	\$ 207,634	44,054
<b>Total</b>	<b>\$ 207,634</b>	<b>\$ 207,634</b>

Capital outlay ad valorem tax moneys were transferred from the Capital Projects – Local Capital Improvement Fund to the nonmajor Debt Service – QZAB Fund for debt service sinking fund deposits.

**10. FUND BALANCE REPORTING**

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

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

➤ **Nonspendable**

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

➤ **Restricted**

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

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. On February 8, 2011, the Board approved classifying all amounts over 3 percent of the unassigned fund balance as committed to be used for economic stabilization.

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

➤ **Assigned**

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

**11. SCHEDULE OF STATE REVENUE SOURCES**

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program:	
Transportation	\$ 1,357,999
Instructional Materials	544,221
Florida Teachers Lead	84,532
Other	23,289,610
Categorical Education Program - Class Size Reduction	7,551,926
Gross Receipts Tax (Public Education Capital Outlay)	443,200
Workforce Development Program	394,702
School Recognition	285,772
Motor Vehicle License Tax (Capital Outlay and Debt Service)	285,038
Food Service Supplement	67,385
Mobile Home License Tax	36,292
Discretionary Lottery Funds	25,506
Miscellaneous	279,952
	<hr/>
Total	<b><u>\$ 34,646,135</u></b>

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

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

**12. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-2011 fiscal year:

GENERAL FUND	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.685	\$ 10,738,502
Basic Discretionary Local Effort	0.748	1,412,900
Voted School Tax:		
Additional Millage	0.750	1,416,678
<b>CAPITAL PROJECTS FUNDS</b>		
Nonvoted Tax:		
Local Capital Improvements	0.750	1,416,678
Total	7.933	\$ 14,984,758

**13. FLORIDA RETIREMENT SYSTEM**

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

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

**HENDRY COUNTY  
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JUNE 30, 2011**

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

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-2011 fiscal year, contribution rates were as follows:

Class	<u>Percent of Gross Salary</u>	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Re-employed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$3,415,851, \$3,100,438, and \$3,369,503 respectively, which were equal to the required contributions for each fiscal year. There were 108 District participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$298,728.

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

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

**HENDRY COUNTY  
DISTRICT SCHOOL BOARD  
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JUNE 30, 2011**

**14. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

**Plan Description.** The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's four health hospitalization plans as well as its self-insured dental plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plans at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees received insurance coverage at a lower (explicitly subsidized) premium rate than active employees prior to January 1, 2011. All of the District's employees may become eligible for those benefits if they reach normal retirement age. Effective January 1, 2011, the District allows retirees to retain health benefits at actual cost as quoted by the insurance vendor.

In addition, the Board contributes \$23.50 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

**Funding Policy.** Plan contribution requirements of the District are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 231 retirees received postemployment care benefits. The District provided required contributions of \$673,217 toward the annual OPEB cost, net of retiree contributions totaling \$490,775, which represents 1.6 percent of covered payroll.

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

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Description	Amount
Normal Cost (service cost for one year)	\$ 470,003
Amortization of Unfunded Actuarial Accrued Liability	(9,095,290)
Interest on Normal Cost and Amortization	(170,814)
Annual Required Contribution	(8,796,101)
Interest on Net OPEB Obligation	439,489
Adjustment to Annual Required Contribution	(406,934)
Annual OPEB Cost (Expense)	(8,763,546)
Contribution Toward the OPEB Cost	(673,217)
Decrease in Net OPEB Obligation	(9,436,763)
Net OPEB Obligation, Beginning of Year	10,987,222
Net OPEB Obligation, End of Year	\$ 1,550,459

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011, and the two preceding years, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 5,481,007	22.5%	\$ 8,470,922
2009-10	3,646,975	31.0%	10,987,222
2010-11	(8,763,546)	(7.7)%	1,550,459

***Funded Status and Funding Progress.*** As of January 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$9,717,244 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$9,717,244 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$31,639,539, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 30.7 percent.

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

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

statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of January 1, 2009, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, to estimate the District's 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. This rate includes a general price inflation rate of 3 percent. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent for the 2009-10 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after seven years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 26 years.

**15. SIGNIFICANT COMMITMENTS**

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

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

<b>Major Funds</b>					
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 178,333	\$ 52,512	\$ 735,593	\$ 179,214	\$ 138,349	\$ 1,284,001

**16. 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; third party injuries and/or property damage and natural disasters. The District is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which eight district school boards have established a public entity risk sharing-pool for Property, General Liability, Automobile Liability, Workers' Compensation, Government Crime, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida

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

Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member contributions (premiums), and purchased insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents/finance directors or an authorized representative of all participating districts. Employers' Mutual, Inc. serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except wind/hail/flood), respectively. The named wind/hail/hurricane deductible is 5 percent of replacement cost value with a minimum of \$100,000 per occurrence. The deductibles for all other wind events are \$100,000. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents plus \$100,000 time element per occurrence. The flood deductible outside a special flood hazard area is \$100,000.

SCERMP's purchased excess property loss limit substantially increased during the 2010-11 fiscal year to \$100 million per tower (consisting of 4 members per tower), except for Flood/Earthquake of \$75 million, compared to \$75 million per tower during the 2009-10 fiscal year.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2010-11 fiscal year was \$850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier which covers workers' compensation losses in excess of the self-insured retention. Employers Liability is included subject to \$2,000,000 each claim and in the aggregate.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, as it is now written, as it may be amended by legislature at future dates, which effectively limits the amount of liability of governmental entities for tort claims to \$100,000 per claim and \$200,000 per occurrence. Effective October 1, 2011 the immunity caps were increased by the 2010 Florida Legislature to \$200,000 per claim and \$300,000 per occurrence.

The District provides dental and disability coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Hendry County District School Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2011.

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

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

Fiscal Year	Beginning-of Fiscal-Year Liability	Current-year Claims and Changes in Estimated	Claims Payments	Balance at Fiscal Year-End
2009-10	\$ 82,528	\$ 376,549	\$ (376,549)	\$ 82,528
2010-11	82,528	405,949	(405,949)	82,528

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

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

**17. SUBSEQUENT EVENTS**

From October 2004 through November 2006, SCERMP advanced the District \$5,168,250 to cover the District’s estimated claims after Hurricanes Frances, Jeanne, and Wilma. In October 2011, the District joined SCERMP, other SCERMP school districts, and insurers in a settlement agreement and release for all claims related to the hurricanes. After the settlement agreement and release, SCERMP’s administrator and the District calculated that the District’s eligible claim (less deductibles) for the hurricanes totaled \$4,757,949, or \$410,301 less than the funds advanced from 2004 to 2006. In November 2011, the District returned \$410,301 to SCERMP.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Through State and Local State	\$ 165,000	\$ 163,487	\$ 163,487	\$ (26,332)
Local:				
Property Taxes	12,947,193	12,988,941	13,190,154	201,213
Miscellaneous	739,500	890,562	859,691	(30,871)
<b>Total Revenues</b>	<b>46,760,538</b>	<b>47,780,168</b>	<b>47,924,178</b>	<b>144,010</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	29,765,199	29,389,012	26,869,696	2,519,316
Pupil Personnel Services	1,468,701	1,498,642	1,414,967	83,675
Instructional Media Services	668,134	730,598	720,719	9,879
Instruction and Curriculum Development Services	202,070	221,572	204,342	17,230
Instructional Staff Training Services	50,750	54,104	53,903	201
Instruction Related Technology	140,000	141,398	21,923	119,475
School Board	989,033	963,182	689,811	273,371
General Administration	698,620	730,248	629,394	100,854
School Administration	2,995,121	3,020,958	2,985,149	35,809
Facilities Acquisition and Construction		7,850	7,850	
Fiscal Services	701,056	772,556	740,320	32,236
Food Services				
Central Services	418,221	460,276	430,262	30,014
Pupil Transportation Services	2,731,443	2,863,731	2,667,374	196,357
Operation of Plant	4,443,769	4,502,294	4,228,632	273,662
Maintenance of Plant	1,334,762	1,435,570	1,363,398	72,172
Administrative Technology Services	1,071,041	1,070,874	775,386	295,488
Fixed Capital Outlay:				
Facilities Acquisition and Construction		2,000	2,000	
Other Capital Outlay		43,174	43,174	
Debt Service:				
Principal	4,629	4,629	4,629	
Interest and Fiscal Charges	29,071	29,071	7,984	21,087
<b>Total Expenditures</b>	<b>47,711,620</b>	<b>47,941,739</b>	<b>43,860,913</b>	<b>4,080,826</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(951,082)</b>	<b>(161,571)</b>	<b>4,063,265</b>	<b>4,224,836</b>
<b>Other Financing Sources</b>				
Insurance Loss Recoveries		52,384	52,384	
<b>Net Change in Fund Balances</b>	<b>(951,082)</b>	<b>(109,187)</b>	<b>4,115,649</b>	<b>4,224,836</b>
Fund Balances, Beginning	6,199,093	6,199,093	6,199,093	
<b>Fund Balances, Ending</b>	<b>\$ 5,248,011</b>	<b>\$ 6,089,906</b>	<b>\$ 10,314,742</b>	<b>\$ 4,224,836</b>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 6,515,384	\$ 9,298,070	\$ 7,180,389	\$ (2,117,681)	\$ 2,406,363	\$ 8,065,172	\$ 6,537,489	\$ (1,527,683)
<u>6,515,384</u>	<u>9,298,070</u>	<u>7,180,389</u>	<u>(2,117,681)</u>	<u>2,406,363</u>	<u>8,065,172</u>	<u>6,537,489</u>	<u>(1,527,683)</u>
3,546,016	5,314,068	4,041,297	1,272,771	2,185,247	6,541,265	5,586,288	954,977
644,682	1,022,192	945,557	76,635	19,424	111,281	111,281	
61,495	57,993	28,596	29,397		60,623	60,623	
537,665	1,059,121	885,916	173,205	3,000	102,799	94,566	8,233
1,189,791	1,236,779	797,004	439,775	133,887	699,087	187,472	511,615
6,963	3		3				
147,409	211,069	151,590	59,479	64,805	56,761	36,906	19,855
5,000	2,953	1,000	1,953		96,465	63,465	33,000
1,000							
					538	538	
					56,518	56,516	2
374,256	269,828	205,365	64,463		149,078	149,077	1
1,007	4,001	4,001			71,734	71,734	
100	128	128			640	640	
	22,194	22,194			1,006	1,006	
	97,741	97,741			117,377	117,377	
<u>6,515,384</u>	<u>9,298,070</u>	<u>7,180,389</u>	<u>2,117,681</u>	<u>2,406,363</u>	<u>8,065,172</u>	<u>6,537,489</u>	<u>1,527,683</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets  (A)	Actuarial Accrued Liability (AAL)  (B)	Unfunded AAL (UAAL)  (B-A)	Funded Ratio  (A/B)	Covered Payroll  (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2006	\$ 0	\$ 57,807,206	\$ 57,807,206	0.0%	\$ 36,648,829	157.7%
January 1, 2009	0	40,817,828	40,817,828	0.0%	31,419,038	129.9%
January 1, 2009 (1)	0	9,717,244	9,717,244	0.0%	31,639,539	30.7%

Note (1): The District obtained an updated January 1, 2009, actuarial valuation after changing certain Plan provisions.

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

**1. BUDGETARY BASIS OF ACCOUNTING**

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

**2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**

The January, 1, 2009, unfunded actuarial accrued liability of \$40,817,828 was significantly adjusted to \$9,717,244, as a result of benefit changes and other changes in liabilities and costs as discussed below:

- Effective January 1, 2011, the District eliminated all forms of direct subsidy to retiree medical coverage. Retirees are offered access to the District sponsored group insurance coverage but are required to pay the full premium amount quoted by the vendor.
- Due to the substantial roll-back of benefits, the actuary set up a separate component of change in the actuarial accrued liability to recognize it fully in the current year (one year amortization) intended to reverse the effect of the more generous benefit structure recognized in prior year since implementation of GASB Statement No. 45.
- Based on changes in retiree enrollment the actuary revised the assumed rate of coverage acceptance among employees retiring before attaining eligibility for Medicare benefits. It is now assumed that 35 percent of retiring employees would continue medical coverage into retirement (25 percent employees would elect single coverage, 10 percent would have the spouse covered and 65 percent would decline further coverage). This assumption is revised from 65 percent coverage acceptance rate (50 percent for single coverage plus 15 percent for dual/family) used in the initial January 1, 2009 valuation.
- The assumed rate of coverage lapsing at age 65 has been revised from 20 percent to 80 percent. This change reflects preliminary observation of the number of Medicare-eligible retirees declining retiree coverage.
- The trend of premium contribution increases for the second year has been adjusted to reflect the actual trend. Trend rates for all future years are the same as in the base valuation.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Agriculture:</b>			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 645,997
National School Lunch Program	10.555	300	2,216,786
Summer Food Service Program for Children	10.559	323	108,761
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	228,721
<b>Total Child Nutrition Cluster</b>			<b>3,200,265</b>
Florida Department of Financial Services:			
Secure Payments for States and Counties Containing Federal Lands	10.665	None	3,757
<b>Total United States Department of Agriculture</b>			<b>3,204,022</b>
<b>United States Department of Justice:</b>			
Indirect:			
JAG Program Cluster:			
Hendry County Board of County Commissioners:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-JAGC-HEND-2-B2-254	43,931
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	2010-ARRC-HEND-2-W7-340	119,162
<b>Total United States Department of Justice</b>			<b>163,093</b>
<b>United States Department of Education:</b>			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,417,490
Special Education - Preschool Grants	84.173	267	46,070
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	977,837
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	34,001
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	239,132
Special Education - Preschool Grants	84.173	None	9,121
<b>Total Special Education Cluster</b>			<b>2,723,651</b>
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,910,735
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	604,100
<b>Total Title I, Part A Cluster</b>			<b>3,514,835</b>
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	19,973
ARRA - Education Technology State Grants, Recovery Act	84.386	121, 122	643,485
<b>Total Educational Technology State Grants Cluster</b>			<b>663,458</b>
School Improvement Grants Cluster:			
Florida Department of Education:			
School Improvement Grants	84.377	126	116,883
ARRA - School Improvement Grants, Recovery Act	84.388	126	642,410
<b>Total School Improvement Grants Cluster</b>			<b>759,293</b>
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591, 592	2,141,823
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	12,495
<b>Total State Fiscal Stabilization Fund Cluster</b>			<b>2,154,318</b>
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	168,233
Migrant Education - State Grant Program	84.011	217	1,046,091
Career and Technical Education - Basic Grants to States	84.048	161	202,525
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	07-139-VH397	70,993
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	5,736
Rural Education	84.358	110	221,754
English Language Acquisition Grants	84.365	102	85,939
Improving Teacher Quality State Grants	84.367	224	432,815
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	10,017
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	62,131
Education Jobs Fund	84.410	541	1,409,191
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	27,830
Washington County District School Board:			
Reading First State Grants	84.357	None	5,632
<b>Total United States Department of Education</b>			<b>13,564,442</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 16,931,557</b>

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

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the Hendry Public Schools Foundation, Inc., as described in our report on the Hendry County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No.1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

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

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

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

Respectfully submitted,



David W. Martin, CPA  
February 29, 2012



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

### Compliance

We have audited the Hendry County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011.

### Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing

our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Respectfully submitted,



David W. Martin, CPA  
February 29, 2012

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

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	JAG Program Cluster (CFDA Nos. 16.738 and 16.803); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$507,946
Auditee qualified as low-risk auditee?	No

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

**FINANCIAL STATEMENT FINDING**

**SIGNIFICANT DEFICIENCY**

**Finding No. 1: Financial Reporting**

Our review of the District’s 2010-11 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved. On the government-wide statement of net assets, District personnel inadvertently misclassified certain net asset accounts, resulting in an overstatement of net assets restricted for other purposes, and an understatement of net assets unrestricted, of approximately \$10.3 million each. Misreporting net asset classifications may cause financial statement users to incorrectly assess the District’s financial position.

We extended our audit procedures to determine the adjustments necessary to ensure the District’s financial statements were properly reported, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2011-091.

**Recommendation: The District should enhance its procedures to ensure that information is properly reported on the financial statements.**

**ADDITIONAL MATTERS**

**Finding No. 2: Performance Assessments**

Section 1012.34(3), Florida Statutes (2010),<sup>1</sup> required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee’s ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an

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

employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

While the assessments of instructional personnel and school administrators generally met the requirements of Section 1012.34(3)(a), Florida Statutes (2010), District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the performance assessment form for instructional personnel contains eight rating categories, including student growth and achievement. However, as each rating category is equally rated, student performance represented only one-eighth of the appraisal process instead of basing the assessment primarily on student performance. Also, although school administrator performance assessments allocated 50 percent of the total assessment to student performance, the assessments did not correlate FCAT scores, or any other student achievement tests, to the assessments.

District personnel indicated that revisions to performance assessments are in process to comply with law and the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-091.

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

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### **Finding No. 3: Compensation and Salary Schedules**

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Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),<sup>2</sup> provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4, Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule was subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional duties, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to

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

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

The 2010-11 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District’s procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012(1)(c)2., Florida Statutes, the instructional personnel salary schedule did not evidence that a portion of the compensation of each instructional employee was based on performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic and drama coaches and department chairpersons. The salary schedule also provided for an additional 1 percent supplement if the instructor taught in a Board-approved critical shortage area; however, no payments were made for critical shortage areas for the 2010-11 fiscal year. District personnel indicated that the critical shortage area requirement would not apply for instructional personnel since all positions were filled by certified personnel; however, this would not exempt the District from this requirement. Also, District records did not evidence that any criteria had been established for determining critical shortage areas of instructional personnel. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining instructional personnel. In addition, the salary schedule did not evidence consideration of differentiated pay based on school demographics and the level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

- **School-based Administrators.** The school-based administrator’s salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee’s compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee’s performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-091.

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

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

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

District personnel indicated, because of the limited staff size, the District had not developed written policies and procedures for changing or deleting vendor-supplied passwords upon installation, and monitoring of administrator

rights on the workstations of end users. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management’s expectations. Similar findings were noted in previous audits, most recently in our report No. 2011-091.

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**Recommendation:** The District should establish written policies and procedures to document management’s expectations for the above-noted IT functions.

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**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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

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**PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-091.

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**MANAGEMENT’S RESPONSE**

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Management’s response is included as Exhibit A.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2011-091 (1)	Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579) - Procurement	The District needed to enhance its competitive selection procedures for purchases exceeding the bid threshold.	Corrected.	

EXHIBIT A  
MANAGEMENT'S RESPONSE



Hendry County School Board

Richard A. "Rick" Murphy  
Superintendent

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P. O. Box 1980  
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(863) 674-4642  
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January 31, 2012

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

Dear Mr. Martin:

Pursuant to the provisions of Section 11.45 (4) (d), Florida Statutes herewith is the submitted statement of explanation for proposed action concerning all the findings of the preliminary and tentative audit findings of the Hendry County District School Board for the fiscal year ending June 30, 2011.

Financial Reporting

The District will enhance procedures to ensure that information is properly reported on the financial statements.

Performance Assessments

The District will maintain evidence that performance assessments of instructional personnel and school administrators are based primarily on student performance.

Compensation and Salary Schedules

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

**EXHIBIT A**  
**MANAGEMENT'S RESPONSE (CONTINUED)**

January 31, 2012  
Page 2

Information Technology - Policies and Procedures

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

Sincerely yours,



Richard A. "Rick" Murphy  
Superintendent

RAM:bt

cc: Michael J. Yanosik, Assistant Superintendent of Business