

**HARDEE COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2010



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Joe H. Jones	1
Mildred C. Smith	2
Teresa M. Crawford, Vice Chair from 11-17-09	3
Janice M. Platt, Vice Chair to 11-16-09, Chair from 11-17-09	4
Wendell Cotton, Chair to 11-16-09	5

David Durastanti, 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 Gregory J. Lemieux, CPA, and the audit was supervised by David A. Blanton, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

HARDEE 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

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

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

ADDITIONAL MATTERS

Finding No. 1: District performance assessment procedures of instructional personnel were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

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

Finding No. 3: Improvements are needed to monitor meal costs per school.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: The District could enhance its controls over Federal expenditures for the food service program.

Federal Awards Finding No. 2: Controls deficiencies existed for claiming Federal meal reimbursements, resulting in \$18,359.15 of questioned costs.

Audit Objectives and Scope

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

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

- Taken corrective actions for findings included in our report No. 2010-057.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 24 percent of the assets and 72 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Hardee County Education Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

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

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 44 through 48) 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 25, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

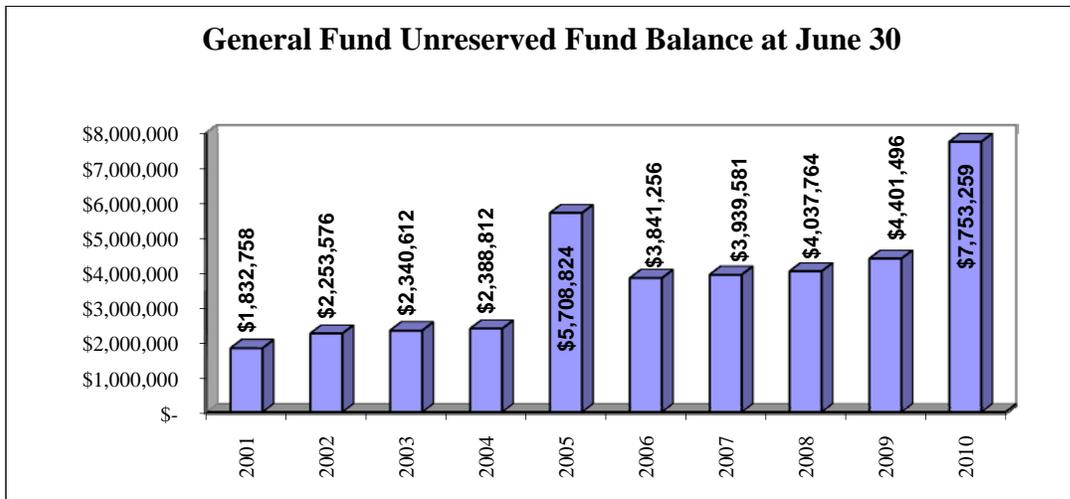
The management of the Hardee County District School Board has prepared the following discussion and analysis to provide an overview of the District’s financial activities for the fiscal year ended June 30, 2010. The information contained in the Management’s Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District’s financial statements and notes to financial statements found on pages 13 through 43.

FINANCIAL HIGHLIGHTS

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

- At June 30, 2010, the District’s assets totaled \$84,634,519, liabilities totaled \$9,086,250, and net assets totaled \$75,548,269. In total, net assets increased \$760,451, which represents a 1 percent increase from the 2008-09 fiscal year. The increase was primarily due to the addition of capital assets related to construction projects for Bowling Green Elementary classroom addition and Hardee Sr. High reroofing.
- During the 2009-10 fiscal year, General Fund revenues exceeded expenditures by \$2,424,496. When other financing sources (transfers in, sale of capital assets, and loss recoveries) totaling \$1,007,356 are considered, the General Fund’s balance increased by \$3,431,852 to \$9,435,322.

The following chart shows the General Fund’s unreserved fund balance for the past ten years:



OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District’s overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District’s financial position, its assets and liabilities, using an economic

resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in the 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.
- Component unit –The District presents The Hardee County Education Foundation, Inc., a separate legal entity, in this report. The component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for the component unit is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

All of the District's funds may be classified within one of the broad categories discussed below:

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue - Other Fund, Special Revenue – ARRA Economic Stimulus Fund, and Capital Projects – 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.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the District’s net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year		
	Governmental		Increase (Decrease)
	Activities		
	6-30-10	6-30-09	
Current and Other Assets	\$ 14,812,884	\$ 16,822,523	\$ (2,009,639)
Capital Assets	69,821,635	67,641,944	2,179,691
Total Assets	84,634,519	84,464,467	170,052
Long-Term Liabilities	6,686,031	6,878,931	(192,900)
Other Liabilities	2,400,219	2,797,718	(397,499)
Total Liabilities	9,086,250	9,676,649	(590,399)
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	65,976,635	63,706,944	2,269,691
Restricted	3,868,292	9,360,194	(5,491,902)
Unrestricted	5,703,342	1,720,680	3,982,662
Total Net Assets	\$ 75,548,269	\$ 74,787,818	\$ 760,451

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceed liabilities by \$75,548,269 at June 30, 2010.

By far, the largest portion of the District's net assets (87.3 percent) reflects its investment in capital assets (e.g., land; buildings; construction in progress; motor vehicles; and furniture, fixtures, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to educate the students of Hardee County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets (5.1 percent) represents resources that are subject to external restrictions on how they may be used. Net assets are restricted for State required carryover programs, debt service, capital outlay, etc. The remaining balance of \$5,703,342 is unrestricted net assets (7.6 percent).

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

- Capital assets increased as construction progressed on the classroom addition at Bowling Green Elementary.
- Restricted net assets decreased because capital outlay funds on hand at June 30, 2009, were spent during the 2009-10 fiscal year on two buses (\$206,412), a cooling tower for Hardee Sr. High (\$87,838), reroofing at Hardee Sr. High (\$1,303,616), the classroom addition at Bowling Green Elementary (\$3,230,205), a computer infrastructure upgrade at Hardee Sr. High (\$301,007), and a video security upgrade at Hardee Jr. High (\$80,208).
- Unrestricted net assets increased because restricted, rather than unrestricted funds, paid for salary and benefit expenditures for 34 instructional employees (\$1,664,726) and because Hardee County voters approved "funding flexibility," which allowed the District to shift 1 mills of taxes from restricted to unrestricted uses for a four-year period beginning July 1, 2009 (\$1,654,155).

The following is a summary of the District's operating results for the fiscal year ended June 30, 2010, compared to operating results for the fiscal year ended June 30, 2009:

Operating Results for the Year			
	Governmental Activities		Total Increase
	6-30-10	6-30-09	(Decrease)
Program Revenues:			
Charges for Services	\$ 445,759	\$ 495,980	\$ (50,221)
Operating Grants and Contributions	2,575,997	3,727,764	(1,151,767)
Capital Grants and Contributions	193,879	2,890,147	(2,696,268)
General Revenues:			
Property Taxes, Levied for Operational Purposes	12,397,783	10,101,716	2,296,067
Property Taxes, Levied for Capital Projects	847,507	2,947,082	(2,099,575)
Florida Education Finance Program	16,456,282	16,857,690	(401,408)
Other Federal Sources	7,395,419	5,235,950	2,159,469
Other State Sources	6,466,333	6,789,155	(322,822)
Unrestricted Investment Earnings	114,496	87,379	27,117
Miscellaneous	781,045	584,675	196,370
Total Revenues	47,674,500	49,717,538	(2,043,038)
Functions/Program Expenses:			
Instruction	24,378,251	24,834,637	(456,386)
Pupil Personnel Services	2,910,773	2,776,020	134,753
Instructional Media Services	972,107	1,041,417	(69,310)
Instruction and Curriculum Development Services	621,721	702,791	(81,070)
Instructional Staff Training Services	991,044	948,581	42,463
Instruction Related Technology	572,262	576,109	(3,847)
School Board	307,126	549,899	(242,773)
General Administration	548,078	771,526	(223,448)
School Administration	2,029,225	2,078,046	(48,821)
Facilities Acquisition and Construction	207,240	217,371	(10,131)
Fiscal Services	422,032	466,010	(43,978)
Food Services	2,774,717	2,777,030	(2,313)
Central Services	189,858	260,236	(70,378)
Pupil Transportation Services	2,018,707	2,004,760	13,947
Operation of Plant	3,762,961	3,658,756	104,205
Maintenance of Plant	1,757,347	1,687,514	69,833
Administrative Technology Services	221,515	234,964	(13,449)
Community Services	155,438	164,258	(8,820)
Unallocated Interest on Long-Term Debt	176,105	175,230	875
Unallocated Depreciation Expense	1,897,542	1,583,969	313,573
Total Functions/Program Expenses	46,914,049	47,509,124	(595,075)
Increase in Net Assets	760,451	2,208,414	(1,447,963)
Net Assets - Beginning	74,787,818	72,579,404	2,208,414
Net Assets - Ending	\$ 75,548,269	\$ 74,787,818	\$ 760,451

The District’s net assets increased by \$760,451 during the 2009-10 fiscal year. Contributing elements of the change are as follows:

- Operating grants and contributions decreased because student transportation funding (\$1,177,193) was considered a categorical operating grant during the 2008-09 fiscal year, but was considered part of the Florida Education Finance Program during the 2009-10 fiscal year.
- Capital grants and contributions decreased because the District received \$1,884,896 less of Classrooms for Kids and \$641,936 less of Public Education Capital Outlay construction revenues during the 2009-10 fiscal year compared to the 2008-09 fiscal year.
- Property taxes, levied for operations increased while property taxes, levied for capital projects decreased because Hardee County voters approved “funding flexibility,” which allowed the District to reduce the tax

millage for capital outlay by 1 mill and then increase the millage for general operations by 1 mill for a four-year period beginning July 1, 2009 (\$1,654,155).

- Other Federal sources increased primarily due to the receipt of new ARRA State Fiscal Stabilization Fund - Recovery Act funds (\$1,715,527), new ARRA Title I (\$781,896), and new ARRA Special Education - Recovery Act funds (\$409,685) during the 2009-10 fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Major Governmental Funds

The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of June 30, 2010, the District’s governmental funds reported combined ending fund balances of \$12,588,771, a decrease of \$1,611,264 in comparison with the prior year. Of the total ending fund balance, \$10,300,743 (or 82 percent) constitutes unreserved fund balances, which are available for spending at the government’s discretion. The remaining fund balances are reserved to indicate that they are not available for new spending because they have already been committed to the following: outstanding purchase orders (\$713,363), State required carryover programs (\$564,854), carryover of other restricted programs (\$456,483), reserved for debt service requirements (\$159,383), and net assets held by the ancillary insurance fiscal agent (\$393,945).

The following schedule summarizes fund balances for individual fund types:

Fund Balances				
	<u>Unreserved Fund Balance</u>	<u>Reserved Fund Balance</u>	<u>Total Fund Balance</u>	<u>Change in Total Fund Balance</u>
Major Governmental Funds:				
General	\$ 7,753,259	\$ 1,682,063	\$ 9,435,322	\$ 3,431,852
Special Revenue- Other	8,045		8,045	
Special Revenue- ARRA Economic Stimulus				
Capital Projects- Local Capital Improvement	1,850,983	64,381	1,915,364	(693,557)
Nonmajor Governmental Funds	<u>688,456</u>	<u>541,584</u>	<u>1,230,040</u>	<u>(4,349,559)</u>
	<u>\$ 10,300,743</u>	<u>\$ 2,288,028</u>	<u>\$ 12,588,771</u>	<u>\$ (1,611,264)</u>
	82%	18%	100%	

The General Fund total fund balance increased because salary and benefit expenditures for 34 instructional employees were paid from Special revenue – ARRA Economic Stimulus Fund during the 2009-10 fiscal year instead of being paid from the General Fund (\$1,664,726), and because local taxes increased after Hardee County voters approved “funding flexibility” to allow the District to reduce the tax millage for capital outlay by 1 mill and to increase the millage for general operations by 1 mill for a four-year period beginning July 1, 2009 (\$1,654,155).

The tax shift from the Local Capital Improvement Fund to the General Fund, resulted in a decrease in fund balance in the Local Capital Improvement Fund. It should be noted that \$64,381 of fund balance is encumbered for specific projects.

The nonmajor governmental funds decreased because unspent capital outlay funds on hand at July 1, 2009 were spent during the 2009-10 fiscal year on one bus (\$103,206), a cooling tower for Hardee Sr. High (\$87,838), roofing at Hardee Sr. High (\$1,303,616), and the classroom addition at Bowling Green Elementary (\$2,438,939).

BUDGETARY HIGHLIGHTS

The budgetary comparison schedule for the General Fund lists original budget, final budget, and actual amounts. The actual amount of instruction expenditures in the General Fund was lower than budgeted due to the following areas which had significant positive budget variances: teacher pay (\$63,704), teacher extra duty pay (\$58,296), aide pay (\$30,422), benefits (\$121,184), supplies (\$221,573), textbooks and text-related (\$134,302) and substitutes (\$34,291).

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District’s investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$69,821,635 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and construction in progress. The total increase in the District’s investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$2,179,691 or 3.2 percent.

Capital Assets, Net of Depreciation			
	Balance 6/30/2010	Balance 6/30/2009	Increase (Decrease)
Land	\$ 2,046,222	\$ 2,046,222	\$
Improvements Other Than Buildings	2,879,809	3,039,048	(159,239)
Construction in Progress	4,967,050	1,832,182	3,134,868
Buildings and Fixed Equipment	56,270,290	57,446,422	(1,176,132)
Furniture, Fixtures, and Equipment	2,337,112	2,144,709	192,403
Motor Vehicles	1,045,476	832,769	212,707
Computer Software	275,676	300,592	(24,916)
	<u>\$ 69,821,635</u>	<u>\$ 67,641,944</u>	<u>\$ 2,179,691</u>

Construction in progress increased due to the classroom addition project at Bowling Green Elementary. Buildings and fixed equipment decreased because calculated depreciation for the 2009-10 fiscal year exceeded additions to buildings for new roofing at Hardee Sr. High (building 400, 600, 700, 1000 and 1100). Additional information on the District’s capital assets can be found in Note 4.

Long-Term Debt

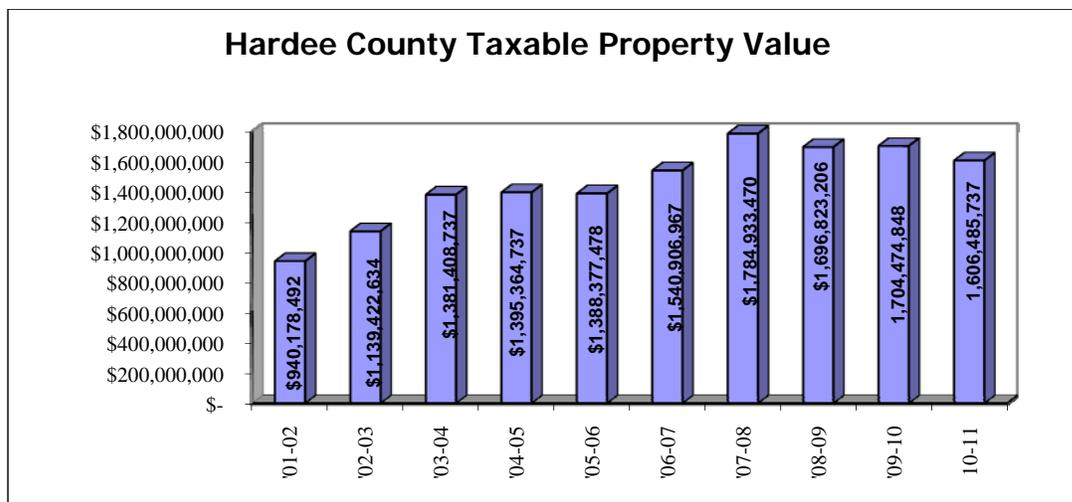
Bonds payable are the only long-term debt related to capital assets. At June 30, 2010, the District had total bonded debt outstanding of \$3,845,000. Of this amount, \$2,700,000 relates to Revenue Bonds, Series 2009, that will mature in November 2035 and \$1,145,000 relates to three series of State School Bonds that mature in 2017, 2018, and 2021, respectively. Additional information on the District’s long-term debt can be found in Notes 5 and 6.

OTHER MATTERS OF SIGNIFICANCE

Hardee County

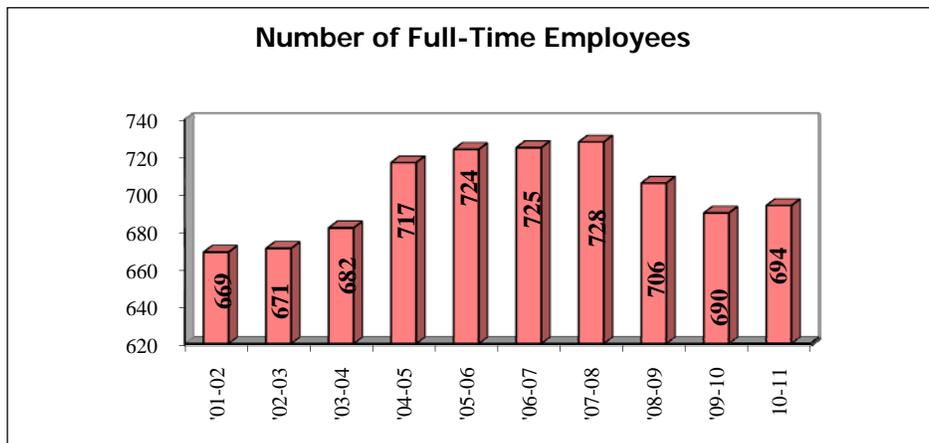
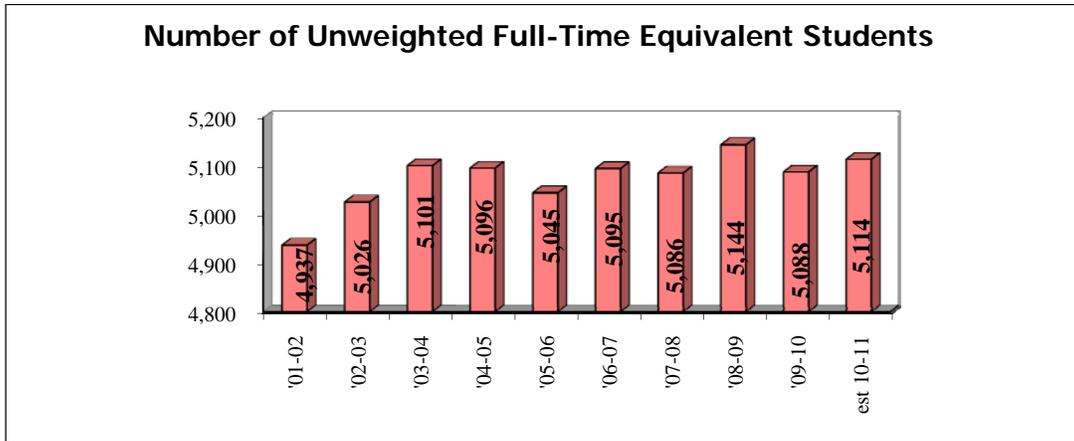
Hardee County’s population was estimated to be 29,415 in 2009 with 9 percent of the population under age 5 and 27.7 percent of the population under age 18. Between 2000 and 2009, Hardee County’s population increased by 9.2 percent. Because funding is largely based on numbers of enrolled students, an increase in population, particularly of school-aged children, may increase District enrollment and related funding.

Taxable values for Hardee County decreased by \$97,989,111 (6 percent) to \$1,606,485,737 for fiscal year 2010-11. Taxable values in Hardee County are comprised of real property (52 percent) and tangible property (48 percent). The biggest components of real property are agricultural, single family residential, and improved commercial/industrial. Tangible property includes power generation, utilities, and other tangible property. The following chart represents Hardee County taxable property values:



Hardee County School District

The Hardee County School District is comprised of five elementary schools, a junior high school, a senior high school, an adult education program, various preschool programs, and an alternative school. The District’s number of unweighted full-time equivalent students (UFTE) in 2009-10 decreased by 56 students to 5,088, mostly due to a Department of Juvenile Justice facility closing in May 2009. The District projects to serve 5,114 UFTE students in the 2010-11 fiscal year. The following chart shows the number of UFTE students and full-time employees.



On July 26, 2010, the Board adopted the proposed millage rates, the tentative budget for the 2010-11 fiscal year, and the projects to be funded with capital outlay taxes. The following schedule compares total fund balances at June 30, 2010, and tentative fund balances at June 30, 2011:

	Projected Fund Balance <u>6/30/2011</u>	Actual Fund Balance <u>6/30/2010</u>	Projected Change in Fund Balance <u>FY 2009-10</u>
Major Governmental Funds:			
General	\$ 9,668,864	\$ 9,435,322	\$ 233,542
Special Revenue- Other	8,045	8,045	
Special Revenue- ARRA Economic Stimulus			
Capital Projects- Local Capital Improvement	974,071	1,915,364	(941,293)
Other Nonmajor Governmental Funds	<u>1,061,243</u>	<u>1,230,040</u>	<u>(168,797)</u>
	<u>\$ 11,712,223</u>	<u>\$ 12,588,771</u>	<u>\$ (876,548)</u>

The fund balance in the Capital Projects – Local Capital Improvement fund is expected to decrease because unspent funds as of June 30, 2010, are expected to be spent in the 2010-11 fiscal year on the following: one bus (\$114,781); equipment, including computers (\$478,451); air conditioning replacement (\$236,703); and renovations to the Sr. High culinary arts facility (\$39,987).

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Greg Harrelson, CPA, CGFO
Director of Finance
Hardee County School Board
P.O. Box 1678
Wauchula, Florida 33873
(863) 773-9058 ext 217
gharrelson@hardee.k12.fl.us

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 24,378,250.74	\$ 31,961.00	\$	\$
Pupil Personnel Services	2,910,772.97			
Instructional Media Services	972,106.64			
Instruction and Curriculum Development Services	621,720.67			
Instructional Staff Training Services	991,043.88			
Instruction Related Technology	572,262.62			
School Board	307,125.62			
General Administration	548,078.14			
School Administration	2,029,225.33			
Facilities Acquisition and Construction	207,239.89			193,878.88
Fiscal Services	422,031.65			
Food Services	2,774,716.96	382,205.78	2,289,118.92	
Central Services	189,858.36			
Pupil Transportation Services	2,018,707.02	31,592.68		
Operation of Plant	3,762,960.73			
Maintenance of Plant	1,757,347.53		286,878.00	
Administrative Technology Services	221,514.84			
Community Services	155,438.31			
Unallocated Interest on Long-Term Debt	176,105.00			
Unallocated Depreciation Expense*	1,897,541.78			
Total Primary Government	46,914,048.68	445,759.46	2,575,996.92	193,878.88
Component Unit				
The Hardee County Education Foundation, Inc.	\$ 153,817.00	\$ 0.00	\$ 128,572.00	\$ 0.00

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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (24,346,289.74)	\$
(2,910,772.97)	
(972,106.64)	
(621,720.67)	
(991,043.88)	
(572,262.62)	
(307,125.62)	
(548,078.14)	
(2,029,225.33)	
(13,361.01)	
(422,031.65)	
(103,392.26)	
(189,858.36)	
(1,987,114.34)	
(3,762,960.73)	
(1,470,469.53)	
(221,514.84)	
(155,438.31)	
(176,105.00)	
(1,897,541.78)	
<u>(43,698,413.42)</u>	
	<u>(25,245.00)</u>
12,397,783.25	
847,506.65	
30,318,033.82	
114,496.52	1,135.00
781,044.85	
<u>44,458,865.09</u>	<u>1,135.00</u>
760,451.67	(24,110.00)
<u>74,787,817.58</u>	<u>195,545.00</u>
<u>\$ 75,548,269.25</u>	<u>\$ 171,435.00</u>

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

	<u>General Fund</u>	<u>Special Revenue - Other Fund</u>	<u>Special Revenue - ARRA Economic Stimulus Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 5,396,081.26	\$ 664,608.62	\$ 21,185.81
Investments	4,520,776.80		
Accounts Receivable	4,930.74		
Due from Other Funds	144,019.51		106.89
Due from Other Agencies	104,648.06	75,000.00	27,606.31
Inventories	231,534.38		
Cash with Fiscal Agent	437,237.03		
TOTAL ASSETS	<u>\$ 10,839,227.78</u>	<u>\$ 739,608.62</u>	<u>\$ 48,899.01</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 608,358.96	\$	\$
Accounts Payable	308,771.49	171,963.25	17,710.44
Construction Contracts Payable			
Due to Other Funds	106.89	101,086.57	31,188.57
Due to Other Agencies	443,376.76	457,921.04	
Matured Interest Payable			
Deferred Revenue		592.83	
Estimated Insurance Claims Payable	43,291.98		
Total Liabilities	<u>1,403,906.08</u>	<u>731,563.69</u>	<u>48,899.01</u>
Fund Balances:			
Reserved for State Required Carryover Programs	564,853.83		
Reserved for Encumbrances	266,780.40		
Reserved for Debt Service			
Reserved for Other Purposes	850,428.50		
Unreserved, Reported in:			
General Fund	7,753,258.97		
Special Revenue Funds		8,044.93	
Capital Projects Funds			
Total Fund Balances	<u>9,435,321.70</u>	<u>8,044.93</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,839,227.78</u>	<u>\$ 739,608.62</u>	<u>\$ 48,899.01</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
\$ 1,904,370.91	\$ 1,298,914.38	\$ 9,285,160.98
	30,440.58	4,551,217.38
	6,299.98	11,230.72
		144,126.40
15,798.38	9,223.65	232,276.40
	64,227.76	295,762.14
		437,237.03
<u>\$ 1,920,169.29</u>	<u>\$ 1,409,106.35</u>	<u>\$ 14,957,011.05</u>
\$ 4,805.63	\$ 1,730.48	\$ 608,358.96
	162,854.95	504,981.29
	11,744.37	162,854.95
		144,126.40
		901,297.80
	2,736.25	2,736.25
		592.83
		43,291.98
<u>4,805.63</u>	<u>179,066.05</u>	<u>2,368,240.46</u>
64,380.77	382,201.95	564,853.83
	159,382.56	713,363.12
		159,382.56
		850,428.50
		7,753,258.97
	505,867.74	513,912.67
1,850,982.89	182,588.05	2,033,570.94
<u>1,915,363.66</u>	<u>1,230,040.30</u>	<u>12,588,770.59</u>
<u>\$ 1,920,169.29</u>	<u>\$ 1,409,106.35</u>	<u>\$ 14,957,011.05</u>

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds		\$ 12,588,770.59
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.		69,821,634.83
Interest on bonds payable is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due.		(176,105.00)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	\$ 3,845,000.00	
Other Postemployment Benefits Payable	305,933.00	
Compensated Absences Payable	2,535,098.17	(6,686,031.17)
Total Net Assets - Governmental Activities		\$ 75,548,269.25

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 60,837.25	\$	\$ 7,146.61
Federal Through State and Local State	22,542,916.47	4,381,310.45	2,946,124.90
Local:			
Property Taxes	12,397,783.25		
Charges for Services - Food Service Miscellaneous	1,121,649.85		
Total Revenues	36,123,186.82	4,381,310.45	2,953,271.51
Expenditures			
Current - Education:			
Instruction	19,050,097.63	1,945,945.45	2,469,880.44
Pupil Personnel Services	1,644,027.50	1,028,936.28	194,374.96
Instructional Media Services	664,532.55		4,110.64
Instruction and Curriculum Development Services	294,723.49	324,753.47	
Instructional Staff Training Services	309,897.55	573,829.08	102,955.73
Instruction Related Technology	583,660.46		
School Board	305,837.51		
General Administration	317,226.94	118,752.80	103,423.74
School Administration	2,040,636.10	36,823.26	
Facilities Acquisition and Construction	14,370.86		
Fiscal Services	406,948.12		
Food Services	12,424.77		
Central Services	155,373.68	8,153.12	
Pupil Transportation Services	1,945,912.29	6,857.29	
Operation of Plant	3,732,542.88		
Maintenance of Plant	1,695,024.20		
Administrative Technology Services	225,211.81		
Community Services	155,399.15		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	43,980.00		
Other Capital Outlay	100,863.01	337,259.70	78,526.00
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	33,698,690.50	4,381,310.45	2,953,271.51
Excess (Deficiency) of Revenues Over Expenditures	2,424,496.32		
Other Financing Sources (Uses)			
Transfers In	965,370.36		
Proceeds from Sale of Capital Assets	18,414.15		
Insurance Loss Recoveries	23,571.27		
Transfers Out			
Total Other Financing Sources (Uses)	1,007,355.78		
Net Change in Fund Balances	3,431,852.10		
Fund Balances, Beginning	6,003,469.60	8,044.93	
Fund Balances, Ending	\$ 9,435,321.70	\$ 8,044.93	\$

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
\$	\$	\$
	2,256,707.92	67,983.86
	698,151.02	9,584,143.27
		23,241,067.49
847,506.65		13,245,289.90
	382,205.78	382,205.78
6,667.16	6,668.53	1,134,985.54
<u>854,173.81</u>	<u>3,343,733.25</u>	<u>47,655,675.84</u>
		23,465,923.52
		2,867,338.74
		668,643.19
		619,476.96
		986,682.36
		583,660.46
		305,837.51
		539,403.48
		2,077,459.36
		14,370.86
		406,948.12
	2,400,223.09	2,412,647.86
		163,526.80
		1,952,769.58
		3,732,542.88
		1,695,024.20
		225,211.81
		155,399.15
	4,873,536.30	4,917,516.30
720,584.53	3,396.94	1,240,630.18
	90,000.00	90,000.00
	187,912.39	187,912.39
<u>720,584.53</u>	<u>7,555,068.72</u>	<u>49,308,925.71</u>
<u>133,589.28</u>	<u>(4,211,335.47)</u>	<u>(1,653,249.87)</u>
		965,370.36
		18,414.15
(827,146.36)	(138,224.00)	23,571.27
<u>(827,146.36)</u>	<u>(138,224.00)</u>	<u>(965,370.36)</u>
		41,985.42
(693,557.08)	(4,349,559.47)	(1,611,264.45)
2,608,920.74	5,579,599.77	14,200,035.04
<u>\$ 1,915,363.66</u>	<u>\$ 1,230,040.30</u>	<u>\$ 12,588,770.59</u>

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

Net Change in Fund Balances - Governmental Funds \$ (1,611,264.45)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. 2,179,690.47

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 90,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current period. 272,672.12

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (169,772.00)

Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities. This is the decrease in accrued interest payable. (874.47)

Change in Net Assets - Governmental Activities \$ 760,451.67

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

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

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 13,631.42	\$ 348,299.00
Investments		103,462.00
	<u>13,631.42</u>	<u>451,761.00</u>
TOTAL ASSETS	\$ <u>13,631.42</u>	\$ <u>451,761.00</u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 451,761.00
	<u></u>	<u>451,761.00</u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<u>13,631.42</u>	
TOTAL LIABILITIES AND NET ASSETS	\$ <u>13,631.42</u>	

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

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

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Investment Earnings:	
Interest, Dividends, and Other	\$ 37.07
	<u> </u>
Change in Net Assets	37.07
Net Assets - Beginning	<u>13,594.35</u>
Net Assets - Ending	<u><u>\$ 13,631.42</u></u>

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

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Hardee County School District (District) is considered part of the Florida system of public education. The governing body of the school district is the Hardee County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hardee County.

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

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

- Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of The Hardee County Education Foundation, Inc. (Foundation), a separate not-for-profit corporation organized and operated as a direct support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures for the benefit of the District. The Foundation is considered a component unit of the District because of the nature and significance of its relationship with the District. The financial data reported in the accompanying basic financial statements was derived from the audited financial information from the organization for the fiscal year ending June 30, 2010. The financial information is on file in the District's Administrative office.

➤ **Basis of Presentation**

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

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 that can be associated with a specific program or activity is allocated to the related function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital

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

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

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

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the Henry D. Gilliard Memorial Citrus Award, the James G. Smith Vocational Award, and the Charles Myer Memorial Scholarship Trust Funds.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and

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

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 21 days of the end of the current fiscal year, with the exception of Public Assistance Grants and insurance recoveries, which have a collection period of six months. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The Hardee County Education Foundation, Inc., shown as a discretely presented component unit, uses the accrual basis of accounting and financial reporting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

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

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, 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. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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

Investments made locally consist of certificates of deposit and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture surplus 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 at the time inventory items are purchased and are adjusted to reflect year-end physical inventories. For surplus donated foods, fiscal year-end adjustments are made to the expenditures and corresponding inventory accounts to record physical inventories on hand.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000, with the exception of Improvements Other Than Buildings which are those costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Land acquired prior to 1973 and most buildings acquired or constructed prior to 1979, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, \$89,680 of stated land values and \$5,064,617 of stated building values are based on these estimates.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	17.63 years
Buildings and Fixed Equipment	49.23 years
Furniture, Fixtures, and Equipment	6.66 years
Motor Vehicles	9.29 years
Computer Software	5.00 years

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

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

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

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

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

➤ **District Property Taxes**

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

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

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

The Board adopted the 2009 tax levy on September 15, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

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

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	\$ 9,848.91
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	100,457.62
Debt Service Accounts	6 Months	30,440.58
Certificates of Deposits	September 29, 2010	4,523,781.18
Total Investments		\$ 4,664,528.29

Note (1): Investment reported as a cash equivalents for financial statement reporting purposes.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio’s WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.
- The District’s investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.

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

➤ The District’s investments in certificates of deposit are in qualified public depositories.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 2,046,221.85	\$	\$	2,046,221.85
Land Improvements - Nondepreciable	118,342.06			118,342.06
Construction in Progress	1,832,181.72	4,104,192.69	969,324.84	4,967,049.57
Total Capital Assets Not Being Depreciated	3,996,745.63	4,104,192.69	969,324.84	7,131,613.48
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,501,076.83	87,838.00		4,588,914.83
Buildings and Fixed Equipment	77,772,493.37	1,521,459.42	515,774.74	78,778,178.05
Furniture, Fixtures, and Equipment	5,985,116.62	875,319.19	413,525.06	6,446,910.75
Motor Vehicles	4,095,484.71	212,707.00	78,247.70	4,229,944.01
Computer Software	891,271.13	133,085.99	377,465.48	646,891.64
Total Capital Assets Being Depreciated	93,245,442.66	2,830,409.60	1,385,012.98	94,690,839.28
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,580,370.56	247,076.91		1,827,447.47
Buildings and Fixed Equipment	20,326,070.87	2,697,591.68	515,774.74	22,507,887.81
Furniture, Fixtures, and Equipment	3,840,408.03	682,915.88	413,525.06	4,109,798.85
Motor Vehicles	3,262,715.74		78,247.70	3,184,468.04
Computer Software	590,678.73	158,002.51	377,465.48	371,215.76
Total Accumulated Depreciation	29,600,243.93	3,785,586.98	1,385,012.98	32,000,817.93
Total Capital Assets Being Depreciated, Net	63,645,198.73	(955,177.38)		62,690,021.35
Governmental Activities Capital Assets, Net	\$ 67,641,944.36	\$ 3,149,015.31	\$ 969,324.84	\$ 69,821,634.83

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 922,266.48
Pupil Personnel Services	37,684.28
Instructional Media Services	309,044.91
Instructional Staff Training Services	4,549.72
General Administration	3,491.75
School Administration	31,368.38
Fiscal Services	14,674.48
Food Services	356,263.10
Central Services	26,302.51
Pupil Transportation Services	65,939.12
Operation of Plant	23,391.92
Maintenance of Plant	93,068.55
Unallocated	1,897,541.78
Total Depreciation Expense - Governmental Activities	\$ 3,785,586.98

5. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2001A	\$ 685,000	6.0	2021
Series 2005A, Refunding	355,000	5.0	2017
Series 2005B, Refunding	105,000	5.0	2018
District Revenue Bonds:			
Series 2009	2,700,000	2.0 - 5.4	2035
Total Bonds Payable	\$ 3,845,000		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle

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

license tax. The State’s full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 78-517, Laws of Florida, which provides that the bonds be secured by a sum of \$187,375 from the State’s Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the Hardee County Board of Commissioners who remit the distribution to the District.

The District has pledged a total of \$4,740,705 of sales tax revenues in connection with the District Revenue Bonds of 2009, described above. During the 2009-10 fiscal year, the District recognized sales tax revenues totaling \$187,375 and expended \$115,252.76 (61.5 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, or November 1, 2035. Approximately 99 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 156,325.00	\$ 100,000.00	\$ 56,325.00
2012	156,606.25	105,000.00	51,606.25
2013	156,606.25	110,000.00	46,606.25
2014	161,293.75	120,000.00	41,293.75
2015	160,431.25	125,000.00	35,431.25
2016-2020	588,500.00	500,000.00	88,500.00
2021	89,250.00	85,000.00	4,250.00
Total State School Bonds	1,469,012.50	1,145,000.00	324,012.50
District Revenue Bonds:			
2011	184,780.00	65,000.00	119,780.00
2012	183,480.00	65,000.00	118,480.00
2013	182,017.50	65,000.00	117,017.50
2014	185,330.00	70,000.00	115,330.00
2015	183,405.00	70,000.00	113,405.00
2016-2020	920,400.00	390,000.00	530,400.00
2021-2025	915,523.75	470,000.00	445,523.75
2026-2030	903,735.00	580,000.00	323,735.00
2031-2035	902,308.75	750,000.00	152,308.75
2036	179,725.00	175,000.00	4,725.00
Total District Revenue Bonds	4,740,705.00	2,700,000.00	2,040,705.00
Total	\$ 6,209,717.50	\$ 3,845,000.00	\$ 2,364,717.50

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

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 3,935,000.00	\$	\$ 90,000.00	\$ 3,845,000.00	\$ 165,000.00
Compensated Absences Payable	2,807,770.29	309,694.16	582,366.28	2,535,098.17	420,701.00
Other Postemployment Benefits Payable	136,161.00	432,861.00	263,089.00	305,933.00	
Total Governmental Activities	<u>\$ 6,878,931.29</u>	<u>\$ 742,555.16</u>	<u>\$ 935,455.28</u>	<u>\$ 6,686,031.17</u>	<u>\$ 585,701.00</u>

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 144,019.51	\$ 106.89
Special Revenue:		
Other		101,086.57
ARRA Economic Stimulus	106.89	31,188.57
Nonmajor Governmental		11,744.37
Total	<u>\$ 144,126.40</u>	<u>\$ 144,126.40</u>

Interfund receivables in the General Fund represent amounts for retirement contributions and temporary cash shortages in the Special Revenue Funds. All interfund balances will be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 965,370.36	\$
Capital Projects:		
Local Capital Improvement		827,146.36
Nonmajor Governmental		138,224.00
Total	<u>\$ 965,370.36</u>	<u>\$965,370.36</u>

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

Interfund transfers consisted of transfers of Public Education Capital Outlay and Local Capital Improvement funds to the General Fund to assist in funding maintenance operations of the District.

8. RESERVE FOR ENCUMBRANCES

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

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

Because revenues of grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund, and Special Revenue – ARRA Economic Stimulus Fund total \$199,896.77 and \$32,269.85, respectively, at June 30, 2010.

9. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program:	
Supplemental Academic Instruction	\$ 1,148,182.00
Transportation	1,016,646.00
Instructional Materials	416,601.00
Reading	262,076.00
Safe Schools	151,275.00
Florida Teachers Lead	66,425.00
Other	13,395,077.00
Categorical Educational Program - Class Size Reduction	5,374,390.00
Gross Receipts Tax (Public Education Capital Outlay)	286,878.00
Workforce Development Program	260,331.00
School Recognition	201,217.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	193,792.32
Voluntary Pre-K	122,322.61
Food Service Supplement	32,411.00
Discretionary Lottery Funds	13,407.00
Miscellaneous	300,036.56
	<hr/>
Total	\$ 23,241,067.49

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

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

10. PROPERTY TAXES

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

	Millages	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.467	\$ 9,318,363.99
Basic Discretionary Local Effort	0.748	1,274,947.19
Supplemental Discretionary Local Effort	0.250	426,118.71
Voted Tax:		
Additional Discretionary Local Effort	1.000	1,704,474.85
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.500	852,237.42
Total	7.965	\$ 13,576,142.16

11. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with

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

an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$2,411,257, \$2,333,348, and \$2,225,036, respectively, which were equal to the required contributions for each fiscal year. There were 74 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$242,091.

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

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

supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverages. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 53 retirees received other postemployment benefits, and another 112 retirees received only life insurance benefits. The District provided required contributions of \$263,089 toward the annual OPEB cost, net of retiree contributions totaling \$293,376, which represents 1.2 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 170,976
Amortization of Unfunded Actuarial Accrued Liability	245,743
Interest on Normal Cost and Amortization	17,138
Annual Required Contribution	433,857
Interest on Net OPEB Obligation	6,127
Adjustment to Annual Required Contribution	(7,123)
Annual OPEB Cost (Expense)	432,861
Contribution Toward the OPEB Cost	(263,089)
Increase in Net OPEB Obligation	169,772
Net OPEB Obligation, Beginning of Year	136,161
Net OPEB Obligation, End of Year	\$ 305,933

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0%	\$ 0
2008-09	416,330	67.3%	136,161
2009-10	432,861	60.8%	305,933

Funded Status and Funding Progress. As of January 1, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$4,418,739, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,418,739 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,528,149, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18 percent.

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

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

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

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

The District's initial OPEB actuarial valuation as of January 1, 2008, used the individual entry age actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2010, and to estimate the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4.0 percent per year, and an annual healthcare cost trend rate of 20.0 percent initially for the 2008-09 fiscal year, reduced to 10.0 percent in the fiscal year 2010, and then further reduced by 0.5 percent per year, to an ultimate rate of 5.0 percent in 2020. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 18 years.

13. RISK MANAGEMENT PROGRAMS

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

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

Property damage coverage is managed by SCERMP by purchase of reinsurance policies or excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except

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

wind/hail/flood), respectively. The named wind or named flood deductible is 5 percent of replacement cost value with a minimum of \$250,000 per occurrence. Deductibles for unnamed wind or flood events is \$100,000 plus \$100,000 time element for any one occurrence. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents. SCERMP's purchased reinsurance property loss limit substantially reduced during the 2009-10 fiscal year to \$75 million compared to \$132 million during the 2008-09 fiscal year.

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

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

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

The District also participates in dental, vision, life, flexible spending, and disability insurance programs administered through the North East Florida Educational Consortium under which several district school boards have established a combined limited self-insurance program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess for specified amounts. Premiums charged to the districts are based on each individual district's claims experience, and the program operates as a individually-funded plan each participating district, with shared administrative costs and pooling of plan assets for working capital. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The Consortium is governed by a Board of Directors composed of the superintendents of the participating school districts. The Consortium offices are located in Putnam County, and the Putnam County District School Board is the fiscal agent.

A liability in the amount of \$43,291.98 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2010. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance programs:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2008-09	\$ 26,988.78	\$ 468,590.41	\$ (451,135.64)	\$ 44,443.55
2009-10	44,443.55	439,402.41	(440,553.98)	43,291.98

Health and hospitalization coverage are being provided through purchased commercial insurance.

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

14. SUBSEQUENT EVENT

In November 2010, the District was notified by the Florida Department of Education (FDOE) that District staff needed to adjust Federal cash advance amounts in the FDOE Cash Advance and Reporting of Disbursements System (CARDS). In December 2010, District staff adjusted CARDS records by reducing five Federal cash advance amounts relating to fiscal year 2007-08 Federal grants by \$648,760 and by increasing Federal cash advance amounts relating to fiscal year 2010-11 Federal grants by \$648,760. These adjustments were necessary due to FDOE's transition in June 2009 to CARDS where cash advances are requested on a grant-by-grant basis from a legacy application where cash advances were requested in the aggregate. The District accrued a liability in the amount of \$457,823 in the Special Revenue - Other Fund to account for a portion of this liability.

REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 48,000.00	\$ 48,000.00	\$ 60,837.25	\$ 12,837.25
Federal Through State and Local	156,000.00	156,000.00		(156,000.00)
State	22,894,621.00	22,558,125.15	22,542,916.47	(15,208.68)
Local:				
Property Taxes	12,125,233.00	12,125,233.00	12,397,783.25	272,550.25
Miscellaneous	876,579.00	910,780.53	1,121,649.85	210,869.32
Total Revenues	36,100,433.00	35,798,138.68	36,123,186.82	325,048.14
Expenditures				
Current - Education:				
Instruction	20,428,547.04	19,798,449.79	19,050,097.63	748,352.16
Pupil Personnel Services	1,513,391.00	1,708,918.68	1,644,027.50	64,891.18
Instructional Media Services	680,847.62	692,386.31	664,532.55	27,853.76
Instruction and Curriculum Development Services	303,281.85	328,163.99	294,723.49	33,440.50
Instructional Staff Training Services	348,080.33	356,871.56	309,897.55	46,974.01
Instruction Related Technology	566,160.20	612,985.17	583,660.46	29,324.71
School Board	486,849.00	482,101.00	305,837.51	176,263.49
General Administration	294,697.00	329,167.00	317,226.94	11,940.06
School Administration	1,954,612.00	2,067,989.32	2,040,636.10	27,353.22
Facilities Acquisition and Construction		14,370.86	14,370.86	
Fiscal Services	460,087.00	444,387.00	406,948.12	37,438.88
Food Services		12,430.50	12,424.77	5.73
Central Services	154,842.73	162,469.73	155,373.68	7,096.05
Pupil Transportation Services	2,133,075.00	2,177,463.00	1,945,912.29	231,550.71
Operation of Plant	4,139,810.00	4,145,618.13	3,732,542.88	413,075.25
Maintenance of Plant	1,702,939.22	1,796,389.30	1,695,024.20	101,365.10
Administrative Technology Services	235,472.49	234,758.98	225,211.81	9,547.17
Community Services	179,191.00	178,879.67	155,399.15	23,480.52
Fixed Capital Outlay:				
Facilities Acquisition and Construction		43,980.00	43,980.00	
Other Capital Outlay		100,863.01	100,863.01	
Total Expenditures	35,581,883.48	35,688,643.00	33,698,690.50	1,989,952.50
Excess of Revenues Over Expenditures	518,549.52	109,495.68	2,424,496.32	2,315,000.64
Other Financing Sources				
Transfers In	950,363.00	950,363.00	965,370.36	15,007.36
Proceeds from Sale of Capital Assets		18,414.00	18,414.15	0.15
Insurance Loss Recoveries	13,720.00	24,161.00	23,571.27	(589.73)
Total Other Financing Sources	964,083.00	992,938.00	1,007,355.78	14,417.78
Net Change in Fund Balances	1,482,632.52	1,102,433.68	3,431,852.10	2,329,418.42
Fund Balances, Beginning	6,003,469.60	6,003,469.60	6,003,469.60	
Fund Balances, Ending	\$ 7,486,102.12	\$ 7,105,903.28	\$ 9,435,321.70	\$ 2,329,418.42

Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 5,498,432.85	\$ 6,351,709.40	\$ 4,381,310.45	\$ (1,970,398.95)
<u>5,498,432.85</u>	<u>6,351,709.40</u>	<u>4,381,310.45</u>	<u>(1,970,398.95)</u>
2,661,192.89	2,902,046.75	1,945,945.45	956,101.30
1,329,994.86	1,415,585.95	1,028,936.28	386,649.67
565,947.00	526,980.33	324,753.47	202,226.86
643,666.94	863,909.72	573,829.08	290,080.64
202,202.06	219,166.75	118,752.80	100,413.95
43,223.26	43,223.26	36,823.26	6,400.00
32,328.84	23,659.94	8,153.12	15,506.82
19,877.00	19,877.00	6,857.29	13,019.71
	<u>337,259.70</u>	<u>337,259.70</u>	
<u>5,498,432.85</u>	<u>6,351,709.40</u>	<u>4,381,310.45</u>	<u>1,970,398.95</u>
<u>8,044.93</u>	<u>8,044.93</u>	<u>8,044.93</u>	
\$ <u>8,044.93</u>	\$ <u>8,044.93</u>	\$ <u>8,044.93</u>	\$ <u>0.00</u>

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 4,190,781.52	\$ 7,147.00 4,207,618.42	\$ 7,146.61 2,946,124.90	\$ (0.39) (1,261,493.52)
<u>4,190,781.52</u>	<u>4,214,765.42</u>	<u>2,953,271.51</u>	<u>(1,261,493.91)</u>
3,509,322.42	3,366,494.25	2,469,880.44	896,613.81
337,608.60	420,528.35	194,374.96	226,153.39
	4,110.64	4,110.64	
172,718.94	176,379.58	102,955.73	73,423.85
168,957.06	167,552.10	103,423.74	64,128.36
2,174.50	1,174.50		1,174.50
	<u>78,526.00</u>	<u>78,526.00</u>	
<u>4,190,781.52</u>	<u>4,214,765.42</u>	<u>2,953,271.51</u>	<u>1,261,493.91</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
January 1, 2008	\$ 0	\$ 4,418,739	\$ 4,418,739	0%	\$ 24,528,149	18.0%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 449,515.34
National School Lunch Program	10.555	300	1,631,803.36
Summer Food Service Program for Children	10.559	323	29,402.22
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	<u>136,855.05</u>
Total United States Department of Agriculture			<u>2,247,575.97</u>
United States Department of Labor:			
Direct:			
ARRA - Employee Benefits Security Administration (EBSA)	17.151	None	7,146.61
Indirect:			
South Florida Community College:			
WIA Pilots, Demonstrations, and Research Projects	17.261	None	<u>3,876.77</u>
Total United States Department of Labor			11,023.38
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,013,609.85
Special Education - Preschool Grants	84.173	267	33,467.11
ARRA - Special Education Grants to States, Recovery Act	84.391	263	398,025.67
ARRA - Special Education Preschool Grants, Recovery Act	84.392	267	11,659.49
Florida Atlantic University:			
Special Education - Grants to States	84.027	None	517.44
Polk County District School Board:			
Special Education - Grants to States	84.027	None	23,606.04
Special Education - Preschool Grants	84.173	None	56,631.05
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	<u>1,082.04</u>
Total Special Education Cluster			<u>1,538,598.69</u>
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 220, 222, 223, 226, 228	1,660,150.94
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223	<u>781,896.46</u>
Total Title I, Part A Cluster			2,442,047.40
Education Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	20,319.78
ARRA - Education Technology State Grants, Recovery Act	84.386	121	<u>27,756.00</u>
Total Educational Technology State Grants Cluster			48,075.78
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,604,412.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	<u>111,115.11</u>
Total State Fiscal Stabilization Fund Cluster			1,715,527.11

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Education (Continued):			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	92,390.99
Migrant Education - State Grant Program	84.011	217	738,065.10
Career and Technical Education - Basic Grants to States	84.048	161	120,613.40
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	51.98
Rural Education	84.358	110	130,334.33
English Language Acquisition Grants	84.365	102	27,987.60
Improving Teacher Quality State Grants	84.367	224	441,892.44
School Improvement Grants	84.377	126	14,975.75
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	11,260.17
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	1,510.62
Mathematics and Science Partnerships	84.366	None	406.29
Total United States Department of Education			<u>7,323,737.65</u>
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	60,837.25
Total Expenditures of Federal Awards			<u>\$ 9,643,174.25</u>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2009-10 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

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



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Hardee County District School Board's financial statements. For the school internal funds and the discretely presented component unit, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Management's response to the finding 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 25, 2011



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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 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 Hardee County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

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

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

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 25, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA and 84.392-ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, and used FCAT scores from the 2008-09 fiscal year to evaluate school administrators for the 2009-10 fiscal year; however instructional personnel were not evaluated based primarily on student performance, such as FCAT scores in the 2009-10 fiscal year. According to District personnel, this occurred because the FCAT results were not available until June 2010, and the District is required, pursuant to Section 1012.33(3)(f), Florida Statutes, to provide the evaluations to instructional personnel no later than six weeks before the end of the school year. Although the District did not timely receive the FCAT scores, the District made no performance assessments of instructional personnel after receipt of the FCAT scores to ensure appropriate consideration of student performance.

Without measuring employee performance by the required criteria, performance assessments of instructional personnel are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

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

Finding No. 2: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on

District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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

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

- **Instructional Personnel.** The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes. The District had a performance pay plan during the 2009-10 fiscal year, resulting in one instructor being selected district teacher of the year and receiving a bonus in January 2010. However, since the District has over 540 instructional personnel, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.
- **School-based Administrators.** District personnel indicated that the salary schedule for school-based administrators included consideration for additional responsibilities, school demographics, and level of job performance difficulties as the schedule provided differing administrative pay grades for elementary, middle, and high schools based on the type school. District personnel further indicated that the differentiated pay factor for critical shortage areas did not apply for school-based administrators since there were no vacancies for these administrators during the 2009-10 fiscal year. While there were no vacancies, this would not exempt the District from the requirement in Section 1012.22(1)(c)4., Florida Statutes, to provide differentiated pay for critical shortage areas that could occur. To evidence consideration of critical shortage areas, the District could document a historical trend of a minimal number of applicants for certain school-based administrators and other factors demonstrating the difficulty of hiring and retaining particular personnel.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

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

Finding No. 3: Food Service Operations

The District operates a school food service program at each District school that provides meals to participating students and staff. The District accounts for the program in the Special Revenue – Food Service Fund, and the

program generates revenues from Federal reimbursements, State supplements, and the sale of food. During the 2009-10 fiscal year, District expenditures for the food service program totaled approximately \$2.4 million, and the financial position of the program is significantly impacted by the prices charged for meals, salaries and benefits costs, and purchased food costs.

During the 2009-10 fiscal year, cafeteria managers began using a computer software package to calculate costs per meal and generate cost reports; however, the software was primarily used to calculate a weighted daily average percentage of calories per meal and cost per ingredient, rather than cost per meal. In addition, many food items were assigned no costs or costs were entered incorrectly, resulting in significant distortion in the costs. For example, our review of cost reports disclosed 230 food items (e.g., French fries, spaghetti and meat sauce, pork sausage) that were assigned no costs and other food item costs that appeared misstated (e.g., 2 oz. salad dressing costing \$144.22). Consequently, District records did not evidence that meal costs for regular meals and a la carte items by school were properly documented and monitored, limiting the District's ability to determine the efficiency of the food service program operations. Similar findings were noted in several of our previous reports, most recently in report No. 2010-057.

Recommendation: The District should continue its efforts to establish procedures to effectively monitor and evaluate meal costs for each school.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not applicable

Program Administration. Non-Federal Finding No. 3 addresses the lack of controls to properly monitor meal costs at District schools. This control deficiency impacts the administration of the Federally-funded food service program.

Recommendation: The District should implement procedures necessary to adequately monitor food service program operations.

District Contact Person: George Kelly, Director of Food Service

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$18,359.15

Reporting. Title 7, Section 210.8 and 220.11, Code of Federal Regulations, requires the District to establish internal controls that ensure the accuracy of meal counts prior to the submission of monthly Federal claims for reimbursement. To be entitled to Federal reimbursement, claims are limited to the number of free, reduced-price, and paid meals that are served to students eligible for free, reduced-price, and paid lunches for each day of operations.

The District operated a school food service program at each District school that provided meals to participating students, and the District received Federal reimbursements, totaling approximately \$2.1 million, for the 2009-10 fiscal year. The District processed food service collections through a point-of-sale computer system that utilized codes assigned to students to determine student payments status (free, reduced-price, or paid) and to classify food sales collections. The numbers of free, reduced-price, and paid meals served were submitted monthly to the Florida Department of Education (FDOE) for reimbursement at agreed-upon Federal rates.

We tested Federal reimbursement claims submitted to FDOE for the District's seven food service sites, and noted that claims were generally supported. However, we noted that meals claimed for certain days at five schools in September 2009 did not match daily collection reports prepared at the schools and meals claimed exceeded the approved number of applications on file. For example, free lunch reimbursements claimed at Hardee Junior High School ranged from 1,011 meals to 1,201 meals for six days; however, this location only had 775 approved free meal applications on file. In addition, our comparison of cash collection records prepared by the five schools to the District's monthly summary report filed to claim reimbursement disclosed that such differences resulted in claims totaling \$18,359.15 in excess of supporting records.

District personnel indicated that these exceptions occurred because there were no written procedures to provide guidance for entering Federal meal reimbursement claims, and there was a new Director of Food Service responsible for entering claim information who was unfamiliar with procedures for electronically posting the reimbursement requests. In addition, there were no independent reviews and approvals of the reported meal counts. The Director of Food Service manually entered the meal counts to the monthly report used as the basis for reimbursement, and certain errors occurred without detection. Although our tests did not disclose similar errors at other times during the fiscal year, without adequate procedures to ensure the accuracy of food service meal reimbursement claims, there is an increased risk that claims may be misreported.

Recommendation: The District should enhance procedures to ensure accurate reporting of meals claimed for Federal reimbursement, including an independent review and approval of reimbursement claims. Further, the District should return the questioned costs, totaling \$18,359.15, to FDOE.

District Contact Person: George Kelly, Director of Food Service

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2010-057.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-137 (4) 2009-098 (1) 2010-057 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Program Administration	The District could enhance its controls over Federal expenditures and the related inventories for the food service program in order to ensure the efficiency of such operations.	Partially corrected.	Cafeteria managers have begun using a software package to calculate food costs per meal and to generate reports.
2010-057 (2)	Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund – Education State Grants, Recovery Act (CFDA No. 84.394); and State Fiscal Stabilization Fund – Government Services, Recovery Act (CFDA No. 84.397) / Reporting and Special Tests and Provisions	Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Central Contractor Registration database.	Corrected.	In August 2009 and April 2010, the Director of Finance renewed the District's registration in the CCR database. The registration is valid until April 12, 2011.

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF HARDEE COUNTY

P.O. BOX 1678
WAUCHULA, FLORIDA 33873

ADMINISTRATIVE OFFICES
1009 NORTH 6TH AVENUE
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Woody Caligan, Deputy Superintendent

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January 10, 2011

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

Dear Mr. Martin:

The following are responses to your preliminary and tentative audit findings and recommendations for the Hardee County District School Board for the fiscal year ended June 30, 2010:

No. 1: Performance Assessments. In January 2011, the District will contract with a consultant to review the District's annual performance assessment procedures for instructional personnel and school administrators for compliance with Florida Statutes and with Race to the Top requirements. However, using current FCAT scores in performance assessments will be difficult in fiscal year 2010-11: performance assessments of instructional personnel must be completed by April 29, 2011, six weeks prior to the end of the school year, while FCAT testing will end on April 22, 2011.

No. 2: Compensation and Salary Schedules. Due to limited resources, the negotiated salary schedule for fiscal year 2010-11 does not expand the performance pay plan to all instructional employees. However, the District's Race to the Top work plan for 2011-12 provides that District staff will revise the instructional salary schedule to tie the most significant gains in compensation to effectiveness demonstrated by annual evaluations. In fiscal year 2010-11, District staff will submit an amendment to the salary schedule, identifying the basis for differentiated pay for instructional employees and school administrators, including critical shortage areas.

No. 3: Food Service Operations. The food service management software can calculate costs per meal using the unit cost of ingredients used in producing the meals as reflected on the production records. Some unit costs are electronically transmitted by vendors and some unit costs are manually adjusted in the software two times per year. Cafeteria managers will receive more training to fully and accurately utilize the software.

Federal Awards No. 1: Program Administration. See Food Service Operations response above.

Federal Awards No. 2: Reporting. The new Food Service Director established written procedures in January 2010 to eliminate manual data entry of daily meal counts and to use electronic file transfer from the cafeteria computers to the District office. These new procedures reduce the chance of human error in data entry and provide more accurate data collection.

I would like to thank you and your staff from the Lakeland office for the suggestions to improve Hardee County District schools.

Sincerely,



David Durastanti
Superintendent of Schools

Affirmative Action/Equal Opportunity Employer