

HIGHLANDS COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	<u>District No.</u>
Ronnie Jackson, Vice Chair to 11-18-13, Chair from 11-19-13	1
Donna Howerton	2
Jan Shoop	3
Bill Brantley, Vice Chair from 11-19-13	4
Andy Tuck to 11-18-13, Chair (1)	5
Jill Compton from 6-27-14	5

Wally Cox, Superintendent

Note: (1) Board member resigned on 1-29-14, and position remained vacant until replaced on 6-27-14.

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 Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

HIGHLANDS COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements were needed in financial reporting procedures to ensure that account balances and transactions are properly reported on the financial statements.

The results of our test 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. 2: Financial monitoring procedures could be improved by providing monthly financial reports to the Board.

Finding No. 3: District records did not always evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in \$68,303 of questioned costs.

Finding No. 4: The District needed to enhance controls over its health insurance plan.

Finding No. 5: Improvements could be made in controls over contractual services.

Finding No. 6: The District did not timely perform required background screenings for certain noninstructional personnel.

Finding No. 7: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 8: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 9: VIP provider contracts did not include certain necessary provisions.

Finding No. 10: The District could enhance its procedures to ensure timely, written notifications to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 11: The District could enhance its procedures to ensure that all students are offered the option of participating in a part-time VIP as required by law.

Finding No. 12: District records did not evidence that VIP provider instructors were properly certified and subjected to required background screenings.

Finding No. 13: The District could enhance procedures to ensure that VIP students comply with compulsory attendance requirements.

Finding No. 14: Procedures needed to be enhanced to ensure that VIP students are provided necessary computing resources and instructional materials.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated

that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2014-164.

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, 2014. 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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 39 percent of the assets and 88 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. 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 solely 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Highlands County District School Board as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note II to the basic financial statements, the District adjusted beginning net position and beginning fund balance to correct previously reported payable errors. This matter affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Highlands 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, 2014. 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 immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-14 fiscal year are as follows:

- In total, net position decreased \$5,019,210, which represents a 6.4 percent decrease from the 2012-13 fiscal year. This was mainly due to an increase in expenses, a decrease in property taxes levied for operational purposes, offset by a \$1,012,879 increase in net position for a prior period adjustment.
- General revenues total \$100,168,750, or 89.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$11,657,460, or 10.4 percent of all revenues.
- Expenses total \$117,858,299. Only \$11,657,460 of these expenses were offset by program specific revenues, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$4,523,464, which is \$1,415,818 less than the prior fiscal year balance. The fund balance includes \$541,888 of nonspendable funds, \$447,209 of restricted funds, \$679,556 of assigned funds, and \$2,854,811 of unassigned funds.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic 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 position and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. Assets less liabilities equal net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District charges fees and receives Federal grants to cover the cost of certain services it provides. These activities account for the financial resources of the Heartland Educational Consortium.

- Component units – The District presents the Highlands County Education Foundation, Inc., as a discretely presented component unit. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District's major enterprise funds are the Heartland Educational Consortium and the Heartland Educational Consortium – ARRA Funds. The internal service fund is presented in a single column in the proprietary fund financial statements.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide other postemployment benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2014, compared to net position as of June 30, 2013:

	Net Position, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Current and Other Assets	\$ 13,853,335.36	\$ 14,844,574.25	\$ 771,114.95	\$ 752,606.94	\$ 14,624,450.31	\$ 15,597,181.19
Capital Assets	125,272,174.04	130,353,145.69	396,898.26	405,498.82	125,669,072.30	130,758,644.51
Total Assets	139,125,509.40	145,197,719.94	1,168,013.21	1,158,105.76	140,293,522.61	146,355,825.70
Long-Term Liabilities	62,478,764.02	63,310,438.85	23,007.62	4,302.14	62,501,771.64	63,314,740.99
Other Liabilities	4,467,969.78	4,667,845.24	11,439.55	41,687.76	4,479,409.33	4,709,533.00
Total Liabilities	66,946,733.80	67,978,284.09	34,447.17	45,989.90	66,981,180.97	68,024,273.99
Net Position:						
Net investment in Capital Assets	68,527,174.04	72,758,145.69	396,898.26	405,498.82	68,924,072.30	73,163,644.51
Restricted	4,535,570.82	3,755,539.02			4,535,570.82	3,755,539.02
Unrestricted (Deficit)	(883,969.26)	705,751.14	736,667.78	706,617.04	(147,301.48)	1,412,368.18
Total Net Position	\$72,178,775.60	\$ 77,219,435.85	\$1,133,566.04	\$1,112,115.86	\$ 73,312,341.64	\$ 78,331,551.71

The largest portion of the District’s net position is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District’s net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$4,099,764 in compensated absences payable and \$1,634,000 in other postemployment benefit obligations.

The key elements of the changes in the District’s net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

	Operating Results for the Fiscal Year Ended					
	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Program Revenues:						
Charges for Services	\$ 1,499,716.28	\$ 1,476,692.63	\$ 135,094.19	\$ 202,151.80	\$ 1,634,810.47	\$ 1,678,844.43
Operating Grants and Contributions	9,947,635.55	9,580,162.82			9,947,635.55	9,580,162.82
Capital Grants and Contributions	75,013.99	77,060.83			75,013.99	77,060.83
General Revenues:						
Property Taxes, Levied for Operational Purposes	27,016,912.29	29,772,324.41			27,016,912.29	29,772,324.41
Property Taxes, Levied for Capital Projects	7,032,789.64	7,207,463.75			7,032,789.64	7,207,463.75
Grants and Contributions Not Restricted to Specific Programs	61,947,302.78	56,321,259.60	480,698.31	221,386.65	62,428,001.09	56,542,646.25
Unrestricted Investment Earnings	59,285.06	66,898.81	5,376.96	8,300.19	64,642.02	75,199.00
Miscellaneous	3,549,596.32	2,093,626.44	76,808.83	41,827.88	3,626,405.15	2,135,454.32
Total Revenues	111,128,231.91	106,595,489.29	697,978.29	473,666.52	111,826,210.20	107,069,155.81
Functions/Program Expenses:						
Instruction	58,434,846.23	54,086,431.46			58,434,846.23	54,086,431.46
Student Personnel Services	5,205,623.70	4,960,196.67			5,205,623.70	4,960,196.67
Instructional Media Services	882,382.20	841,825.65			882,382.20	841,825.65
Instruction and Curriculum Development Services	2,909,525.70	2,471,501.33			2,909,525.70	2,471,501.33
Instructional Staff Training Services	2,081,705.29	1,958,902.15			2,081,705.29	1,958,902.15
Instruction Related Technology	1,902,040.45	1,529,745.45			1,902,040.45	1,529,745.45
School Board	448,464.07	446,009.47			448,464.07	446,009.47
General Administration	926,250.00	658,283.91			926,250.00	658,283.91
School Administration	6,357,074.71	6,210,171.99			6,357,074.71	6,210,171.99
Facilities Acquisition and Construction	870,102.12	1,285,130.80			870,102.12	1,285,130.80
Fiscal Services	794,862.04	752,717.69			794,862.04	752,717.69
Food Services	8,548,398.82	8,223,785.44			8,548,398.82	8,223,785.44
Central Services	1,318,882.62	1,252,837.31			1,318,882.62	1,252,837.31
Student Transportation Services	6,069,962.30	5,933,176.32			6,069,962.30	5,933,176.32
Operation of Plant	8,204,194.09	8,142,873.92			8,204,194.09	8,142,873.92
Maintenance of Plant	2,108,035.58	2,071,314.60			2,108,035.58	2,071,314.60
Administrative Technology Services	444,369.62	400,122.37			444,369.62	400,122.37
Community Services	595,383.25	557,777.53			595,383.25	557,777.53
Unallocated Interest on Long-Term Debt	2,526,049.23	2,648,314.16			2,526,049.23	2,648,314.16
Unallocated Depreciation Expense	6,553,618.64	6,807,932.01			6,553,618.64	6,807,932.01
Heartland Educational Consortium			443,610.80	493,656.92	443,610.80	493,656.92
Heartland Educational Consortium - ARRA			232,917.31	221,386.65	232,917.31	221,386.65
Total Functions/Program Expenses	117,181,770.66	111,239,050.23	676,528.11	715,043.57	117,858,298.77	111,954,093.80
Change in Net Position	(6,053,538.75)	(4,643,560.94)	21,450.18	(241,377.05)	(6,032,088.57)	(4,884,937.99)
Net Position - Beginning	77,219,435.85	81,862,996.79	1,112,115.86	1,353,492.91	78,331,551.71	83,216,489.70
Adjustment to Beginning Net Position	1,012,878.50				1,012,878.50	
Net Position - Beginning, as Restated	78,232,314.35	81,862,996.79	1,112,115.86	1,353,492.91	79,344,430.21	83,216,489.70
Net Position - Ending	\$ 72,178,775.60	\$ 77,219,435.85	\$ 1,133,566.04	\$ 1,112,115.86	\$ 73,312,341.64	\$ 78,331,551.71

The largest revenue source is the State of Florida (48.1 percent), which increased by \$5,099,278 or 10.5 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain

equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base, which resulted in an increase for this year.

Instruction and instruction related technology expenses represent 51.5 percent of total governmental expenses in the 2013-14 fiscal year. Instruction and instruction related technology expenses increased by \$4,720,710, or 8.5 percent, from the previous fiscal year due to salary increases and technology upgrades.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$677,576, after an adjustment to beginning fund balance of \$1,012,879, during the fiscal year to \$8,611,826 at June 30, 2014. Approximately 33 percent of this amount is unassigned fund balance (\$2,854,811), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$937,423), 2) restricted for particular purposes (\$4,140,036), or 3) assigned for particular purposes (\$679,556).

Major Governmental Funds

The General Fund is the District's chief operating fund. The unassigned fund balance of the General Fund serves as a useful measure of a government's net resources available for use as it represents the portion of fund balance that has not been limited to a particular purpose by external parties. At the end of the current fiscal year, the unassigned fund balance was \$2,854,811, while the total fund balance was \$4,523,464.

General Fund balance decreased by \$1,415,818 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Total General Fund revenues increased \$3,323,328 or 4.1 percent caused mainly by an increase in FEFPP revenues.
- Total General Fund expenditures increased by \$4,911,843 or 5.9 percent due mainly to increases in salaries.
- An adjustment to increase beginning fund balance of \$1,012,879 related to a reduction in payroll deductions and withholdings payable due to excess Board-contributed insurance premiums.

The Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund were mainly used for instructional services. For the 2013-14 fiscal year, Special Revenue – Other Fund revenues and expenditures each totaled \$10,945,718 and Special Revenue – Federal Economic Stimulus Fund revenues and expenditures each totaled \$383,880. Activity in the Special Revenue – Other Fund increased mainly because of additional Title I and Migrant program funding and activity in the Special Revenue – Federal Economic Stimulus Fund decreased from reduced Federal Economic Stimulus program funding. Because grant revenues attributed to the grants accounted for in these funds are not recognized until expenditures are incurred, these funds generally do not accumulate fund balances.

The Capital Projects – Special Act Bonds Fund was used to account for the resources from the Capital Improvement and Refunding Revenue Bonds, Series 2014. The total fund balance of \$2,585,315 is restricted for the acquisition, construction, and maintenance of certain capital school projects.

Proprietary Funds

Net position of the Heartland Educational Consortium Fund increased by \$21,450 to \$1,133,566, or 1.9 percent from the prior fiscal year.

The Heartland Educational Consortium - ARRA Fund has total revenues and expenses of \$232,917 each. Because revenues attributed to the grants accounted for in this fund are not recognized until expenses are incurred, the fund generally does not accumulate net position.

Unrestricted net position of the Internal Service Fund decreased by \$113,788 to \$773,540 primarily as a result of an increase in dental claims.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the 2013-14 fiscal year, the Board revised the District budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the fiscal year. The final category includes the Board-approved transfers between expenditure functions and objects. Original budgets were subsequently amended to reflect increased FEFP funding. There were no significant variances noted between the final budget and actual revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

For the current fiscal year, capital assets decreased \$5,089,572 due to depreciation expense exceeding capital asset additions. Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-Term Debt

The District's long-term debt decreased by \$850,000 during the fiscal year, or 1.5 percent. This was due to payments of current debt issues, the advance refunding of the Refunding Revenues Bonds, Series 1999A, and the issuance of the Capital Improvement and Refunding Revenue Bonds, Series 2014. Additional information on the District's long-term debt can be found in the notes to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Approximately 63 percent of the total General Fund revenues are from the State of Florida. The primary source of revenue for the State is the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida, will impact the amount of revenue received by the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment have a significant impact on establishing the State budget as well as the District budget. Federal stimulus funds helped in the short term, but with the exception of the Race-to-the-Top program, these funds are no longer available.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent's Office, Highlands County District School Board, 426 School Street, Sebring, FL 33870.

BASIC FINANCIAL STATEMENTS

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 11,782,238.41	\$ 743,625.80	\$ 12,525,864.21	\$ 22,616.97
Accounts Receivable	100,392.27		100,392.27	
Due from Other Agencies	838,320.37	27,489.15	865,809.52	
Inventories	765,844.54		765,844.54	
Restricted Cash with Fiscal Agent	173,331.64		173,331.64	
Investments	193,208.13		193,208.13	
Capital Assets:				
Nondepreciable Capital Assets	5,759,410.50	126,607.00	5,886,017.50	
Depreciable Capital Assets, Net	119,512,763.54	270,291.26	119,783,054.80	
TOTAL ASSETS	139,125,509.40	1,168,013.21	140,293,522.61	22,616.97
LIABILITIES				
Payroll Deductions and Withholdings	3,915,512.14	14,023.85	3,929,535.99	
Accounts Payable	473,308.10	8,983.77	482,291.87	
Advanced Revenue	38,724.84		38,724.84	
Estimated Insurance Claims Payable	40,424.70		40,424.70	
Long-Term Liabilities:				
Portion Due Within One Year	3,850,000.00		3,850,000.00	
Portion Due After One Year	58,628,764.02	11,439.55	58,640,203.57	
TOTAL LIABILITIES	66,946,733.80	34,447.17	66,981,180.97	
NET POSITION				
Net Investment in Capital Assets	68,527,174.04	396,898.26	68,924,072.30	
Restricted for:				
State Required Carryover Programs	101,855.06		101,855.06	
Debt Service	473,987.57		473,987.57	
Capital Projects	3,053,835.32		3,053,835.32	
Food Service	560,538.96		560,538.96	
Other Purposes	345,353.91		345,353.91	
Unrestricted	(883,969.26)	736,667.78	(147,301.48)	22,616.97
TOTAL NET POSITION	\$ 72,178,775.60	\$ 1,133,566.04	\$ 73,312,341.64	\$ 22,616.97

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 58,434,846.23	\$	\$	
Student Personnel Services	5,205,623.70			
Instructional Media Services	882,382.20			
Instruction and Curriculum Development Services	2,909,525.70			
Instructional Staff Training Services	2,081,705.29			
Instruction Related Technology	1,902,040.45			
School Board	448,464.07			
General Administration	926,250.00			
School Administration	6,357,074.71			
Facilities Acquisition and Construction	870,102.12			75,013.99
Fiscal Services	794,862.04			
Food Services	8,548,398.82	1,499,716.28	7,132,675.95	
Central Services	1,318,882.62			
Student Transportation Services	6,069,962.30		2,440,080.00	
Operation of Plant	8,204,194.09			
Maintenance of Plant	2,108,035.58			
Administrative Technology Services	444,369.62			
Community Services	595,383.25			
Unallocated Interest on Long-Term Debt	2,526,049.23		374,879.60	
Unallocated Depreciation Expense*	6,553,618.64			
Total Governmental Activities	117,181,770.66	1,499,716.28	9,947,635.55	75,013.99
Business-Type Activities:				
Heartland Educational Consortium	443,610.80	135,094.19		
Heartland Educational Consortium - ARRA	232,917.31			
Total Business-Type Activities	676,528.11	135,094.19		
Total Primary Government	\$ 117,858,298.77	\$ 1,634,810.47	\$ 9,947,635.55	\$ 75,013.99
Component Unit				
Highlands County Education Foundation, Inc.	\$ 107,527.97	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

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

Total General Revenues

Change in Net Position

Net Position - Beginning
Adjustment to Beginning Net Position

Net Position - Beginning, as Restated

Net Position - 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 Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (58,434,846.23)	\$	\$ (58,434,846.23)	\$
(5,205,623.70)		(5,205,623.70)	
(882,382.20)		(882,382.20)	
(2,909,525.70)		(2,909,525.70)	
(2,081,705.29)		(2,081,705.29)	
(1,902,040.45)		(1,902,040.45)	
(448,464.07)		(448,464.07)	
(926,250.00)		(926,250.00)	
(6,357,074.71)		(6,357,074.71)	
(795,088.13)		(795,088.13)	
(794,862.04)		(794,862.04)	
83,993.41		83,993.41	
(1,318,882.62)		(1,318,882.62)	
(3,629,882.30)		(3,629,882.30)	
(8,204,194.09)		(8,204,194.09)	
(2,108,035.58)		(2,108,035.58)	
(444,369.62)		(444,369.62)	
(595,383.25)		(595,383.25)	
(2,151,169.63)		(2,151,169.63)	
(6,553,618.64)		(6,553,618.64)	
(105,659,404.84)		(105,659,404.84)	
	(308,516.61)	(308,516.61)	
	(232,917.31)	(232,917.31)	
	(541,433.92)	(541,433.92)	
(105,659,404.84)	(541,433.92)	(106,200,838.76)	
			(107,527.97)
27,016,912.29		27,016,912.29	
7,032,789.64		7,032,789.64	
61,947,302.78	480,698.31	62,428,001.09	1,143.78
59,265.06	5,376.96	64,642.02	204.70
3,549,596.32	76,808.83	3,626,405.15	114,235.25
99,605,866.09	562,884.10	100,168,750.19	115,583.73
(6,053,538.75)	21,450.18	(6,032,088.57)	8,055.76
77,219,435.85	1,112,115.86	78,331,551.71	14,561.21
1,012,878.50		1,012,878.50	
78,232,314.35	1,112,115.86	79,344,430.21	14,561.21
\$ 72,178,775.60	\$ 1,133,566.04	\$ 73,312,341.64	\$ 22,616.97

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Special Act Bonds Fund
ASSETS				
Cash and Cash Equivalents	\$ 7,336,639.88	\$ 184,814.55	\$ 242.48	\$ 2,611,041.94
Investments				
Accounts Receivable	96,566.59			
Due from Other Funds		8,000.00		
Due from Other Agencies	242,526.63	317,229.36	13,644.80	
Inventories	523,921.30			
Restricted Cash with Fiscal Agent				
Investments in SBA Fund B Surplus Trust Funds	17,966.79			
Total Assets	\$ 8,217,621.19	\$ 510,043.91	\$ 13,887.28	\$ 2,611,041.94
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 3,437,862.27	\$ 391,372.48	\$ 44.92	\$
Accounts Payable	256,294.73	115,365.68	5,842.36	25,726.82
Due to Other Funds			8,000.00	
Advanced Revenue		3,305.75		
Total Liabilities	3,694,157.00	510,043.91	13,887.28	25,726.82
Fund Balances:				
Nonspendable:				
Inventories	523,921.30			
Investments in SBA Fund B	17,966.79			
Total Nonspendable Fund Balance	541,888.09			
Restricted for:				
State Required Carryover Programs	101,855.06			
Debt Service				
Capital Projects				2,585,315.12
Food Service				
State and Local Grants	78,978.42			
Fuel Tax	260,358.00			
School Recognition	6,017.49			
Total Restricted Fund Balance	447,208.97			2,585,315.12
Assigned for:				
Subsequent Fiscal Year's Budget: Appropriation of Fund Balance	550,114.41			
School Supplies and Equipment	129,441.22			
Total Assigned Fund Balance	679,555.63			
Unassigned Fund Balance	2,854,811.50			
Total Fund Balances	4,523,464.19			2,585,315.12
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,217,621.19	\$ 510,043.91	\$ 13,887.28	\$ 2,611,041.94

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

Other Governmental Funds	Total Governmental Funds
\$ 835,535.32	\$ 10,968,274.17
21,629.45	21,629.45
3,825.68	100,392.27
	8,000.00
264,919.58	838,320.37
241,923.24	765,844.54
173,331.64	173,331.64
153,611.89	171,578.68
1,694,776.80	\$ 13,047,371.12
86,232.47	\$ 3,915,512.14
70,078.51	473,308.10
	8,000.00
35,419.09	38,724.84
191,730.07	4,435,545.08
241,923.24	765,844.54
153,611.89	171,578.68
395,535.13	937,423.22
320,375.68	101,855.06
468,520.20	320,375.68
318,615.72	3,053,835.32
	318,615.72
	78,978.42
	260,358.00
	6,017.49
1,107,511.60	4,140,035.69
	550,114.41
	129,441.22
	679,555.63
	2,854,811.50
1,503,046.73	8,611,826.04
\$ 1,694,776.80	\$ 13,047,371.12

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balances - Governmental Funds \$ 8,611,826.04

Amounts reported for governmental activities in the statement of net position 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. 125,272,174.04

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 773,539.54

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

Bonds Payable	\$ 4,230,000.00	
Certificates of Participation Payable	52,515,000.00	
Compensated Absences Payable	4,099,764.02	
Other Postemployment Benefits Payable	1,634,000.00	(62,478,764.02)

Net Position - Governmental Activities **\$ 72,178,775.60**

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

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**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Special Act Bonds Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 163,703.09	\$ 1,625.54	\$	\$
Federal Through State and Local State	707,278.07	10,944,092.62	383,880.08	
State	52,677,547.43			
Local:				
Property Taxes	27,016,912.29			
Charges for Services - Food Service				
Miscellaneous	2,856,082.22			
Total Local Revenues	<u>29,872,994.51</u>			
Total Revenues	<u>83,421,523.10</u>	<u>10,945,718.16</u>	<u>383,880.08</u>	
Expenditures				
Current - Education:				
Instruction	53,205,755.59	5,086,915.27	117,129.45	
Student Personnel Services	4,200,654.77	1,013,189.55		
Instructional Media Services	880,902.15	50.00		
Instruction and Curriculum Development Services	1,041,812.62	1,856,655.61	29,056.45	
Instructional Staff Training Services	701,135.00	1,255,008.13	125,562.16	
Instruction Related Technology	1,057,074.61	842,427.28	970.28	
School Board	447,737.26			
General Administration	512,455.76	402,337.35	9,955.75	
School Administration	6,371,000.66			
Facilities Acquisition and Construction				
Fiscal Services	795,088.13			
Food Services				
Central Services	1,321,288.41			
Student Transportation Services	5,565,701.76	110,394.11		
Operation of Plant	8,194,935.20	2,019.80		
Maintenance of Plant	2,087,355.98			
Administrative Technology Services	443,649.45			
Community Services	594,418.33			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	82,610.36	24,170.00		236,117.72
Other Capital Outlay	196,643.54	352,551.06	101,205.99	
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>87,700,219.58</u>	<u>10,945,718.16</u>	<u>383,880.08</u>	<u>236,117.72</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,278,696.48)</u>			<u>(236,117.72)</u>
Other Financing Sources (Uses)				
Transfers In	1,850,000.00			
Revenue Refunding Bonds Issued				2,821,432.84
Premium on District Revenue Refunding Bonds				
Transfers Out				
Total Other Financing Sources (Uses)	<u>1,850,000.00</u>			<u>2,821,432.84</u>
Net Change in Fund Balances	<u>(2,428,696.48)</u>			<u>2,585,315.12</u>
Fund Balances, Beginning	5,939,282.17			
Adjustment to Beginning Fund Balance	1,012,878.50			
Fund Balance, Beginning as Restated	<u>6,952,160.67</u>			
Fund Balances, Ending	<u>\$ 4,523,464.19</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 2,585,315.12</u>

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$	\$
6,990,533.95	165,328.63
808,569.61	19,025,784.72
	53,486,117.04
7,032,789.64	34,049,701.93
1,499,716.28	1,499,716.28
159,288.62	3,015,370.84
<u>8,691,794.54</u>	<u>38,564,789.05</u>
<u>16,490,898.10</u>	<u>111,242,019.44</u>
	58,409,800.31
	5,213,844.32
	880,952.15
	2,927,524.68
	2,081,705.29
	1,900,472.17
	447,737.26
	924,748.86
	6,371,000.66
870,102.12	870,102.12
	795,088.13
8,534,544.73	8,534,544.73
	1,321,288.41
	5,676,095.87
	8,196,955.00
	2,087,355.98
	443,649.45
	594,418.33
80,314.40	423,212.48
805,527.82	1,455,928.41
4,280,000.00	4,280,000.00
<u>2,642,223.43</u>	<u>2,642,223.43</u>
<u>17,212,712.50</u>	<u>116,478,648.04</u>
<u>(721,814.40)</u>	<u>(5,236,628.60)</u>
5,143,632.88	6,993,632.88
608,567.16	3,430,000.00
116,174.20	116,174.20
<u>(6,993,632.88)</u>	<u>(6,993,632.88)</u>
<u>(1,125,258.64)</u>	<u>3,546,174.20</u>
<u>(1,847,073.04)</u>	<u>(1,690,454.40)</u>
3,350,119.77	9,289,401.94
	1,012,878.50
<u>3,350,119.77</u>	<u>10,302,280.44</u>
<u>\$ 1,503,046.73</u>	<u>\$ 8,611,826.04</u>

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Net Change in Fund Balances - Governmental Funds \$ (1,690,454.40)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (5,080,971.65)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceed proceeds in the current fiscal year.

Bond Proceeds	\$ (3,430,000.00)	
Payment to Refund 1999 Bonds	795,000.00	
Other Bond Repayments	470,000.00	
COPS Repayments	<u>3,015,000.00</u>	850,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 151,674.83

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. (170,000.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of the internal service fund is reported with governmental activities. (113,787.53)

Change in Net Position - Governmental Activities \$ (6,053,538.75)

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 742,737.14	\$ 888.66	\$ 743,625.80	\$ 813,964.24
Due From Other Funds	17,700.00		17,700.00	
Due From Other Agencies		27,489.15	27,489.15	
Total Current Assets	<u>760,437.14</u>	<u>28,377.81</u>	<u>788,814.95</u>	<u>813,964.24</u>
Noncurrent Assets:				
Land	126,607.00		126,607.00	
Buildings and Fixed Equipment, Net	265,875.40		265,875.40	
Furniture, Fixtures, and Equipment, Net	4,016.06		4,016.06	
Computer Software, Net	399.80		399.80	
Total Noncurrent Assets	<u>396,898.26</u>		<u>396,898.26</u>	
TOTAL ASSETS	<u>1,157,335.40</u>	<u>28,377.81</u>	<u>1,185,713.21</u>	<u>813,964.24</u>
LIABILITIES				
Current Liabilities:				
Payroll Deductions and Withholdings	5,689.79	8,334.06	14,023.85	
Accounts Payable	6,640.02	2,343.75	8,983.77	
Due to Other Funds		17,700.00	17,700.00	
Estimated Insurance Claims Payable				40,424.70
Total Current Liabilities	<u>12,329.81</u>	<u>28,377.81</u>	<u>40,707.62</u>	<u>40,424.70</u>
Noncurrent Liabilities:				
Liabilities for Compensated Absences	11,439.55		11,439.55	
Total Liabilities	<u>23,769.36</u>	<u>28,377.81</u>	<u>52,147.17</u>	<u>40,424.70</u>
NET POSITION				
Investment in Capital Assets	396,898.26		396,898.26	
Unrestricted	736,667.78		736,667.78	773,539.54
Total Net Position	<u>\$ 1,133,566.04</u>	<u>\$ 0.00</u>	<u>\$ 1,133,566.04</u>	<u>\$ 773,539.54</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
OPERATING REVENUES				
Charges for Services	\$ 135,094.19	\$	\$ 135,094.19	\$
Premium Revenues				778,314.29
Other Operating Revenues	76,808.83		76,808.83	
Total Operating Revenues	<u>211,903.02</u>		<u>211,903.02</u>	<u>778,314.29</u>
OPERATING EXPENSES				
Salaries	166,615.96	119,065.28	285,681.24	
Employee Benefits	53,611.05	34,064.02	87,675.07	
Purchased Services	150,147.32	63,220.20	213,367.52	
Energy Services	10,392.35		10,392.35	
Materials and Supplies	3,686.71	1,837.74	5,524.45	
Capital Outlay	40,483.45		40,483.45	
Insurance Claims				859,519.82
Other Expenses	8,468.84	14,730.07	23,198.91	32,582.00
Depreciation	10,205.12		10,205.12	
Total Operating Expenses	<u>443,610.80</u>	<u>232,917.31</u>	<u>676,528.11</u>	<u>892,101.82</u>
Operating Loss	<u>(231,707.78)</u>	<u>(232,917.31)</u>	<u>(464,625.09)</u>	<u>(113,787.53)</u>
NONOPERATING REVENUES				
Federal Grants		232,917.31	232,917.31	
State Grants	247,781.00		247,781.00	
Interest Revenue	5,376.96		5,376.96	
Total Nonoperating Revenues	<u>253,157.96</u>	<u>232,917.31</u>	<u>486,075.27</u>	
Change in Net Position	21,450.18		21,450.18	(113,787.53)
Total Net Position - Beginning	1,112,115.86		1,112,115.86	887,327.07
Total Net Position - Ending	<u>\$ 1,133,566.04</u>	<u>\$ 0.00</u>	<u>\$ 1,133,566.04</u>	<u>\$ 773,539.54</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Services	\$ 161,094.19	\$	\$ 161,094.19	\$ 778,314.29
Cash Received from Other Operating Revenues	78,108.83	12,631.53	90,740.36	
Cash Payments to Suppliers for Goods and Services	(216,186.31)	(97,820.76)	(314,007.07)	(32,582.00)
Cash Payments to Employees for Services	(212,375.46)	(151,483.19)	(363,858.65)	
Cash Payments for Insurance Claims				(854,741.41)
Net Cash Used by Operating Activities	<u>(189,358.75)</u>	<u>(236,672.42)</u>	<u>(426,031.17)</u>	<u>(109,009.12)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Received from Federal Grants		232,917.31	232,917.31	
Cash Received from State Grants	247,781.00		247,781.00	
Net Cash Provided by Noncapital Financing Activities	<u>247,781.00</u>	<u>232,917.31</u>	<u>480,698.31</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(1,604.56)		(1,604.56)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	5,376.96		5,376.96	
Net Increase (Decrease) in Cash and Cash Equivalents	62,194.65	(3,755.11)	58,439.54	(109,009.12)
Cash and Cash Equivalents, Beginning	680,542.49	4,643.77	685,186.26	922,973.36
Cash and Cash Equivalents, Ending	<u>\$ 742,737.14</u>	<u>\$ 888.66</u>	<u>\$ 743,625.80</u>	<u>\$ 813,964.24</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:				
Operating Loss	\$ (231,707.78)	\$ (232,917.31)	\$ (464,625.09)	\$ (113,787.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:				
Depreciation	10,205.12		10,205.12	
Changes in Assets and Liabilities:				
Due From Other Funds	27,300.00		27,300.00	
Due From Other Agencies		39,931.53	39,931.53	
Accounts Payable	(3,333.64)	(18,032.75)	(21,366.39)	
Salaries and Benefits Payable	1,040.14	1,646.11	2,686.25	
Due to Other Funds		(27,300.00)	(27,300.00)	
Compensated Absences Payable	7,137.41		7,137.41	
Estimated Insurance Claims Payable				4,778.41
Total Adjustments	<u>42,349.03</u>	<u>(3,755.11)</u>	<u>38,593.92</u>	<u>4,778.41</u>
Net Cash Used by Operating Activities	<u>\$ (189,358.75)</u>	<u>\$ (236,672.42)</u>	<u>\$ (426,031.17)</u>	<u>\$ (109,009.12)</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2014**

		Private-Purpose Trust Funds
ADDITIONS		
Contributions:		
Gifts, Grants, Endowments, and Bequests	\$	10,650.00
Investment Earnings:		
Interest		820.05
Total Additions		11,470.05
DEDUCTIONS		
Scholarships Payments		16,300.00
Change in Net Position		(4,829.95)
Net Position - Beginning		121,734.07
Net Position - Ending	\$	116,904.12

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Highlands County School District's (District) governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments are allocated to the student transportation services and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Highlands County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Highlands County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate 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. Based on these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. A blended component unit is, in substance, part of the primary District's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as part of the District. The Highlands County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

discussed in note III.H.1. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the District's other component unit. A separate column is used to emphasize that it is legally separate from the District.

The Highlands County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the District, to promote education, and to encourage research, learning, and dissemination of information. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2014. The audit report is filed in the District's administrative offices.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used.

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the 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.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Special Act Bonds Fund – to account for the financial resources generated by the Capital Improvement and Refunding Revenue Bonds, Series 2014, to be used for acquisition, construction and installation of various projects.

The District reports the following major enterprise funds:

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

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

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary and private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The Foundation is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys and amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.84438408 at June 30, 2014. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

3. Inventories

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

4. 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 position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

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

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

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

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

6. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2014.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. On July 5, 2011, the Board passed a resolution authorizing the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the District.

2. 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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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 fiscal year when the adjustments are made.

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

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

3. District Property Taxes

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

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

The Board adopted the 2013 tax levy on September 10, 2013. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Educational Impact Fees

Highlands County (County) imposes an educational impact fee based on an ordinance adopted by the County Commission in 2007. In June 2008, the ordinance was amended, in part, to establish revised

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

collection rates for the fee. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness. The County approved the suspension of the fee for one year in the 2009-10 fiscal year, and the Board extended this suspension throughout the 2013-14 fiscal year.

5. 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.

6. Compensated Absences

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. The liability for compensated absences includes salary-related benefits, where applicable.

7. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for services. Operating expenses include personnel costs, purchased services, and related costs. The principal operating revenues of the District's internal service fund are charges for employee dental insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. PRIOR PERIOD ADJUSTMENT

In prior fiscal years, the District accumulated Board-contributed insurance premiums that exceeded required insurance premiums and erroneously reported these amounts in General Fund payroll deductions and withholdings payable. To correct these errors, the District increased beginning net position of governmental activities and General Fund beginning fund balance, and decreased payroll deductions and withholdings payable by \$1,012,878.50 each.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund based on average daily balances.

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)(2)	40 Day Average	\$ 7,347,722.49
Fund B (2)	2.86 Year Average	171,578.68
Debt Service Accounts	6 Months	21,629.45
Total Investments, Reporting Entity		<u>\$ 7,540,930.62</u>

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

(2) Investments totaling \$173,331.64 in Florida PRIME and \$153,611.89 in Fund B are held under trust agreements pursuant to financing agreements for the Certificates of Participation, Series 2005 and 2006.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District’s investment policy limits investments to a maximum of five years, the investment of tax-exempt debt issues to three years, and the investment of current funds to twelve months.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

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➤ Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy limits investments to the SBA’s Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; United States Government securities; direct obligations of United States Government agency securities; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; open-end or closed-end Funds registered under the Federal Investment Company Act of 1940; and other investments permitted by State statute may be recommended by the Superintendent and approved in advance by the Board.

The District’s investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

The District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 5,709,983.92	\$ 49,426.58	\$	\$ 5,759,410.50
Total Capital Assets Not Being Depreciated	5,709,983.92	49,426.58		5,759,410.50
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	11,410,090.32	25,445.41		11,435,535.73
Buildings and Fixed Equipment	179,848,252.75	348,340.49		180,196,593.24
Furniture, Fixtures, and Equipment	13,689,406.28	544,892.53	1,001,983.04	13,232,315.77
Motor Vehicles	11,210,291.67	34,033.00		11,244,324.67
Audio Visual Materials and Computer Software	4,227,534.51	877,002.88	784,402.23	4,320,135.16
Total Capital Assets Being Depreciated	220,385,575.53	1,829,714.31	1,786,385.27	220,428,904.57
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	9,551,945.00	383,199.29		9,935,144.29
Buildings and Fixed Equipment	62,132,662.51	4,279,474.78		66,412,137.29
Furniture, Fixtures, and Equipment	10,899,071.95	996,017.74	1,001,983.04	10,893,106.65
Motor Vehicles	10,432,214.81	406,493.90		10,838,708.71
Audio Visual Materials and Computer Software	2,726,519.49	894,926.83	784,402.23	2,837,044.09
Total Accumulated Depreciation	95,742,413.76	6,960,112.54	1,786,385.27	100,916,141.03
Total Capital Assets Being Depreciated, Net	124,643,161.77	(5,130,398.23)		119,512,763.54
Governmental Activities Capital Assets, Net	<u>\$ 130,353,145.69</u>	<u>\$ (5,080,971.65)</u>	<u>\$ 0.00</u>	<u>\$ 125,272,174.04</u>

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	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 126,607.00	\$	\$	\$ 126,607.00
Total Capital Assets Not Being Depreciated	126,607.00			126,607.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	379,822.00			379,822.00
Furniture, Fixtures, and Equipment	61,156.32	1,604.56		62,760.88
Audio Visual Materials and Computer Software	999.50			999.50
Total Capital Assets Being Depreciated	441,977.82	1,604.56		443,582.38
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	106,350.16	7,596.44		113,946.60
Furniture, Fixtures, and Equipment	56,336.04	2,408.78		58,744.82
Audio Visual Materials and Computer Software	399.80	199.90		599.70
Total Accumulated Depreciation	163,086.00	10,205.12		173,291.12
Total Capital Assets Being Depreciated, Net	278,891.82	(8,600.56)		270,291.26
Business-Type Activities Capital Assets, Net	\$ 405,498.82	\$ (8,600.56)	\$ 0.00	\$ 396,898.26

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 386,169.21
Maintenance of Plant	20,324.69
Unallocated	6,553,618.64
Total Depreciation Expense - Governmental Activities	\$ 6,960,112.54
BUSINESS-TYPE ACTIVITIES	
Heartland Educational Consortium	\$ 10,205.12

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D. Florida Retirement System

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, 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 the Investment Plan vest at one year of service.

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions, including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$3,795,093.28, \$3,967,124.29, and \$4,584,148.37, respectively, which were equal to the required contributions for each fiscal year.

There were 249 District participants in the Investment Plan during the 2013-14 fiscal year. The District’s contributions, including employee contributions, to the Investment Plan totaled \$825,728.20, which was equal to the required contribution for the 2013-14 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department’s Web site (www.myfloridacfo.com). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division’s Web site (www.frs.myflorida.com).

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and dental coverage.

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The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, employees electing participation in the Retirement Incentive Program obtain \$20,000 in District-provided (explicitly subsidized) life insurance for 10 years after their retirement date. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended 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 OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 64 retirees received other postemployment benefits. The District provided required contributions of \$209,000 toward the annual OPEB cost, net of retiree contributions totaling \$471,799, which represents 0.8 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 185,000
Amortization of Unfunded Actuarial Accrued Liability	251,000
Interest on Normal Cost and Amortization	5,000
Annual Required Contribution	441,000
Interest on Net OPEB Obligation	37,000
Adjustment to Annual Required Contribution	(99,000)
Annual OPEB Cost (Expense)	379,000
Contribution Toward the OPEB Cost	(209,000)
Increase in Net OPEB Obligation	170,000
Net OPEB Obligation, Beginning of Year	1,464,000
Net OPEB Obligation, End of Year	\$ 1,634,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 649,000	53.6%	\$ 1,313,000
2012-13	373,000	59.5%	1,464,000
2013-14	379,000	55.1%	1,634,000

Funded Status and Funding Progress. As of July 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$3,714,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,714,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$58,060,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.4 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the

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employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of July 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and to estimate the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 2.5 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 2 percent per year, an inflation rate of 2.5 percent, and an annual healthcare cost trend rate of 9.5 percent initially for the 2012 calendar year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, was 15 years.

F. Risk Management Programs

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

The Board of Directors for SCERMP is composed of superintendents, finance directors, or authorized representatives of all participating districts. Ascension, Inc., serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

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

SCREMP's purchased excess property loss limit during the 2013-14 fiscal year was \$75,000,000.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2013-14 fiscal year was \$1,000,000. SCERMP purchases excess liability coverage through a commercial insurance carrier which covers workers' compensation losses in excess of the self-insured retention. Employers liability is included subject to \$2,000,000 per occurrence.

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

The District is self-insured for dental coverage which is administered by a third party provider. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

Fiscal Years	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012-13	\$ 20,501.70	\$ 763,461.72	\$ (748,317.13)	\$ 35,646.29
2013-14	35,646.29	859,519.82	(854,741.41)	40,424.70

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

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

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G. Operating Lease Commitments

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

Fiscal Year Ending June 30	Amount
2015	\$ 95,000
2016	95,000
2017	95,000
2018	95,000
2019	95,000
Total Minimum Payments Required	\$ 475,000

H. Long-Term Liabilities

1. Certificates of Participation

Certificates of participation at June 30, 2014, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
2005, Refunding	\$ 9,690,000	3.50 - 4.75	2025	\$ 9,900,000
2006A and 2006B, Refunding	42,825,000	4.00 - 5.00	2027	59,090,000
Total Certificates of Participation	\$ 52,515,000			\$ 68,990,000

The District entered into financing arrangements which were characterized as lease-purchase agreements, with the Leasing Corporation, whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of certificates of participation to be repaid from the proceeds of rents paid by the District.

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

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

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,416,418.76	\$ 3,145,000.00	\$ 2,271,418.76
2016	5,417,243.76	3,270,000.00	2,147,243.76
2017	5,413,358.76	3,395,000.00	2,018,358.76
2018	5,413,690.00	3,530,000.00	1,883,690.00
2019	5,418,090.00	3,675,000.00	1,743,090.00
2020-2024	27,075,302.50	20,730,000.00	6,345,302.50
2025-2027	16,244,300.00	14,770,000.00	1,474,300.00
Total Minimum Lease Payments	\$ 70,398,403.78	\$ 52,515,000.00	\$ 17,883,403.78

2. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A, Refunding	\$ 610,000	5	2016
Series 2005B, Refunding	125,000	5	2018
Series 2009A, Refunding	65,000	5	2019
District Revenue Bonds:			
Series 2014, Refunding	3,430,000	2 - 5	2042
Total Bonds Payable	\$ 4,230,000		

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

➤ District Revenue Bonds

The School Board issued \$3,430,000 in Refunding Certificates of Indebtedness, Capital Improvement and Refunding Revenue Bonds, Series 2014, dated May 8, 2014. The proceeds were used to refund all the outstanding Refunding Certificates of Indebtedness, Series 1999A, and for the acquisition and construction of certain capital school projects. These bonds are secured by a pledge of funds accruing to the District from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Section 212.20(6)(d)6a., Florida Statutes.

The District has pledged a combined total of \$5,914,427.11 of pledged revenues in connection with the District Revenue Bonds, Series 2014, described above. Since the District Revenue Bonds, Series 2014, were issued during the 2013-14 fiscal year, the District recognized pledged revenues totaling \$223,250 and expended \$0 for debt service. The total revenues are committed until final maturity of the debt on September 1, 2041. Approximately 95 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, 2014, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2015	\$ 370,000.00	\$ 330,000.00	\$ 40,000.00
2016	383,500.00	360,000.00	23,500.00
2017	45,500.00	40,000.00	5,500.00
2018	53,500.00	50,000.00	3,500.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	873,500.00	800,000.00	73,500.00
District Revenue Bonds:			
2015	110,658.36		110,658.36
2016	220,112.50	85,000.00	135,112.50
2017	218,412.50	85,000.00	133,412.50
2018	221,662.50	90,000.00	131,662.50
2019	219,862.50	90,000.00	129,862.50
2020-2024	1,093,843.75	480,000.00	613,843.75
2025-2029	1,093,212.50	560,000.00	533,212.50
2030-2034	1,095,287.50	675,000.00	420,287.50
2035-2039	1,080,500.00	840,000.00	240,500.00
2040-2042	560,875.00	525,000.00	35,875.00
Total District Revenue Bonds	5,914,427.11	3,430,000.00	2,484,427.11
Total	\$ 6,787,927.11	\$ 4,230,000.00	\$ 2,557,927.11

3. Changes in Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 2,065,000.00	\$ 3,430,000.00	\$ 1,265,000.00	\$ 4,230,000.00	\$ 330,000.00
Certificates of Participation Payable	55,530,000.00		3,015,000.00	52,515,000.00	3,145,000.00
Compensated Absences Payable	4,251,438.85	352,550.00	504,224.83	4,099,764.02	375,000.00
Other Postemployment Benefits Payable	1,464,000.00	379,000.00	209,000.00	1,634,000.00	
Total Governmental Activities	\$ 63,310,438.85	\$ 4,161,550.00	\$ 4,993,224.83	\$ 62,478,764.02	\$ 3,850,000.00
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	\$ 4,302.14	\$ 7,987.41	\$ 850.00	\$ 11,439.55	\$ 0.00

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
Special Revenue:		
Federal Economic Stimulus	\$	\$ 8,000
Enterprise:		
Heartland Educational Consortium	17,700	
Heartland Educational Consortium - ARRA		17,700
Nonmajor Governmental	8,000	
Total	\$ 25,700	\$ 25,700

The interfund amounts represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources and are expected to be repaid within one year.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District’s State revenue sources for the 2013-14 fiscal year:

<u>Source</u>	<u>Amount</u>
Governmental Funds:	
Florida Education Finance Program	\$ 38,800,995.00
Categorical Educational Program - Class Size Reduction	12,826,617.00
Technology Transformation Grant	457,383.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	449,893.59
State License Tax	242,293.92
Food Service Supplement	142,142.00
Voluntary Prekindergarten Program	96,400.36
School Recognition	59,950.00
Miscellaneous	<u>410,442.17</u>
Subtotal - Governmental	<u>53,486,117.04</u>
Enterprise Fund:	
Regional Educational Consortium Services	<u>247,781.00</u>
Total	<u>\$ 53,733,898.04</u>

Accounting policies relating to certain State revenue sources are described in note I.G.2.

2. Property Taxes

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.017	\$ 24,191,226.71
Basic Discretionary Local Effort	0.748	3,605,698.24
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>7,230,684.89</u>
Total	<u>7.265</u>	<u>\$ 35,027,609.84</u>

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

L. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,850,000.00	\$
Nonmajor Governmental	5,143,632.88	6,993,632.88
Total	\$ 6,993,632.88	\$ 6,993,632.88

Transfers from the nonmajor governmental funds were to provide debt service payments for debt service funds and provide funding for certain expenditures of the District’s facilities and maintenance departments.

IV. CONSORTIUMS

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

V. LITIGATION

The District is involved in litigation with several plaintiffs for cases filed in the Federal Court for the Southern District of Florida. The District is contesting these claims and believes that it is unlikely that the plaintiffs will prevail; however, should they be successful, the District estimates losses from \$200,000 to \$4 million.

VI. SUBSEQUENT EVENTS

In January 2015, the District’s health insurance program will change from a purchased commercial health plan to a self-insured health plan administered by a third-party administrator. Similar to the District’s current self-insured dental plan, the newly established health plan will be reported in an internal service fund for the 2014-15 fiscal year.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 114,390.00	\$ 163,703.09	\$ 163,703.09	\$
Federal Through State and Local	650,000.00	707,278.07	707,278.07	
State	52,420,447.00	53,294,959.43	52,677,547.43	(617,412.00)
Local:				
Property Taxes	26,721,163.00	27,016,912.29	27,016,912.29	
Miscellaneous	1,458,458.00	2,411,082.22	2,856,082.22	445,000.00
Total Local Revenues	28,179,621.00	29,427,994.51	29,872,994.51	445,000.00
Total Revenues	81,364,458.00	83,593,935.10	83,421,523.10	(172,412.00)
Expenditures				
Current - Education:				
Instruction	51,058,177.19	53,572,175.95	53,205,755.59	366,420.36
Student Personnel Services	3,675,610.00	4,216,286.77	4,200,654.77	15,632.00
Instructional Media Services	848,194.61	893,143.36	880,902.15	12,241.21
Instruction and Curriculum Development Services	823,567.00	1,052,317.44	1,041,812.62	10,504.82
Instructional Staff Training Services	586,265.00	846,168.31	701,135.00	145,033.31
Instruction Related Technology	627,771.00	1,076,043.60	1,057,074.61	18,968.99
School Board	500,818.00	447,737.26	447,737.26	
General Administration	446,932.00	512,455.76	512,455.76	
School Administration	5,916,537.20	6,383,640.61	6,371,000.66	12,639.95
Fiscal Services	744,871.00	795,177.13	795,088.13	89.00
Central Services	1,161,652.00	1,329,574.61	1,321,288.41	8,286.20
Student Transportation Services	5,687,423.00	5,591,743.76	5,565,701.76	26,042.00
Operation of Plant	8,754,437.00	8,201,152.76	8,194,935.20	6,217.56
Maintenance of Plant	2,154,253.00	2,103,807.85	2,087,355.98	16,451.87
Administrative Technology Services	388,270.00	443,649.45	443,649.45	
Community Services	414,745.00	658,049.16	594,418.33	63,630.83
Fixed Capital Outlay:				
Facilities Acquisition and Construction	1,500.00	327,005.36	82,610.36	244,395.00
Other Capital Outlay	24,883.00	196,677.82	196,643.54	34.28
Total Expenditures	83,815,906.00	88,646,806.96	87,700,219.58	946,587.38
Deficiency of Revenues Over Expenditures	(2,451,448.00)	(5,052,871.86)	(4,278,696.48)	774,175.38
Other Financing Sources				
Transfers In	985,000.00	1,850,000.00	1,850,000.00	
Net Change in Fund Balances	(1,466,448.00)	(3,202,871.86)	(2,428,696.48)	774,175.38
Fund Balances, Beginning	5,939,282.17	5,939,282.17	5,939,282.17	
Adjustment to Beginning Fund Balance			1,012,878.50	1,012,878.50
Fund Balance, Beginning as Adjusted	5,939,282.17	5,939,282.17	6,952,160.67	1,012,878.50
Fund Balances, Ending	\$ 4,472,834.17	\$ 2,736,410.31	\$ 4,523,464.19	\$ 1,787,053.88

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 9,416,724.23	\$ 1,625.54 12,406,923.99	\$ 1,625.54 10,944,092.62	\$ (1,462,831.37)	\$	\$ 410,364.47	\$ 383,880.08	\$ (26,484.39)
<u>9,416,724.23</u>	<u>12,408,549.53</u>	<u>10,945,718.16</u>	<u>(1,462,831.37)</u>	<u></u>	<u>410,364.47</u>	<u>383,880.08</u>	<u>(26,484.39)</u>
3,927,892.88	5,416,867.72	5,086,915.27	329,952.45		117,129.45	117,129.45	
1,073,166.00	1,182,358.25	1,013,189.55	169,168.70				
3,000.00	100.00	50.00	50.00				
1,676,504.00	1,995,725.90	1,856,655.61	139,070.29		29,056.45	29,056.45	
1,382,485.00	1,567,522.97	1,255,008.13	312,514.84		151,240.63	125,562.16	25,678.47
900,194.00	954,496.08	842,427.28	112,068.80		970.28	970.28	
300,324.35	402,337.35	402,337.35			10,761.67	9,955.75	805.92
10,000.00	196,576.73	110,394.11	86,182.62				
10,000.00	2,857.37	2,019.80	837.57				
133,158.00	42,301.33 647,405.83	24,170.00 352,551.06	18,131.33 294,854.77		101,205.99	101,205.99	
<u>9,416,724.23</u>	<u>12,408,549.53</u>	<u>10,945,718.16</u>	<u>1,462,831.37</u>	<u></u>	<u>410,364.47</u>	<u>383,880.08</u>	<u>26,484.39</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 6,576,802	\$ 6,576,802	0.0%	\$ 59,482,745	11.1%
July 1, 2010	0	6,785,000	6,785,000	0.0%	60,496,000	11.2%
July 1, 2012	0	3,714,000	3,714,000	0.0%	58,060,000	6.4%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (SBE) 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 SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, student personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- 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.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The District is required to perform periodic actuarial valuations of its postemployment benefits other than pensions. For the July 1, 2012, valuation, the following key assumptions were modified to reflect current experience: (1) the medical trend rates have been reset to 9.5 percent for Pre-Medicare coverage and Medicare Supplement in 2012 and thereafter at a rate of 0.5 percent per year until an ultimate rate of 5 percent is reached; and (2) the assumed per capita claim costs were reduced based on updated census and premium rates. Overall, the plan experienced a significant decrease in the Actuarial Accrued Liability (AAL), primarily due to a significant reduction in premium rates as a result of the change in providers and demographic experience.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	13002	\$ 2,029,575.88	\$
National School Lunch Program	10.555 (2)	13001, 13003	4,692,807.79	
Summer Food Service Program for Children	10.559	323, 325, 13006, 13007	241,250.28	
Total Child Nutrition Cluster			6,963,633.95	
Fresh Fruit and Vegetable Program	10.582	13004	26,900.00	
Total United States Department of Agriculture			6,990,533.95	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	1,625.54	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (3)	262, 263	3,528,361.81	168,860.82
Special Education - Preschool Grants	84.173	266, 267	185,941.24	18,523.37
University of South Florida:				
Special Education - Grants to States	84.027 (3)	None	6,296.44	
Total Special Education Cluster			3,720,599.49	187,384.19
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212,226	4,602,851.49	
Migrant Education - State Grant Program	84.011 (4)	217	1,127,849.55	
Career and Technical Education - Basic Grants to States	84.048	161	204,188.81	
Twenty-First Century Community Learning Centers	84.287	244	373,112.74	
Rural Education	84.358	110	237,960.49	
English Language Acquisition State Grants	84.365	102	110,409.30	
Improving Teacher Quality State Grants	84.367	224	509,885.48	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	RD211, RG311, RG411, RL111	387,946.84	6,005.47
Washington District School Board:				
Migrant Education - State Grant Program	84.011 (4)	None	1,243.33	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	None	228,850.55	
Advancement Via Individual Determination:				
Investing in Innovation (i3) Fund	84.411	None	55,991.94	
Total Indirect			11,560,890.01	193,389.66
Total United States Department of Education			11,562,515.55	193,389.66
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	163,703.09	
Total Expenditures of Federal Awards			\$ 18,716,752.59	\$ 193,389.66

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

(2) Noncash Assistance: National School Lunch Program - Includes \$446,553.54 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Special Education Grants to States, CFDA No. 84.027 expenditures total \$3,534,658.25.

(4) Migrant Education - State Grant Program, CFDA No. 84.011 expenditures total \$1,129,092.88.

(5) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act, CFDA No. 84.395 expenditures total \$616,797.39.



DAVID W. MARTIN, CPA
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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*

Report on the Financial Statements

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated March 30, 2015, included under the heading **INDEPENDENT AUDITOR’S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the District’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 30, 2015



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Highlands County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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. *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.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 30, 2015

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$561,502
Auditee qualified as low-risk auditee?	Yes

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District’s 2013-14 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved.

The District accumulated Board-contributed, employee, and retiree premium payments into a temporary clearing account to provide for premium payments to its commercial health insurance carrier. At the conclusion of each fiscal year, the District allocated the proportionate share of any amounts remaining in the temporary account to the respective General or Special Revenue Funds, effectively closing the temporary account each fiscal year. However, because District personnel did not reconcile Board contributions for health insurance premiums to health insurance premium billings as discussed further in Finding No. 4, the District over several years accumulated \$1,012,879 in excess of what was actually needed for Board-contributed premium payments and incorrectly recorded this accumulation as General Fund payroll deductions and withholdings payable at June 30, 2014. As the Board did not owe these moneys to the insurance carrier, the amount misreported should have been included in the District’s beginning and ending fund balances. Consequently, the General Fund payroll deductions and withholdings payable was overstated by \$1,012,879, and the beginning and ending fund balances were each understated by this same amount. District personnel indicated that they were aware of these accumulated excess amounts, but decided to continue to report the amounts in the payable account. Misreporting fund balances may cause financial statement users to incorrectly assess the District’s financial position.

We extended our audit procedures to determine the adjustments necessary to ensure that the District’s financial statements were materially correct, and District personnel accepted these adjustments. However, our extended procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting.

Recommendation: The District should enhance procedures to ensure that liabilities and fund balances are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Monthly Financial Reports

State Board of Education Rule 6A-1.008, Florida Administrative Code, requires that monthly financial statements (reports) be submitted to the Board, and Board Policy 7.20 requires that the monthly financial reports include cumulative-to-date receipts and expenditures for the fiscal year. District personnel indicated that they only presented

financial reports to the Board in months that they recommended budget amendments for Board approval; however, following this practice, monthly financial reports were not provided to the Board for 7 of the 12 months during the 2013-14 fiscal year, contrary to the State Board of Education rule and Board policy.

District personnel indicated that discussions of the District's financial activities and financial condition were held with the Board during workshop sessions and regular meetings. However, without monthly financial reports, Board members may have a limited understanding of the District's financial condition, potentially leading to instances of financial mismanagement and negatively impacting the Board's decision-making process, authorizing purchases when funds are not available, or not identifying or remedying critical budget shortfalls in a timely manner.

Recommendation: The District should enhance controls to ensure that monthly financial reports are provided to the Board, as required by State Board of Education Rule and Board policy.

Finding No. 3: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; and purchase of certain enterprise resource software (ERS) applications that are used to support districtwide administration or State-mandated reporting requirements subject to certain conditions and limitations. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2013-14 fiscal year, the District reported LCI Fund expenditures totaling \$1.5 million, and transfers totaling \$6.9 million to other funds. We tested expenditures totaling \$735,000 and transfers totaling \$2.6 million and noted LCI funds totaling \$68,303 were used for internet bandwidth fees that were not part of the District's operating system or part of the District's ERS applications, contrary to Section 1011.71, Florida Statutes. District personnel indicated that they believed these costs were allowable uses of ad valorem tax levy proceeds because they related to information technology purchases. However, these charges totaling \$68,303 do not represent ERS application costs, and are therefore unallowable uses of ad valorem tax levy proceeds.

Recommendation: The District should enhance controls to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document to the Florida Department of Education the allowability of the \$68,303 of questioned costs or restore this amount to the LCI Fund.

Finding No. 4: Health Insurance Plan

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute monthly from \$553 to \$1,105 toward the health insurance of each full-time employee and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan upon being hired, during open enrollment periods, and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. There were 1,433 employees who contributed a total of \$1.7 million and 63 retirees who

contributed a total of \$491,000 to participate in the District's health insurance plan, and the District contributed \$12 million toward the plan. Also, 1,704 dependents participated in the health insurance plan.

District personnel reconciled health insurance billings to current payroll records to ensure that insurance premiums were only for eligible employees. Also, for dependent insurance changes outside open enrollment periods, employees provided evidence of the dependent's eligibility for the change. However, the District did not require documentation, such as birth certificates, evidencing the eligibility of dependents of new employees, retirees, or employees purchasing health insurance for their dependents during open enrollment periods. Without verifying the eligibility of all dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants. Although employees and retiree are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the District for employees' healthcare coverage.

In addition, District records did not evidence reconciliations of Board contributions for insurance premiums to health insurance premium billings to ensure the contributions were consistent with the insurance plan provisions. As a result, the District accumulated excess Board contributions for insurance as discussed in Finding No. 1. Without ensuring Board contributions are consistent with plan provisions, there is an increased risk that the District may not accumulate the correct amount of Board contributions for payment of insurance premiums.

Recommendation: The District should enhance its procedures to require verification of eligibility of all dependents covered by the District's health insurance plan and ensure that Board contributions are consistent with insurance plan provisions.

Finding No. 5: Contractual Services

Section 1001.41(4), Florida Statutes, establishes the Board as the contracting agent for the District. The Board routinely enters into contracts for services, and internal controls have generally been designed and implemented to ensure payments are consistent with contract terms and conditions. For the 2013-14 fiscal year, payments for contractual services totaled approximately \$6 million. To determine the propriety of payments for contractual services during the 2013-14 fiscal year, we tested five consultant services contracts totaling \$580,000, and noted controls over contractual services could be improved. For example:

- Section 1001.41(4), Florida Statutes, establishes the Board as the contracting agent for the District. Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract, the Sheriff provided a school resource officer (SRO) at seven schools and the District paid \$304,348 for the services, excluding after-school SRO services. On December 20, 2013, the District paid \$304,348 for the 2013-14 fiscal year SRO services; however, since SRO services were provided through June 2014, the District prepaid approximately \$160,000 for these services.

Further, the Sheriff provided security for various after school functions at \$40 per hour and the District paid \$92,320 for these services. However, the services and related hourly rate were not established pursuant to a Board-approved contract, contrary to Section 1001.41(4), Florida Statutes.

- The District executed a fixed-price contract totaling \$204,772 with the Highlands County Health Department (HCHD) for school health and full-service schools program services for the 2013-14 fiscal year. The contract provided that the District pay, upon satisfactory completion of the services, \$51,193 to the HCHD in equal quarterly installments. Should any of the \$204,772 received from the District remain unspent by the HCHD, the contract provided that the HCHD would refund the District at the end of the fiscal year or reduce the District's contribution the next fiscal year. However, the District paid the full contract price without

obtaining records to evidence that the HCHD properly expended these funds for services provided for in the contract.

Without effective procedures to confirm that services are satisfactorily received and consistent with Board-approved contract terms, prior to payment, there is an increased risk of overpayment or that services provided may not be consistent with the Board's intent. A similar finding was noted in our report No. 2014-164.

Recommendation: The District should enhance its procedures to ensure that services are satisfactorily received and consistent with Board-approved contract terms, prior to payment.

Finding No. 6: Background Screenings

Section 1012.465(2), Florida Statutes, requires that noninstructional personnel who are permitted access on school grounds when students are present, or have direct contact with students, undergo required background screenings every five years following initial fingerprinting and screening upon employment.

Although noninstructional employees are fingerprinted upon initial employment, the District did not have procedures to ensure that rescreenings of noninstructional employees are performed every five years. Our test of 18 noninstructional personnel disclosed that 6 were not rescreened within five years, contrary to law, ranging from 235 days to 8 years late. Given our test results, District personnel reviewed records and identified 496 additional noninstructional personnel, who had not been rescreened within five years. District personnel indicated that they had mistakenly believed that the system used to generate background screenings for certified personnel initially would continue to screen noninstructional personnel automatically.

Subsequent to our inquiry in November 2014, the District completed background screenings for all of the 502 non-instructional employees that had not been rescreened and no disqualifying offences were noted. Absent timely background screenings, there is an increased risk that personnel with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should continue its efforts to ensure that required background screenings are timely performed for all noninstructional personnel.

Finding No. 7: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the District's request for proposals require proposers to identify the name of their officers, directors, or agents employed by the District so that the District may reject such proposals.

The Superintendent, Board members, Assistant Superintendent for Business Operations, and Director of Finance were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While the statements of financial interests were filed as required, the statements were not provided to personnel responsible for procurement decisions for review. Subsequent to our inquiry in November 2014, Finance Department personnel reviewed the most recent required statements of financial interests and noted no apparent conflicts of interest.

Providing for routine review of required statements of financial interest by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 8: Virtual Instruction Program – Policies and Procedures

Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; provide timely written parental notification of VIP options; ensure compliance with compulsory attendance requirements; ensure that the required background screenings are performed; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District contracted with the Florida Virtual School and a Florida Department of Education (FDOE)-approved provider to administer certain aspects of the VIP. During the 2013-14 fiscal year, 27 full-time and 587 part-time students were enrolled in the VIP. The District's pupil progression plans, code of student conduct, and other records identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment information. However, the District did not have comprehensive, written VIP policies and procedures to document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

Comprehensive written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. For example, policies and procedures could require school district personnel to survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services. Further, the lack of written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in finding Nos. 9 through 14.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

Finding No. 9: Virtual Instruction Program – Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with an FDOE-approved VIP provider contain certain provisions. Our review of the District's two VIP provider contracts disclosed that the contracts included the provisions required by Section 1002.45, Florida Statutes; however, they lacked certain necessary provisions, as follows:

- The contracts did not provide for the District to monitor the provider's compliance with contract terms. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.
- The contracts included no provisions for data quality requirements. The VIP providers maintain significant amounts of education data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in

State law. Accordingly, it is essential that accurate and complete data maintained by the providers on behalf of the District be available in a timely manner. The inclusion of data quality requirements in contracts would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to providers.

- Both contracts contained requirements for the provider to implement, maintain, and use appropriate, administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Rights and Privacy Act, to maintain the confidentiality of educational records. However, one of the contracts did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive educational data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information and other information technology controls may occur.

Section 1002.45(2)(a)8.e., Florida Statutes, requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated with school districts. The District's contract with the FDOE-approved provider established student ratios ranging from 65:1 for grades kindergarten through 8 to 250:1 for grades 9 through 12 elective courses. However, District records did not evidence how the District determined the reasonableness of the established ratios. Without documenting the reasonableness of established ratios, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.

Recommendation: The District should ensure that the above-noted necessary provisions are included in the VIP provider contracts. The District should also document the reasonableness of student-teacher ratios established in VIP provider contracts.

Finding No. 10: Virtual Instruction Program - Written Parental Notifications

Section 1002.45(10), Florida Statutes, requires that the District provide information to parents and students about their right to participate in a VIP. Further Section 1002.45(1)(b), Florida Statutes, requires the District to provide parents with timely, written notification of open enrollment periods for its VIP.

For the 2013-14 fiscal year, District personnel indicated that several communication methods were used to provide information about the District's VIP to students and parents. Such communication included the District's Web site and virtual school flyers distributed to students. While these methods indicate efforts by District personnel to communicate with parents and students about VIP options for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents of students regarding the VIP and associated open enrollment periods.

Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment period dates, potentially limiting student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 11: Virtual Instruction Program - Options

Section 1002.45(1)(b), Florida Statutes, requires that the District, because it is located in a sparsely-populated county eligible for special funding pursuant to Section 1011.62(7), Florida Statutes, provide students the option of participating in a part-time or full-time VIP.

Although the District provided all students the opportunity to participate in full-time virtual instruction and students in grades 6 through 12 the opportunity to participate in part-time virtual instruction, the District did not provide students in grades kindergarten through 5 the opportunity to participate in part-time virtual instruction. District personnel indicated that it was not practical to offer part-time virtual instruction for these grades. Without providing the required option, the District limited student access to the part-time virtual instruction types, contrary to Section 1002.45(1)(b), Florida Statutes.

Recommendation: The District should ensure that it offers all students the option of participating in a part-time VIP as required by law.

Finding No. 12: Virtual Instruction Program - Instructor Certifications and Background Screenings

Section 1012.55(1), Florida Statutes, requires that District instructional personnel, including those providing direct instruction to students through a virtual environment or through a blended virtual and physical environment, hold the certificate required by law. Also, Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State.

The District's contract with an FDOE-approved provider stipulated that the provider was responsible for assigning instructors certified in their respective areas and that the provider would comply with all statutory provisions of Section 1002.45, Florida Statutes. However, the District did not request or obtain confirmation that the instructors were certified or subjected to required background screenings. Without effective controls to ensure that VIP provider instructors are certified and subjected to required background screenings, there is an increased risk that instructors may not be appropriately certified or may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data and information technology resources.

Recommendation: The District should enhance its procedures to ensure that VIP provider instructors are appropriately certified and subjected to required background screenings.

Finding No. 13: Virtual Instruction Program - Compulsory Attendance Requirements

Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance.

District personnel indicated they rely on the FDOE-approved provider and the Florida Virtual School (FLVS) to maintain attendance and to inform the District if a student is not participating, as necessary, to remain in the course. However, District records did not evidence correspondence from the FDOE-approved provider or the FLVS to confirm attendance for the 27 students who were enrolled full-time and who took the courses from locations other

than at one of the District’s schools. As such, District records did not evidence that these students satisfied the statutorily required compulsory attendance requirements.

Recommendation: The District should enhance procedures to ensure that VIP students comply with the compulsory attendance requirements.

Finding No. 14: Virtual Instruction Program - Computing Resources and Instructional Materials

Section 1002.45(3)(c), Florida Statutes, requires the District to provide each student enrolled in the VIP all necessary instructional materials. In addition, Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student’s home.

District personnel indicated that they relied upon the FDOE-approved provider to ensure that all necessary instructional materials were appropriately delivered to VIP students and for communicating the availability of, and providing, computing resources to qualified VIP students, without independently verifying delivery. Without procedures to verify receipt of all the necessary instructional materials, there is an increased risk that VIP students may not possess the materials necessary to successfully complete VIP course requirements. Also, directly notifying eligible students or their parents of the availability of computing resources would help ensure that these students have the appropriate resources required to successfully complete VIP courses.

Recommendation: The District should establish procedures to ensure that VIP students receive all necessary instructional materials and that qualified VIP students and their parents are properly notified of the availability of, and provided, computing resources as required.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-164, except that finding No. 5 was also noted in prior audit report No. 2014-164 as finding No. 3.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014*

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
2013 - 168 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, Earmarking - Maintenance of Effort	District records did not evidence that the maintenance of effort requirements for Special Education programs were met.	No further action warranted.	Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse. The Federal agency (or pass through entity) is not currently following up with the District on the audit finding and a management decision was not issued.
2013 - 168 (2)	Special Education Cluster - Grants to States (CFDA No. 84.027) and Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles and Procurement	Control deficiencies and noncompliance were noted for certain contract payments, resulting in questioned costs of \$29,300 for the Special Education Cluster and \$85,652 for the Child Nutrition Cluster programs.	No further action warranted.	Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse. The Federal agency (or pass through entity) is not currently following up with the District on the audit finding and a management decision was not issued.

EXHIBIT A
MANAGEMENT'S RESPONSE



The School Board of Highlands County

426 School Street • Sebring, FL 33870-4048

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

- Wally Cox
Superintendent
- Bill Brantley
Chairperson
- Donna Howerton
Vice Chairperson
- Jill Compton
- Charlene Edwards
- Jan Shoop

March 2, 2015

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

Subject: Audit Response

Dear Mr. Martin:

We have enclosed our responses to the preliminary and tentative audit findings of the audit conducted by your office for the period ending June 30, 2014.

Finding No. 1: Financial Reporting

The District will review its procedures to ensure that liabilities and fund balances are properly reported on the financial statements.

Finding No. 2: Monthly Financial Reports

The Superintendent is now providing monthly financial reports to the Board for approval.

Finding No. 3: Ad Valorem Taxation

The District will reimburse the Local Capital Improvement Fund for \$68,303 of questioned costs.

Finding No. 4: Health Insurance Plan

The District will require documentation for eligibility of dependent care for all new employees and employees who are making changes to their health insurance. The District will reconcile contributions to ensure they are consistent with insurance plan provisions.

Finding No. 5: Contractual Services

The District changed the procedures to require verification of services from the principals for Sheriff Department SRO's and Health Department prior to payment on a quarterly basis. In addition, the District signed a contract with the Sheriff's office establishing the \$40 per hour fee charged for after school functions.

Finding No. 6: Background Screenings

The District will review its procedures to ensure the required background screenings are timely performed for all non-instructional personnel.

"A fully accredited school system"
Southern Association of Colleges and Schools
Equal Opportunity Employer

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

Audit Response
Wednesday, March 4, 2015
Page 2

Finding No. 7: Purchasing Procedures

The District will provide for routine review of required statements of financial interests by District staff to determine any conflict of interest.

Finding No. 8: Virtual Instruction Program – Policies and Procedures

The District will develop and maintain written VIP policies and procedures to enhance the effectiveness of the VIP operations.

Finding No. 9: Virtual Instruction Program – Provider Contracts

The District will amend its contract with the VIP provider to include verification that the provider protected the confidentiality of student records and supplied students with necessary instructional materials. The contracts will include a provision for data quality requirements and minimum required security controls to maintain the confidentiality of educational records. The District will require documentation from the VIP provider to determine if the student/teacher ratios were consistent with the contract.

Finding No. 10: Virtual Instruction Program – Written Parental Notifications

The District provided parent notification on June 2, 2014 of the virtual school options as required by Statute for the 2014-15 school year.

Finding No. 11: Virtual Instruction Program – Options

The District will send notification to parents of part time options to all K-12 students.

Finding No. 12: Virtual Instruction Program – Instructor Certifications and Background Screenings

The District will receive verification from the VIP provider of the certification and background screenings for all VIP instructional staff as required.

Finding No. 13: Virtual Instruction Program – Compulsory attendance Requirements

The District will enhance its procedures to require that VIP providers submit documentation to the District to confirm attendance for students enrolled in a full time virtual program.

Finding No. 14: Virtual Instruction Program – Computing Resources and Instructional Materials

The District will enhance its procedures to ensure receipt of required computers and instructional materials offered through its VIP program.

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

Sincerely,


Wally Cox
Superintendent of Schools

MA:WC/pk