

HARDEE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Paul Samuels, Vice Chair from 11-22-11	1
Mildred Smith, Vice Chair to 11-21-11	2
Teresa Crawford, Chair	3
Janice Platt	4
Thomas Trevino	5

David Durastanti, Superintendent

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

The audit team leader was Gregory J. Lemieux, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**HARDEE COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Financial reporting procedures could be improved to ensure that fund balance and net asset accounts are properly classified.

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

Finding No. 3: Some unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.

Finding No. 4: The District had not developed a written, comprehensive IT risk assessment.

Finding No. 5: District IT security controls related to user authentication, data loss prevention, and monitoring of database activity need improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, School Improvement Cluster, 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 Hardee County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-089.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of

material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 21 percent of the assets and 97 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Hardee County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Hardee County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

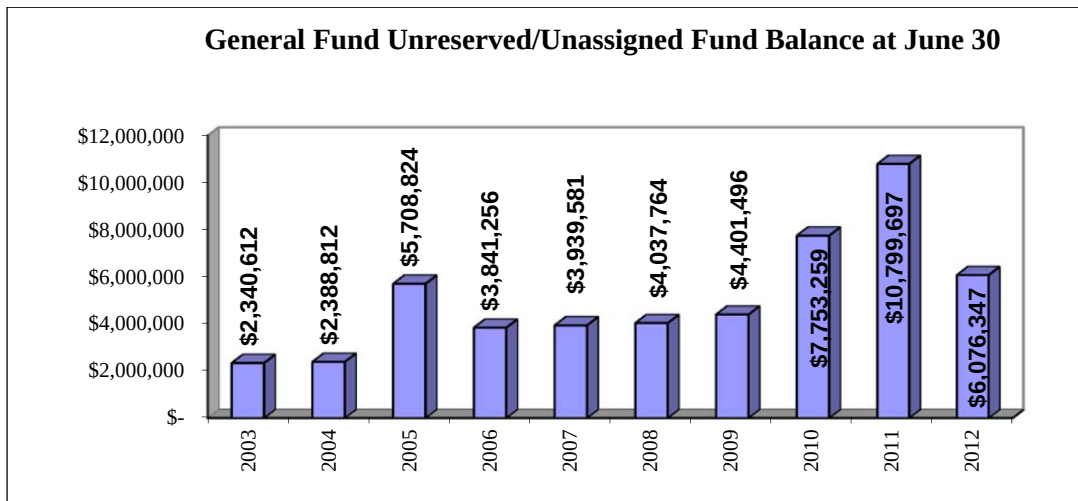
The management of the Hardee County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended 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 2011-12 fiscal year are as follows:

- In total, net assets decreased \$3,504,879, which represents a 4.6 percent decrease from the 2010-11 fiscal year. The decrease was primarily due to lower taxable property value in Hardee County, reduced Florida Education Finance Program funding, expiration of American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization funds, and the return of excess insurance advances related to Hurricane Charley.
- During the 2011-12 fiscal year, General Fund expenditures exceeded revenues by \$2,558,213. When other financing sources (transfers in and loss recoveries) totaling \$855,044 are considered, the General Fund's balance decreased by \$1,703,169 to \$11,250,435. A significant portion of the General Fund's fund balance is considered nonspendable, restricted, committed, and assigned, leaving an unassigned fund balance of \$6,076,347 in the General Fund as of June 30, 2012.

The following chart shows General Fund's Unreserved/Unassigned Fund Balance for the past ten years.



OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year		
	Governmental Activities		Decrease
	6-30-12	6-30-11	
Current and Other Assets	\$ 14,038,948	\$ 16,353,853	\$ (2,314,905)
Capital Assets	66,492,688	68,032,963	(1,540,275)
Total Assets	80,531,636	84,386,816	(3,855,180)
Long-Term Liabilities	6,407,328	6,484,540	(77,212)
Other Liabilities	1,106,702	1,379,791	(273,089)
Total Liabilities	7,514,030	7,864,331	(350,301)
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	63,047,688	64,422,963	(1,375,275)
Restricted	2,863,453	4,174,365	(1,310,912)
Unrestricted	7,106,465	7,925,157	(818,692)
Total Net Assets	\$ 73,017,606	\$ 76,522,485	\$ (3,504,879)

By far, the largest portion of the District's net assets (86.4 percent) reflects its 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.

The restricted portion of the District's net assets (3.9 percent) represents resources that are subject to external restrictions on how they may be used. Net assets are restricted for State required carryover programs, food service, capital outlay, etc. The remaining balance of \$7,106,465 is unrestricted net assets (9.7 percent).

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

- Current and other assets decreased due to decreased cash, cash equivalents, and investments at June 30, 2012.
- Capital assets decreased because calculated depreciation (\$2,849,369) in the 2011-12 fiscal year exceeded capital outlay expenditures for capital assets and other additions (\$1,309,095).
- Restricted net assets decreased because of a reduction of assets restricted for class size reduction and capital projects.

The following is a summary of the District's operating results for the fiscal year ended June 30, 2012, compared to operating results for the fiscal year ended June 30, 2011:

Operating Results for the Fiscal Year Ended			
	Governmental Activities		Increase/ (Decrease)
	6-30-12	6-30-11	
Program Revenues:			
Charges for Services	\$ 416,801	\$ 400,010	\$ 16,791
Operating Grants and Contributions	2,294,324	2,699,549	(405,225)
Capital Grants and Contributions	193,785	261,455	(67,670)
General Revenues:			
Property Taxes, Levied for Operational Purposes	10,748,119	11,590,076	(841,957)
Property Taxes, Levied for Capital Projects	757,754	792,999	(35,245)
Florida Education Finance Program	15,903,429	17,221,922	(1,318,493)
Other Federal Sources	6,554,964	9,502,822	(2,947,858)
Other State Sources	6,409,663	6,396,512	13,151
Unrestricted Investment Earnings	51,541	73,040	(21,499)
Miscellaneous	880,873	925,598	(44,725)
Total Revenues	44,211,253	49,863,983	(5,652,730)
Functions/Program Expenses:			
Instruction	25,196,887	25,820,408	(623,521)
Pupil Personnel Services	2,906,302	2,919,849	(13,547)
Instructional Media Services	823,833	965,333	(141,500)
Instruction and Curriculum Development Services	579,931	621,466	(41,535)
Instructional Staff Training Services	1,097,153	1,179,850	(82,697)
Instruction Related Technology	665,929	606,820	59,109
School Board	311,504	329,942	(18,438)
General Administration	508,560	558,281	(49,721)
School Administration	2,078,998	2,089,325	(10,327)
Facilities Acquisition and Construction		257,234	(257,234)
Fiscal Services	477,687	454,008	23,679
Food Services	2,751,772	2,869,052	(117,280)
Central Services	250,945	208,378	42,567
Pupil Transportation Services	2,288,622	2,250,862	37,760
Operation of Plant	4,414,684	3,728,779	685,905
Maintenance of Plant	1,728,756	1,798,579	(69,823)
Administrative Technology Services	236,386	229,687	6,699
Community Services	169,674	174,891	(5,217)
Unallocated Interest on Long-Term Debt	160,118	166,130	(6,012)
Unallocated Depreciation Expense	1,068,391	1,660,893	(592,502)
Total Functions/Program Expenses	47,716,132	48,889,767	(1,173,635)
Increase (Decrease) in Net Assets	(3,504,879)	974,216	(4,479,095)
Net Assets - Beginning	76,522,485	75,548,269	974,216
Net Assets - Ending	\$ 73,017,606	\$ 76,522,485	\$ (3,504,879)

The District's net assets decreased by \$3,504,879 during the 2011-12 fiscal year. Contributing elements of the changes are as follows:

- Property taxes levied for operations decreased because Hardee County's taxable value decreased by \$62,980,590 in the 2011-12 fiscal year, and the critical needs operating tax of 0.25 mills ended in the 2010-11 fiscal year.
- Florida Education Finance Program revenues decreased in the 2011-12 fiscal year because the State reduced funding per student by \$564, an 8.5 percent reduction, and student enrollment slightly decreased.
- Other Federal revenues decreased in the 2011-12 fiscal year because the District did not receive any ARRA State Fiscal Stabilization Fund moneys and only received \$15,119 in Education Jobs Fund moneys. In the previous fiscal year, the District received \$1,605,289 in ARRA State Fiscal Stabilization Fund moneys and received \$1,023,096 in Education Jobs Fund moneys.
- Operation of plant expenses increased because the District returned \$724,698 in excess insurance advances. From October 2004 through November 2006, the District's insurance consortium advanced \$12,339,908 to cover the District's estimated claims after Hurricane Charley. Subsequently, in calendar year 2011, the consortium's administrator and the District calculated that the District's eligible claim (less deductibles) for Hurricane Charley totaled \$11,615,210, or \$724,698 less than the funds advanced.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Major Governmental Funds

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

As of June 30, 2012, the District's governmental funds reported combined ending fund balances of \$13,092,363, a decrease of \$2,047,830 in comparison with the prior fiscal year. Of the total ending fund balance, \$6,076,347 (or 46 percent) constitutes unassigned fund balances, which are available for spending at the government's discretion. The remaining fund balances are classified as nonspendable (\$291,120), restricted (\$2,982,519), committed (\$874,999) and assigned (\$2,867,378).

The following schedule summarizes fund balances for individual fund types:

	Fund Balances			
	Unassigned <u>Fund Balance</u>	Nonspendable Restricted, Committed, and Assigned <u>Fund Balance</u>	Total <u>Fund Balance</u>	Change in Total <u>Fund Balance</u>
Major Governmental Funds:				
General	\$ 6,076,347	\$ 5,174,088	\$ 11,250,435	\$ (1,703,170)
Special Revenue - Other		5,568	5,568	(2,476)
Special Revenue - Federal Economic Stimulus				
Other Nonmajor Governmental Funds		1,836,360	1,836,360	(342,184)
	<u>\$ 6,076,347</u>	<u>\$ 7,016,016</u>	<u>\$ 13,092,363</u>	<u>\$ (2,047,830)</u>
	46%	54%	100%	

The General Fund total fund balance decreased because Hardee County's taxable value for operating purposes decreased by \$62,980,590 in the 2011-12 fiscal year while the required local effort millage rate was virtually unchanged, because the discretionary critical needs operating tax of 0.25 mills ended in the 2010-11 fiscal year and because the State reduced Florida Education Finance Program funding per student by \$564, an 8.5 percent reduction.

The Special Revenue – Other Fund has total revenues of \$5,276,332 and expenditures of \$5,278,808. The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$1,213,557 each, a decrease of \$2,922,661 each from the previous fiscal year due to the reduction of many of the Federal stimulus grants. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate significant fund balances.

The nonmajor governmental funds decreased because unspent capital outlay fund on hand at July 1, 2011, were spent during the 2011-12 fiscal year on an air conditioning chiller at Hardee Sr. High (\$109,611), computers and equipment (\$285,869), and roofing at Wauchula Elementary (\$147,467).

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary comparison schedule for the General Fund lists original budget, final budget, and actual amounts. The actual amount of instruction expenditures in the General Fund was lower than budgeted due to the following areas that had significant positive budget variances: Teacher pay (\$96,697), teacher extra duty pay (\$91,204), benefits (\$69,869), supplies (\$103,163) and textbooks and text-related materials (\$232,740). Other significant areas of positive variance were pupil transportation services (\$381,536), operation of plant (\$266,011) and maintenance of plant (\$215,422).

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities at June 30, 2012, is \$66,492,688 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. The total decrease in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$1,540,275, or 2.3 percent.

Capital Assets, Net of Depreciation		
	Balance 6-30-2012	Balance 6-30-2011
Land	\$ 2,046,222	\$ 2,046,222
Improvements Other Than Buildings	2,810,853	2,967,394
Construction in Progress		14,650
Buildings and Fixed Equipment	58,358,202	59,307,593
Furniture, Fixtures, and Equipment	1,835,530	1,974,667
Motor Vehicles	1,111,355	1,350,962
Computer Software	330,526	371,475
	<u>\$ 66,492,688</u>	<u>\$ 68,032,963</u>

Buildings and fixed equipment decreased because calculated depreciation exceeded additions during the 2011-12 fiscal year. Additional information on the District's capital assets can be found in note 4 to the financial statements.

Long-Term Debt

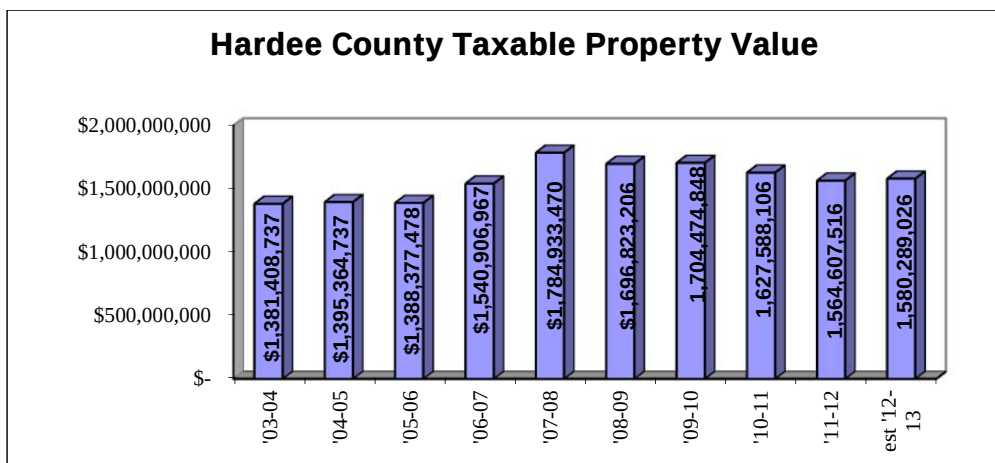
Bonds payable is the only long-term debt related to capital assets. At June 30, 2012, the District has total bonded debt outstanding of \$3,445,000. Of this amount, \$2,570,000 relates to Revenue Bonds, Series 2009, that will mature in November 2035, and \$875,000 relates to three series of State School Bonds that will mature in 2017, 2018, and 2021, respectively. Additional information on the District's long-term debt can be found in notes 5 and 6 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Hardee County

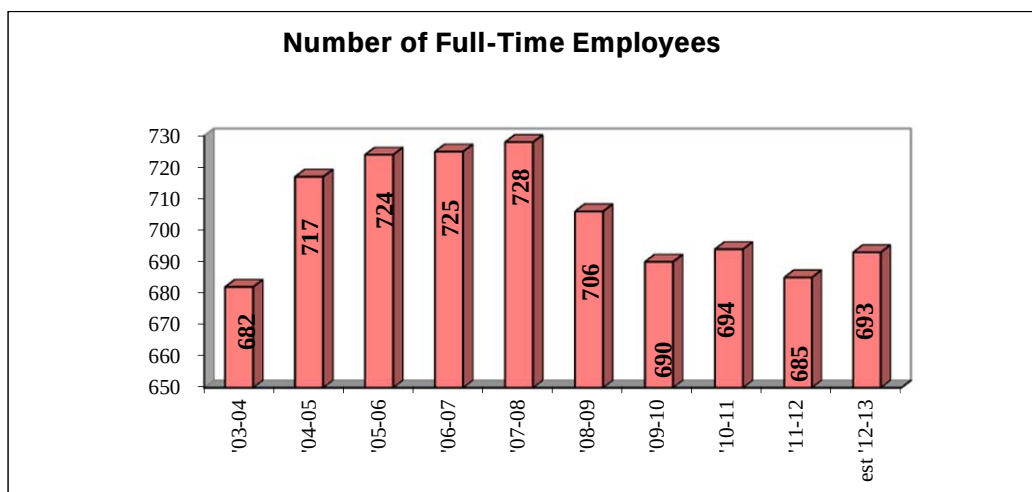
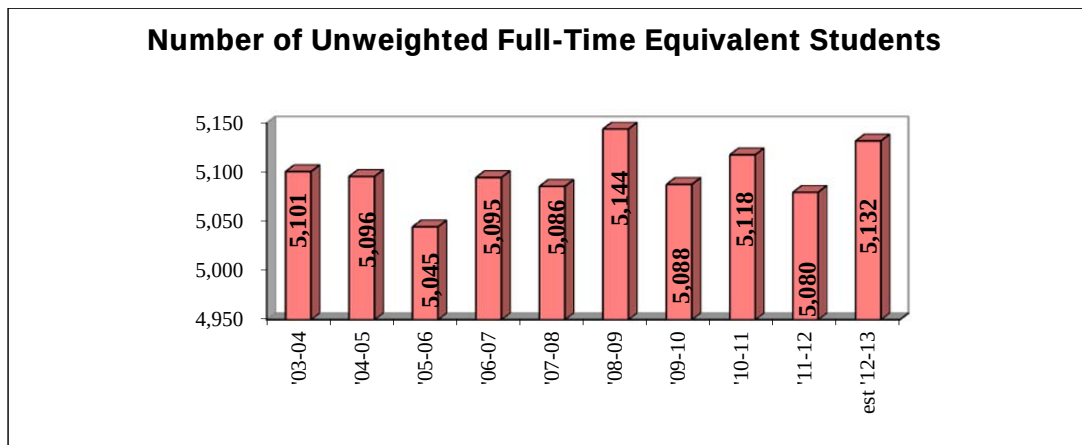
Hardee County's population was estimated to be 27,887 in calendar year 2011, with 8.1 percent of the population under age 5 and 27.6 percent of the population under age 18. Between calendar years 2010 and 2011, Hardee County's population increased by 0.6 percent. Because funding is largely based on numbers of enrolled students, an increase in population, particularly of school-aged children, may increase District enrollment and related funding.

Taxable values for Hardee County are estimated to increase by \$15,681,510 (1 percent) to \$1,580,289,026 for the 2012-13 fiscal year. Taxable values in Hardee County are comprised of real property and tangible property. The biggest components of real property are agricultural, single family residential, and improved commercial/industrial property. Tangible property includes power generation, utilities, and other tangible property. The following chart represents Hardee County taxable property values:



Hardee County School District

The Hardee County School District is composed of five elementary schools, a junior high school, a senior high school, an adult education program, various preschool programs, and an alternative school. The District's number of unweighted full-time equivalent students (UFTE) for the 2011-12 fiscal year decreased by 38 students to 5,080. The District projects to serve 5,132 UFTE students in the 2012-13 fiscal year. The following charts show the number of UFTE students and full-time employees:



On July 30, 2012, the Board adopted the proposed millage rates, the tentative budget for the 2012-13 fiscal year, and the projects to be funded with capital outlay taxes. The following schedule compares total fund balances at June 30, 2012, and tentative fund balances at June 30, 2013.

Fund Balance Comparison			
	Projected Fund Balance 6-30-13	Actual Fund Balance 6-30-12	Projected Change in Fund Balance FY 2012-13
Major Governmental Funds:			
General	\$ 7,073,527	\$ 11,250,435	\$ (4,176,908)
Special Revenue - Other	5,568	5,568	
Special Revenue - Federal Economic Stimulus			
Other Nonmajor Governmental Funds	1,399,472	1,836,360	(436,888)
	<u>\$ 8,478,567</u>	<u>\$ 13,092,363</u>	<u>\$ (4,613,796)</u>

The fund balance in the General Fund is expected to decrease in the 2012-13 fiscal year due to the following:

- Purchase orders totaling \$586,428 were open as of June 30, 2012, and most will be paid in the 2012-13 fiscal year.
- The District hired additional classroom teachers at Hilltop Elementary, Hardee Junior High, and Wauchula Elementary to comply with class size requirements. The District hired additional staff to comply with computer-based testing requirements.
- Florida Retirement System contribution rates, medical insurance premiums and property insurance premiums will increase in the 2012-13 fiscal year. The prices per gallon of gasoline and diesel are expected to increase.
- The District will contract with the Hardee County Sheriff's Office for two school resource officers at Hardee Sr. High and one school resource officer at Hardee Jr. High.
- In June 2012, the Board committed significant funds for textbooks and text-related materials and for computer network servers and infrastructure.
- The District will renovate a vacant four-room building for use as classrooms by Wauchula Elementary and will renovate various stadium facilities.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

HARDEE COUNTY **DISTRICT SCHOOL BOARD** **STATEMENT OF NET ASSETS** **June 30, 2012**

	Primary Government <u>Governmental</u> Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 7,361,685.80	\$ 173,902.00
Investments	6,051,782.17	37,250.00
Accounts Receivable	69,282.28	500.00
Due from Other Agencies	265,077.48	
Inventories	291,119.86	
Capital Assets:		
Nondepreciable Capital Assets	2,164,563.91	
Depreciable Capital Assets, Net	64,328,124.46	
TOTAL ASSETS	<u>\$ 80,531,635.96</u>	<u>\$ 211,652.00</u>
LIABILITIES		
Salaries and Benefits Payable	\$ 131,671.49	\$
Accounts Payable	302,941.20	34,815.00
Matured Interest Payable	1,817.50	
Due to Other Agencies	487,815.69	
Deferred Revenue	22,339.07	
Accrued Interest Payable	160,117.50	
Long-Term Liabilities:		
Portion Due Within One Year	551,989.00	
Portion Due After One Year	5,855,338.73	
Total Liabilities	<u>7,514,030.18</u>	<u>34,815.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	63,047,688.37	
Restricted for:		
State Required Carryover Programs	1,159,741.05	
Capital Projects	1,003,773.55	
Food Service	673,316.93	
Other Purposes	26,621.31	110,018.00
Unrestricted	7,106,464.57	66,819.00
Total Net Assets	<u>73,017,605.78</u>	<u>176,837.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 80,531,635.96</u>	<u>\$ 211,652.00</u>

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

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 25,196,887.36	\$ 49,804.71	\$	\$
Pupil Personnel Services	2,906,301.84			
Instructional Media Services	823,832.60			
Instruction and Curriculum Development Services	579,931.06			
Instructional Staff Training Services	1,097,153.20			
Instruction Related Technology	665,928.77			
School Board	311,503.65			
General Administration	508,559.88			
School Administration	2,078,997.89			
Facilities Acquisition and Construction				193,784.74
Fiscal Services	477,687.41			
Food Services	2,751,771.72	319,162.70	2,294,323.77	
Central Services	250,945.16			
Pupil Transportation Services	2,288,621.99	47,833.38		
Operation of Plant	4,414,684.34			
Maintenance of Plant	1,728,756.32			
Administrative Technology Services	236,385.49			
Community Services	169,674.40			
Unallocated Interest on Long-Term Debt	160,117.50			
Unallocated Depreciation Expense*	1,068,391.30			
Total Primary Government	\$ 47,716,131.88	\$ 416,800.79	\$ 2,294,323.77	\$ 193,784.74
Component Unit				
The Hardee County Education Foundation, Inc.	\$ 120,477.00	\$ 0.00	\$ 133,748.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (25,147,082.65)	\$
(2,906,301.84)	
(823,832.60)	
(579,931.06)	
(1,097,153.20)	
(665,928.77)	
(311,503.65)	
(508,559.88)	
(2,078,997.89)	
193,784.74	
(477,687.41)	
(138,285.25)	
(250,945.16)	
(2,240,788.61)	
(4,414,684.34)	
(1,728,756.32)	
(236,385.49)	
(169,674.40)	
(160,117.50)	
(1,068,391.30)	
(44,811,222.58)	
	13,271.00
10,748,119.35	
757,754.15	
28,868,055.80	
51,540.91	565.00
880,872.70	
41,306,342.91	565.00
(3,504,879.67)	13,836.00
76,522,485.45	163,001.00
\$ 73,017,605.78	\$ 176,837.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 5,441,148.70	\$ 25,738.21	\$ 118,444.88
Investments	6,028,012.05		
Accounts Receivable	68,912.52		
Due from Other Funds	111,358.03		
Due from Other Agencies	97,049.56	119,952.74	35,612.58
Inventories	250,916.04		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 11,997,396.90</u></u>	<u><u>\$ 145,690.95</u></u>	<u><u>\$ 154,057.46</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 131,671.49	\$	\$ 3,106.36
Accounts Payable	242,450.52	48,083.76	
Matured Interest Payable			
Due to Other Funds		69,557.86	36,117.99
Due to Other Agencies	372,839.83	142.75	114,833.11
Deferred Revenue		22,339.07	
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>746,961.84</u>	<u>140,123.44</u>	<u>154,057.46</u>
Fund Balances:			
Nonspendable:			
Inventory	250,916.04		
Restricted for:			
Federal Required Carryover Programs		5,567.51	
State Required Carryover Programs	1,159,741.05		
Local Carryover Programs	21,053.80		
Debt Service			
Capital Projects			
Food Service			
Total Restricted Fund Balance	<u>1,180,794.85</u>	<u>5,567.51</u>	
Committed for:			
Textbooks and Text-related Materials	274,999.00		
Network Server and Infrastructure	600,000.00		
Total Committed Fund Balance	<u>874,999.00</u>		
Assigned for:			
Budgetary Deficit	2,865,377.00		
After School Child Care Project	2,000.66		
Total Assigned Fund Balance	<u>2,867,377.66</u>		
Unassigned Fund Balance	<u>6,076,347.51</u>		
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>11,250,435.06</u>	<u>5,567.51</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 11,997,396.90</u></u>	<u><u>\$ 145,690.95</u></u>	<u><u>\$ 154,057.46</u></u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,776,354.01	\$ 7,361,685.80
23,770.12	6,051,782.17
369.76	69,282.28
	111,358.03
12,462.60	265,077.48
40,203.82	291,119.86
\$ 1,853,160.31	\$ 14,150,305.62
\$	\$
	131,671.49
9,300.56	302,941.20
1,817.50	1,817.50
5,682.18	111,358.03
	487,815.69
	22,339.07
16,800.24	1,057,942.98
40,203.82	291,119.86
	5,567.51
	1,159,741.05
	21,053.80
159,269.59	159,269.59
1,003,773.55	1,003,773.55
633,113.11	633,113.11
1,796,156.25	2,982,518.61
	274,999.00
	600,000.00
	874,999.00
	2,865,377.00
	2,000.66
	2,867,377.66
	6,076,347.51
1,836,360.07	13,092,362.64
\$ 1,853,160.31	\$ 14,150,305.62

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds	\$ 13,092,362.64
---	-------------------------

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	66,492,688.37
--	---------------

Interest on bonds payable is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due.	(160,117.50)
---	--------------

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	\$ 3,445,000.00	
Compensated Absences Payable	2,216,639.73	
Other Postemployment Benefits Payable	745,688.00	
	(6,407,327.73)	

Total Net Assets - Governmental Activities	\$ 73,017,605.78
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The accompanying notes to financial statements are an integral part of this statement.

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**HARDEE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 67,414.04	\$	\$
Federal Through State and Local State	22,127,913.09	5,273,992.67	1,213,556.86
Local:			
Property Taxes	10,748,119.35		
Charges for Services - Food Service			
Miscellaneous	1,019,249.26	2,339.62	
Total Local Revenues	<u>11,767,368.61</u>	<u>2,339.62</u>	
Total Revenues	<u>33,962,695.74</u>	<u>5,276,332.29</u>	<u>1,213,556.86</u>
Expenditures			
Current - Education:			
Instruction	20,783,237.92	2,820,455.78	703,392.86
Pupil Personnel Services	1,707,120.74	1,125,043.86	30,535.64
Instructional Media Services	645,403.90		
Instruction and Curriculum Development Services	286,972.53	309,848.97	
Instructional Staff Training Services	350,351.52	499,360.55	243,723.34
Instruction Related Technology	634,549.14	28,926.93	
School Board	309,843.57		
General Administration	275,781.29	189,533.70	38,587.50
School Administration	2,012,782.91	31,874.03	2,403.82
Facilities Acquisition and Construction	13,362.69		
Fiscal Services	449,853.45		
Food Services	14,875.47		
Central Services	168,295.86	15,364.72	41,769.08
Pupil Transportation Services	1,954,179.31	14,038.24	5,856.24
Operation of Plant	4,388,352.16		
Maintenance of Plant	1,685,991.49		
Administrative Technology Services	235,756.11		
Community Services	170,129.68		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	185,262.26		
Other Capital Outlay	248,807.35	244,361.93	147,288.38
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>36,520,909.35</u>	<u>5,278,808.71</u>	<u>1,213,556.86</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,558,213.61)</u>	<u>(2,476.42)</u>	
Other Financing Sources (Uses)			
Transfers In	603,273.69		
Insurance Loss Recoveries	251,770.59		
Transfers Out			
Total Other Financing Sources (Uses)	<u>855,044.28</u>		
Net Change in Fund Balances	<u>(1,703,169.33)</u>	<u>(2,476.42)</u>	
Fund Balances, Beginning	<u>12,953,604.39</u>	<u>8,043.93</u>	
Fund Balances, Ending	<u>\$ 11,250,435.06</u>	<u>\$ 5,567.51</u>	<u>\$ 0.00</u>

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$	\$
	67,414.04
2,246,977.77	8,734,527.30
426,309.88	22,554,222.97
757,754.15	11,505,873.50
319,162.70	319,162.70
6,742.82	1,028,331.70
<u>1,083,659.67</u>	<u>12,853,367.90</u>
<u>3,756,947.32</u>	<u>44,209,532.21</u>
	24,307,086.56
	2,862,700.24
	645,403.90
	596,821.50
	1,093,435.41
	663,476.07
	309,843.57
	503,902.49
	2,047,060.76
	13,362.69
	449,853.45
2,523,913.49	2,538,788.96
	225,429.66
	1,974,073.79
	4,388,352.16
	1,685,991.49
	235,756.11
	170,129.68
589,724.09	774,986.35
50,433.76	690,891.42
165,000.00	165,000.00
<u>166,786.66</u>	<u>166,786.66</u>
<u>3,495,858.00</u>	<u>46,509,132.92</u>
<u>261,089.32</u>	<u>(2,299,600.71)</u>
	603,273.69
	251,770.59
<u>(603,273.69)</u>	<u>(603,273.69)</u>
<u>(603,273.69)</u>	<u>251,770.59</u>
(342,184.37)	(2,047,830.12)
<u>2,178,544.44</u>	<u>15,140,192.76</u>
<u>\$ 1,836,360.07</u>	<u>\$ 13,092,362.64</u>

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ (2,047,830.12)

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. (1,540,274.64)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current fiscal year. 165,000.00

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. 140,817.59

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. (228,605.00)

Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities. This is the decrease in the accrued interest payable. 6,012.50

Change in Net Assets - Governmental Activities \$ (3,504,879.67)

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

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2012**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 8,982.14	\$ 418,936.42
Investments	<u> </u>	<u>69,367.89</u>
TOTAL ASSETS	<u><u>\$ 8,982.14</u></u>	<u><u>\$ 488,304.31</u></u>
LIABILITIES		
Internal Accounts Payable	<u>\$</u>	<u><u>\$ 488,304.31</u></u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<u>8,982.14</u>	
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,982.14</u></u>	

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

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Investment Earnings:	
Interest, Dividends, and Other	\$ 21.86
	<u> </u>
DEDUCTIONS	
Scholarship Payments	<u>2,350.00</u>
Change in Net Assets	(2,328.14)
Net Assets - Beginning	<u>11,310.28</u>
Net Assets - Ending	<u><u>\$ 8,982.14</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Hardee 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 Hardee County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hardee County.

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

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

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of The Hardee County Education Foundation, Inc. (Foundation), a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures to and for the benefit of the District. 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, 2012. The audit report is filed in the District's administrative offices.

Basis of Presentation:

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

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.

Additionally, the District reports the following fiduciary fund types:

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 21 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The Foundation uses the accrual basis of accounting and financial reporting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

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

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, 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 Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. 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.

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

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

The costs of inventories are recorded as expenditures at the time inventory items are purchased and are adjusted to reflect year-end physical inventories. For surplus donated foods, fiscal year-end adjustments are made to the expenditures and corresponding inventory accounts to record physical inventories on hand.

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
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Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000, with the exception of Improvements Other than Buildings which are those costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Land acquired prior to 1973 and most buildings acquired or constructed prior to 1979 are stated at estimated historical cost using price levels at the time of acquisition and, as a result, \$89,680 of the stated land values and \$5,033,364 of stated building values are based on these estimates.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	17.63 years
Buildings and Fixed Equipment	49.23 years
Furniture, Fixtures, and Equipment	6.66 years
Motor Vehicles	9.29 years
Computer Software	5 years

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

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

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

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department

**HARDEE COUNTY
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performs certain edit checks on the reported number of the FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

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

The Board adopted the 2011 tax levy on September 8, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 31,460.37
Fund B	5.73 Year Average	81,849.46
Debt Service Accounts	6 Months	23,770.12
Certificates of Deposit	October 21, 2012	6,015,530.48
Total Investments, Reporting Entity		<u>\$6,152,610.43</u>

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

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. 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. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ Credit Risk

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

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

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

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

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 2,046,221.85	\$	\$	\$ 2,046,221.85
Land Improvements	118,342.06			118,342.06
Construction in Progress	14,650.00	163,316.82	177,966.82	
Total Capital Assets Not Being Depreciated	2,179,213.91	163,316.82	177,966.82	2,164,563.91
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,925,183.16	109,611.00		5,034,794.16
Buildings and Fixed Equipment	83,706,879.37	376,579.08	134,063.21	83,949,395.24
Furniture, Fixtures, and Equipment	6,354,357.06	536,830.51	935,401.51	5,955,786.06
Motor Vehicles	4,545,098.86	60,315.90	4,400.00	4,601,014.76
Computer Software	827,603.24	240,408.14	207,861.13	860,150.25
Total Capital Assets Being Depreciated	100,359,121.69	1,323,744.63	1,281,725.85	100,401,140.47
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,076,131.18	266,151.90		2,342,283.08
Buildings and Fixed Equipment	24,399,286.78	1,325,969.19	134,063.21	25,591,192.76
Furniture, Fixtures, and Equipment	4,379,689.82	675,967.63	935,401.51	4,120,255.94
Motor Vehicles	3,194,137.02	299,923.14	4,400.00	3,489,660.16
Computer Software	456,127.79	281,357.41	207,861.13	529,624.07
Total Accumulated Depreciation	34,505,372.59	2,849,369.27	1,281,725.85	36,073,016.01
Total Capital Assets Being Depreciated, Net	65,853,749.10	(1,525,624.64)		64,328,124.46
Governmental Activities Capital Assets, Net	\$ 68,032,963.01	\$ (1,362,307.82)	\$ 177,966.82	\$ 66,492,688.37

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 833,678.76
Pupil Personnel Services	38,771.73
Instructional Media Services	182,564.59
Instructional Staff Training Services	4,852.45
General Administration	3,456.22
School Administration	31,049.22
Fiscal Services	26,131.07
Food Services	200,076.48
Central Services	27,447.37
Pupil Transportation Services	311,292.24
Operation of Plant	24,131.67
Maintenance of Plant	97,526.17
Unallocated	1,068,391.30
Total Depreciation Expense - Governmental Activities	<u>\$ 2,849,369.27</u>

5. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A, Refunding	\$ 265,000	5.0	2017
Series 2005B, Refunding	85,000	5.0	2018
Series 2010A, Refunding	525,000	4.0 - 5.0	2021
District Revenue Bonds:			
Series 2009	2,570,000	2.5 - 5.4	2035
Total Bonds Payable	<u>\$ 3,445,000</u>		

**HARDEE COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

➤ State School Bonds

These bonds are issued by the State Board of Education on behalf of the District to finance capital outlay projects of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ District Revenue Bonds

These bonds are authorized by Chapter 78-517, Laws of Florida, which provides that the bonds be secured by a sum of \$187,375 from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the Hardee County Board of Commissioners who remits the distribution to the District.

The District has pledged a total of \$4,372,445 of sales tax revenues in connection with the District Revenue Bonds of 2009, described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling \$187,375 and expended \$183,980 (98 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on November 1, 2035. Approximately 97 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, 2012, are as follows:

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 148,100.00	\$ 105,000.00	\$ 43,100.00
2014	152,850.00	115,000.00	37,850.00
2015	152,100.00	120,000.00	32,100.00
2016	151,100.00	125,000.00	26,100.00
2017	144,850.00	125,000.00	19,850.00
2018-2021	319,450.00	285,000.00	34,450.00
Total State School Bonds	1,068,450.00	875,000.00	193,450.00
District Revenue Bonds:			
2013	182,017.50	65,000.00	117,017.50
2014	185,330.00	70,000.00	115,330.00
2015	183,405.00	70,000.00	113,405.00
2016	186,230.00	75,000.00	111,230.00
2017	183,848.75	75,000.00	108,848.75
2018-2022	915,696.25	415,000.00	500,696.25
2023-2027	911,641.25	510,000.00	401,641.25
2028-2032	901,995.00	640,000.00	261,995.00
2033-2036	722,281.25	650,000.00	72,281.25
Total District Revenue Bonds	4,372,445.00	2,570,000.00	1,802,445.00
Total	\$ 5,440,895.00	\$ 3,445,000.00	\$ 1,995,895.00

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 3,610,000.00	\$	\$ 165,000.00	\$ 3,445,000.00	\$ 170,000.00
Compensated Absences Payable	2,357,457.32	28,722.88	169,540.47	2,216,639.73	381,989.00
Other Postemployment Benefits Payable	517,083.00	501,141.00	272,536.00	745,688.00	
Total Governmental Activities	\$ 6,484,540.32	\$ 529,863.88	\$ 607,076.47	\$ 6,407,327.73	\$ 551,989.00

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

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 111,358.03	\$
Special Revenue:		
Other		69,557.86
Federal Economic Stimulus		36,117.99
Nonmajor Governmental		5,682.18
Total	<u>\$ 111,358.03</u>	<u>\$ 111,358.03</u>

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 603,273.69	\$
Nonmajor Governmental		603,273.69
Total	<u>\$ 603,273.69</u>	<u>\$ 603,273.69</u>

Interfund transfers consisted of transfers of local capital improvement funds to the General Fund to assist in funding property and casualty insurance and maintenance operations of the District.

8. FUND BALANCE REPORTING

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

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

➤ **Restricted**

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

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

earmarked educational funding, unspent Federal funding, and other miscellaneous amounts reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. On June 12, 2012, the Board established fund balance commitments for textbooks and text-related material in excess of State funding and for computer network servers and infrastructure.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Director of Finance, as authorized by the Board on June 9, 2011, and not included in other categories.

➤ **Unassigned**

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

9. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 15,903,429.00
Categorical Educational Program - Class Size Reduction	5,546,585.00
Workforce Development Program	265,551.00
School Recognition	236,479.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	193,784.74
Racing Commission Funds	187,375.00
Adults with Disabilities	49,999.96
Food Service Supplement	47,346.00
Voluntary Pre-K	47,116.43
Discretionary Lottery Funds	15,746.00
Miscellaneous	60,810.84
Total	<u>\$ 22,554,222.97</u>

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

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

10. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.356	\$ 8,380,037.86
Basic Discretionary Local Effort	0.748	1,170,326.42
Voted Tax:		
Additional Discretionary Local Effort	1.000	1,564,607.52
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.500	782,303.76
Total	<u>7.604</u>	<u>\$ 11,897,275.56</u>

11. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. 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, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of 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.

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

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

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$2,225,036, \$2,479,290 and \$1,669,640, respectively, which were equal to the required contributions for each fiscal year.

There were 68 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$195,222, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended 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 2011-12 fiscal year, 41 retirees received medical and life insurance benefits, 17 retirees received only medical insurance benefits, and another 133 retirees received only life insurance benefits. The District provided required contributions of \$272,536 toward the annual OPEB cost, net of retiree contributions totaling \$321,763, which represents 1.3 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 220,303
Amortization of Unfunded Actuarial Accrued Liability	<u>288,882</u>
Annual Required Contribution	509,185
Interest on Net OPEB Obligation	20,683
Adjustment to Annual Required Contribution	<u>(28,727)</u>
Annual OPEB Cost (Expense)	501,141
Contribution Toward the OPEB Cost	<u>(272,536)</u>
Increase in Net OPEB Obligation	228,605
Net OPEB Obligation, Beginning of Year	<u>517,083</u>
Net OPEB Obligation, End of Year	<u><u>\$ 745,688</u></u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2009-10	\$ 432,861	60.8%	\$ 305,933
2010-11	480,489	56.1%	517,083
2011-12	501,141	54.4%	745,688

Funded Status and Funding Progress. As of January 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$4,902,773, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,902,773 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$23,992,107, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 20.4 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 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.

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

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

The District's OPEB actuarial valuation as of January 1, 2011, used the entry age normal actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent in 2019. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 16 years.

13. SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2012:

Major Funds				
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 586,428.07</u>	<u>\$ 209,374.50</u>	<u>\$ 33,447.81</u>	<u>\$ 150,680.03</u>	<u>\$ 979,930.41</u>

14. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The 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 protection, 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 assessments (premiums), and purchases coverage

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

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. Employers Mutual, Inc., serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except wind/hail/flood). The deductible for a named wind, hail, hurricane, or flood 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. SCERMP's purchased excess property loss limit during the 2011-12 fiscal year was \$100 million per tower (consisting of 4 members per tower), except for flood/earthquake of \$75 million.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2011-12 fiscal year was \$850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employer's liability is included subject to \$2,000,000 each claim and in the aggregate.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity as it is now written, as it may be amended by 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.

Health and hospitalization coverage is being provided by purchased commercial insurance on a guaranteed cost basis with rates established prior to renewal each year by the District's insurers based on the benefits and features selected by the District. Life insurance in the amount of \$25,000 is purchased by the District for eligible employees. These transactions are accounted for in the governmental funds.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 65,927.00	\$ 67,414.00	\$ 67,414.04	\$ 0.04
State	22,480,831.26	22,131,587.43	22,127,913.09	(3,674.34)
Local:				
Property Taxes	10,658,610.00	10,659,001.00	10,748,119.35	89,118.35
Miscellaneous	991,557.00	1,048,699.31	1,019,249.26	(29,450.05)
Total Local Revenues	11,650,167.00	11,707,700.31	11,767,368.61	59,668.30
Total Revenues	34,196,925.26	33,906,701.74	33,962,695.74	55,994.00
Expenditures				
Current - Education:				
Instruction	19,944,639.66	21,393,972.77	20,783,237.92	610,734.85
Pupil Personnel Services	1,718,439.12	1,776,695.59	1,707,120.74	69,574.85
Instructional Media Services	684,915.32	667,920.95	645,403.90	22,517.05
Instruction and Curriculum Development Services	309,907.00	325,412.13	286,972.53	38,439.60
Instructional Staff Training Services	331,406.57	365,235.09	350,351.52	14,883.57
Instruction Related Technology	780,501.68	842,600.68	634,549.14	208,051.54
School Board	360,159.00	344,108.00	309,843.57	34,264.43
General Administration	282,162.12	287,432.12	275,781.29	11,650.83
School Administration	1,965,588.65	2,049,672.20	2,012,782.91	36,889.29
Facilities Acquisition and Construction	4,685.00	41,844.74	13,362.69	28,482.05
Fiscal Services	442,968.11	461,227.11	449,853.45	11,373.66
Food Services		21,701.09	14,875.47	6,825.62
Central Services	161,462.50	175,129.50	168,295.86	6,833.64
Pupil Transportation Services	2,217,699.00	2,335,715.30	1,954,179.31	381,535.99
Operation of Plant	3,960,920.00	4,654,362.91	4,388,352.16	266,010.75
Maintenance of Plant	1,987,030.06	1,901,413.05	1,685,991.49	215,421.56
Administrative Technology Services	221,492.36	238,623.16	235,756.11	2,867.05
Community Services	175,591.02	174,091.02	170,129.68	3,961.34
Fixed Capital Outlay:				
Facilities Acquisition and Construction		185,262.26	185,262.26	
Other Capital Outlay		248,807.35	248,807.35	
Total Expenditures	35,549,567.17	38,491,227.02	36,520,909.35	1,970,317.67
Excess (Deficiency) of Revenues Over Expenditures	(1,352,641.91)	(4,584,525.28)	(2,558,213.61)	2,026,311.67
Other Financing Sources				
Transfers In	601,469.50	601,469.50	603,273.69	1,804.19
Proceeds from Sale of Capital Assets	5,000.00	2,000.00		(2,000.00)
Insurance Loss Recoveries		335,395.00	251,770.59	(83,624.41)
Total Other Financing Sources	606,469.50	938,864.50	855,044.28	(83,820.22)
Net Change in Fund Balances	(746,172.41)	(3,645,660.78)	(1,703,169.33)	1,942,491.45
Fund Balances, Beginning	12,953,604.39	12,953,604.39	12,953,604.39	
Fund Balances, Ending	\$ 12,207,431.98	\$ 9,307,943.61	\$ 11,250,435.06	\$ 1,942,491.45

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 6,427,560.14	\$ 6,816,671.48	\$ 5,273,992.67	\$ (1,542,678.81)	\$ 1,423,464.44	\$ 1,561,905.50	\$ 1,213,556.86	\$ (348,348.64)
	2,449.00	2,339.62	(109.38)				
	2,449.00	2,339.62	(109.38)				
6,427,560.14	6,819,120.48	5,276,332.29	(1,542,788.19)	1,423,464.44	1,561,905.50	1,213,556.86	(348,348.64)
3,624,938.93	3,551,474.23	2,820,455.78	731,018.45	869,988.73	872,580.02	703,392.86	169,187.16
1,295,734.90	1,465,834.44	1,125,043.86	340,790.58	52,744.85	33,035.64	30,535.64	2,500.00
200.00							
384,861.10	382,340.64	309,848.97	72,491.67				
678,352.27	709,462.70	499,360.55	210,102.15	355,448.40	353,582.03	243,723.34	109,858.69
	35,926.00	28,926.93	6,999.07				
238,010.39	239,435.00	189,533.70	49,901.30	56,863.12	58,487.79	38,587.50	19,900.29
31,874.03	31,874.03	31,874.03		4,829.34	3,369.32	2,403.82	965.50
39,467.52	24,063.79	15,364.72	8,699.07	73,790.00	87,706.08	41,769.08	45,937.00
134,121.00	134,347.72	14,038.24	120,309.48	9,800.00	5,856.24	5,856.24	
	244,361.93	244,361.93			147,288.38	147,288.38	
6,427,560.14	6,819,120.48	5,278,808.71	1,540,311.77	1,423,464.44	1,561,905.50	1,213,556.86	348,348.64
		(2,476.42)	(2,476.42)				
		(2,476.42)	(2,476.42)				
8,043.93	8,043.93	8,043.93					
\$ 8,043.93	\$ 8,043.93	\$ 5,567.51	\$ (2,476.42)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
January 1, 2008	\$ 0	\$ 4,418,739	\$ 4,418,739	0.0%	\$ 24,528,149	18.0%
January 1, 2011	0	4,902,773	4,902,773	0.0%	23,992,107	20.4%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. 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 January 1, 2011, valuation, the following key assumptions were modified to reflect current experience: (1) the assumed rate of retiree coverage acceptance was revised from 25 percent to 35 percent; (2) rates of retiree participation once eligible for Medicare were revised; (3) trend rates for medical and prescription costs were decreased modestly; (4) interest rates were revised from 4.75 percent to 4 percent; and (5) certain demographic assumptions were revised to reflect the changes made by the Florida Retirement System in its July 1, 2009, actuarial valuation. The net OPEB obligation increased from \$305,933 to \$517,083, in part, because of these changes.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HARDEE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 164,071.68
National School Lunch Program	10.555	300	609,579.26
Summer Food Service Program for Children	10.559	323	5,372.20
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	285,113.19
National School Lunch Program	10.555 (2)	300	1,207,241.10
Summer Food Service Program for Children	10.559	323	11,896.26
Total United States Department of Agriculture			2,283,273.69
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,371,202.33
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	38,379.94
Total Title I, Part A Cluster			2,409,582.27
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,239,293.67
Special Education - Preschool Grants	84.173	267	30,644.40
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	183,313.12
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	14,051.42
Polk County District School Board:			
Special Education - Grants to States	84.027	None	23,750.00
Special Education - Preschool Grants	84.173	None	53,000.00
University of South Florida:			
Special Education - Grants to States	84.027	None	932.75
Total Special Education Cluster			1,544,985.36
School Improvement Grants Cluster:			
Florida Department of Education:			
School Improvement Grants	84.377	126	69,122.23
ARRA - School Improvement Grants, Recovery Act	84.388	126	720,215.41
Total School Improvement Grants Cluster			789,337.64
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	110,978.89
Migrant Education - State Grant Program	84.011	217	777,445.47
Career and Technical Education - Basic Grants to States	84.048	161	96,754.92
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	23,803.68
Rural Education	84.358	110	100,901.68
English Language Acquisition State Grants	84.365	102	20,057.80
Improving Teacher Quality State Grants	84.367	224	338,655.24
ARRA - Education Technology State Grants, Recovery Act	84.386	121	933.63
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	934.19
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211	240,610.15
Education Jobs Fund	84.410	541	15,119.00
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	697.38
Transition to Teaching	84.350	None	401.61
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	621.20
South Florida State College:			
Adult Education - Basic Grants to States	84.002	None	1,730.69
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	11,500.00
Total United States Department of Education			6,485,050.80
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	67,414.04
Total Expenditures of Federal Awards			\$ 8,835,738.53

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 \$120,173.43 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Hardee County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 22, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Compliance

We have audited the Hardee County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct

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

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
March 22, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 – ARRA); and ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Financial Reporting

The Governmental Accounting Standards Board has established accounting and financial reporting standards that clarify definitions for governmental fund types and establish criteria for classifying fund balances into specifically defined classifications. One of the classifications, committed fund balance, represents resources that can only be used for specific purposes as imposed by formal action of the governing body (Board). Another classification, assigned fund balance, represents resources that are constrained by the Board's intent or a Board-authorized body or official for specific purposes. An allowable purpose for assigning fund balance is for anticipated budgetary deficits in the next fiscal period.

Our review of the District's 2011-12 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. On the governmental funds balance sheet for the General Fund, the District understated assigned fund balance by \$2.87 million and overstated committed fund balance by the same amount because amounts projected for 2012-13 fiscal year budget deficits were inadvertently reported as committed fund balance rather than assigned. In addition, on the statement of net assets, the District understated unrestricted net assets by \$4.13 million and overstated restricted net assets by the same amount. Misreporting fund balance and net asset classifications may cause financial statement users to incorrectly assess the District's financial position.

We extended our audit procedures to determine the adjustments necessary to properly report these fund balance and net assets classifications on the District's financial statements, 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 fund balance and net asset accounts are properly classified on the financial statements.

Finding No. 2: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that for instructional personnel, the Board must provide for differentiated pay based on district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

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

Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-115 and 2012-089.

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

Finding No. 3: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. For example, the functions of end-user application update, database administration, and network administration are typically separated. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

Although the District had not developed written policies and procedures for the periodic review of employee access privileges, the District had performed a review of employee access privileges. Our tests of selected access privileges to the District's enterprise resource planning (ERP) finance and human resources application modules, database, and supporting infrastructure disclosed some access privileges that either permitted employees to perform incompatible functions or were not necessary for their assigned responsibilities. Specifically:

- Because of the District's ERP configuration, one application-delivered user account had been defined with administrator privileges for the domain hosting the ERP application, the ERP application modules, and the database. The District's finance director used the privileges associated with the account for the purposes of user account administration and ERP application security administration. The privileges associated with the account would allow the finance director to perform any action on the database and update all transactions within the ERP application modules, resulting in the District's inability to enforce an appropriate separation of incompatible duties.
- The ability to update data within the District's ERP modules is granted through the assignment of groups of transactions to individual employees. Two secretaries in the personnel department had been granted access to a group having update privileges related to payroll transactions. Also, a payroll specialist had been granted access to a group having update privileges related to accounts payable and asset inventory system

transactions. These groups were unnecessary for the assigned job responsibilities of the three employees. In response to audit inquiry, the District removed the unnecessary groups.

Although the District had compensating controls in place (e.g., management review of edit reports and budgetary restrictions, separation of duties for the initiation and approval of financial transactions, and independent reviews of various financial transactions) to mitigate the risks of the control deficiencies noted above, the above-described inappropriate or unnecessary access privileges indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of employee access privileges and remove inappropriate employee access privileges detected. In addition, the District should establish written policies and procedures to document management's expectations for the performance of periodic reviews of employee access privileges.

Finding No. 4: Information Technology – Risk Assessment

Management of IT-related risk is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

The District had developed a policy providing for the IT department to perform periodic information security risk assessments for the purpose of determining areas of vulnerability and implementing remediation plans. However, although the District had informally considered external and internal risks and identified security controls, such as selected configuration settings, because of insufficient staffing resources, the District had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may limit the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls. A similar finding was noted in our report No. 2012-089.

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks in accordance with its policy.

Finding No. 5: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Database Activity

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

Without adequate security controls related to user authentication, data loss prevention, and monitoring of database activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: The District should improve IT security controls related to user authentication, data loss prevention, and monitoring of database activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-089. The following table provides information on the District's recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
2	Audit Report No. 2012-089, Finding No. 2	Audit Report No. 2011-115, Finding No. 2
4	Audit Report No. 2012-089, Finding No. 5	NA

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HARDEE COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2008-137 (4) 2009-098 (1) 2010-057 (1) 2011-115 (1) 2012-089 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Program Administration	The District could enhance its controls over Federal expenditures for the food service program.	Corrected	Florida Department of Agriculture and Consumer Services has deemed corrective action to be satisfactory.

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF HARDEE COUNTY

P.O. BOX 1678
WAUCHULA, FLORIDA 33873

ADMINISTRATIVE OFFICES
1009 NORTH 6TH AVENUE
WAUCHULA, FLORIDA 33873

BOARD MEMBERS
Mildred Smith
Paul Samuels
Janice Platt
Teresa Crawford
Thomas Trevino

David D. Durastanti, Superintendent of Schools
Woody Caligan, Deputy Superintendent

(863) 773-9058
Fax (863) 773-0069

March 8, 2013

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

Dear Mr. Martin:

The following are responses to your preliminary and tentative audit findings and recommendations for the Hardee County District School Board for the fiscal year ended June 30, 2012:

No. 1: Financial Reporting. The Finance Director has enhanced procedures to ensure that fund balance and net asset accounts will be properly classified in future financial statements.

No. 2: Compensation and Salary Schedules. Differentiated pay based on school demographics, job difficulties and critical shortage areas for instructional personnel would require collective bargaining with Hardee Education Association/ United. The collective bargaining sessions for the 2012-13 salary schedule are still on-going and difficult, even without considering such differentiated pay. Factors for determining differentiated pay would also require collective bargaining.

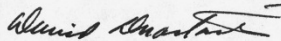
No. 3: Information Technology- Access Privileges. The Finance Director has used his administrator privileges for the past twelve years to grant and inactivate access to the ERP software, to reset passwords and to unlock accounts. Management Information Systems (MIS) staff and our ERP software vendor will restructure the Finance Director's administrative privileges so that they will be more limited.

No. 4: Information Technology- Risk Assessment. MIS staff will develop and write a comprehensive information technology risk assessment, as recommended.

No. 5: Information Technology- Security Controls – User Authentication, Data Loss Prevention and Monitoring of Database Activity. Procedures have recently been improved to address the user authentication and database activity monitoring issues you discussed with us verbally. MIS staff will address the data loss prevention deficiencies.

Your auditors were courteous, professional and sensitive to my staff's other work responsibilities. We appreciate your suggestions to improve the Hardee County School system.

Sincerely,



David Durastanti
Superintendent of Schools

Affirmative Action/Equal Opportunity Employer