

HIGHLANDS 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>
Ronnie Jackson	1
Donna Howerton, Chair to 11-21-11	2
J. Ned Hancock, Vice Chair to 11-21-11, Chair from 11-22-11	3
Bill Brantley	4
Andy Tuck, Vice Chair from 11-22-11	5

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

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

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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: 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. 2: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes, resulting in \$73,139 of questioned costs.

Finding No. 3: Controls over facilities maintenance activities could be enhanced.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, Improving Teacher Quality, 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. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: District records did not evidence that the maintenance of effort requirements for Special Education programs were met.

Federal Awards Finding No. 2: Control deficiencies and noncompliance were noted for certain contract payments, resulting in \$114,952 of questioned costs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-117.

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.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 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 30 percent of the assets and 90 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Highlands 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Highlands County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Highlands 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 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Highlands County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 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 \$4,480,974, which represents a 5.1 percent decrease from the 2010-11 fiscal year. This is mainly due to the decrease in total revenues of \$13,075,138. State revenues decreased \$3,920,949, and Federal stimulus revenues decreased by \$7,483,596.
- General revenues total \$95,387,309, or 89.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$11,232,246, or 10.5 percent of all revenues.
- Expenses total \$111,100,530. Only \$11,232,246 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$6,394,463. The fund balance decreased \$2,199,370 from the prior fiscal year. This fund balance includes \$609,726 of nonspendable funds; \$301,482 of restricted funds; \$571,248 of assigned funds; and \$4,912,007 of unassigned funds.

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 and business-type 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, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Business-type activities – The District charges fees and receives Federal and State grants to cover the cost of certain services it provides. These activities account for the financial resources of the Heartland Educational Consortium.
- Component units – The District presents the Highlands County Education Foundation, Inc., as a discretely presented component unit. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

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

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

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District's major enterprise funds are the Heartland Educational Consortium Fund and the Heartland Educational Consortium – ARRA Fund.

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		Business-Type Activities		Total	
	6-30-12	6-30-11	6-30-12	6-30-11	6-30-12	6-30-11
Current and Other Assets	\$ 17,663,102.50	\$ 20,410,726.03	\$ 973,768.77	\$ 881,117.71	\$ 18,636,871.27	\$ 21,291,843.74
Capital Assets	135,521,271.15	141,591,372.75	415,474.72	421,495.01	135,936,745.87	142,012,867.76
Total Assets	153,184,373.65	162,002,098.78	1,389,243.49	1,302,612.72	154,573,617.14	163,304,711.50
Long-Term Liabilities	66,805,643.07	70,380,705.49	3,019.80	38,046.36	66,808,662.87	70,418,751.85
Other Liabilities	4,515,733.79	5,167,460.71	32,730.78	21,034.76	4,548,464.57	5,188,495.47
Total Liabilities	71,321,376.86	75,548,166.20	35,750.58	59,081.12	71,357,127.44	75,607,247.32
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	74,496,271.15	77,341,372.75	415,474.72	421,495.01	74,911,745.87	77,762,867.76
Restricted	6,185,010.59	6,252,486.32			6,185,010.59	6,252,486.32
Unrestricted	1,181,715.05	2,860,073.51	938,018.19	822,036.59	2,119,733.24	3,682,110.10
Total Net Assets	\$ 81,862,996.79	\$ 86,453,932.58	\$ 1,353,492.91	\$ 1,243,531.60	\$ 83,216,489.70	\$ 87,697,464.18

The largest portion of the District's net assets 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 represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$2,119,733.24 may be used to meet the District's ongoing obligations to students, employees, and creditors.

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

Operating Results for the Fiscal Year Ended						
	Governmental Activities		Business-Type Activities		Total	
	6-30-12	6-30-11	6-30-12	6-30-11	6-30-12	6-30-11
Program Revenues:						
Charges for Services	\$ 1,519,820.16	\$ 1,617,646.05	\$ 359,980.75	\$ 400,060.29	\$ 1,879,800.91	\$ 2,017,706.34
Operating Grants and Contributions	9,275,196.91	8,625,559.37			9,275,196.91	8,625,559.37
Capital Grants and Contributions	77,248.27	1,207,570.08			77,248.27	1,207,570.08
General Revenues:						
Property Taxes, Levied for Operational Purposes	31,404,742.50	31,958,987.73			31,404,742.50	31,958,987.73
Property Taxes, Levied for Capital Projects	7,467,629.87	7,842,718.53			7,467,629.87	7,842,718.53
Grants and Contributions Not Restricted to Specific Programs	53,630,529.29	65,368,881.34	426,420.94	276,251.00	54,056,950.23	65,645,132.34
Unrestricted Investment Earnings	96,121.48	121,918.79	12,782.50	8,883.95	108,903.98	130,802.74
Miscellaneous	2,272,863.27	2,209,142.40	76,219.21	57,073.86	2,349,082.48	2,266,216.26
Total Revenues	105,744,151.75	118,952,424.29	875,403.40	742,269.10	106,619,555.15	119,694,693.39
Functions/Program Expenses:						
Instruction	52,858,494.02	58,387,257.38			52,858,494.02	58,387,257.38
Pupil Personnel Services	5,107,319.86	5,811,250.70			5,107,319.86	5,811,250.70
Instructional Media Services	817,898.50	1,321,057.54			817,898.50	1,321,057.54
Instruction and Curriculum Development Services	2,551,371.60	2,718,000.01			2,551,371.60	2,718,000.01
Instructional Staff Training Services	1,805,260.65	1,766,384.76			1,805,260.65	1,766,384.76
Instruction Related Technology	1,763,205.03	1,608,892.83			1,763,205.03	1,608,892.83
School Board	440,132.39	459,661.37			440,132.39	459,661.37
General Administration	754,791.44	817,095.05			754,791.44	817,095.05
School Administration	6,163,125.73	6,756,719.27			6,163,125.73	6,756,719.27
Facilities Acquisition and Construction	946,680.86	1,916,115.45			946,680.86	1,916,115.45
Fiscal Services	740,249.20	789,039.45			740,249.20	789,039.45
Food Services	7,845,443.48	7,658,184.30			7,845,443.48	7,658,184.30
Central Services	1,130,243.11	1,271,510.92			1,130,243.11	1,271,510.92
Pupil Transportation Services	6,008,498.93	6,608,086.62			6,008,498.93	6,608,086.62
Operation of Plant	8,461,452.63	9,036,300.71			8,461,452.63	9,036,300.71
Maintenance of Plant	2,178,927.16	2,374,348.94			2,178,927.16	2,374,348.94
Administrative Technology Services	390,851.89	407,595.30			390,851.89	407,595.30
Community Services	542,394.77	580,786.13			542,394.77	580,786.13
Unallocated Interest on Long-Term Debt	2,765,243.01	2,884,131.98			2,765,243.01	2,884,131.98
Unallocated Depreciation Expense	7,063,503.28	7,299,894.10			7,063,503.28	7,299,894.10
Heartland Educational Consortium - ARRA				28,470.00		28,470.00
Heartland Educational Consortium			765,442.09	812,103.33	765,442.09	812,103.33
Total Functions/Program Expenses	110,335,087.54	120,472,312.81	765,442.09	840,573.33	111,100,529.63	121,312,886.14
Increase (Decrease) in Net Assets	\$ (4,590,935.79)	\$ (1,519,888.52)	\$ 109,961.31	\$ (98,304.23)	\$ (4,480,974.48)	\$ (1,618,192.75)

The largest revenue source is the State of Florida (41.7 percent). In total, State revenues decreased by \$3,920,949 or 8.1 percent. Most State revenues are accounted for as grants and contributions not restricted to specific programs. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Grants and contributions also decreased due to the expiration of many Federal stimulus programs.

Instruction and instruction related technology expenses represent 49.5 percent of total governmental activities expenses in the 2011-12 fiscal year. Instruction and instruction related technology expenses decreased by \$5,374,451 or 9 percent, from the previous fiscal year. This decrease is mainly due to a reduction in Florida Retirement System contributions and purchased services.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$4,912,007, while the total fund balance is \$6,394,463. Total fund balance decreased by \$2,199,370 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- General Fund revenues decreased \$3,517,885, or 4.3 percent, caused mainly by a decrease in State revenues, which decreased by \$3,157,832, or 6.8 percent, caused mainly by a decrease in FEFP revenue.
- Total General Fund expenditures increased by \$45,864, due mainly to increases in instructional services.

The Special Revenue – Other Fund is used to account for various Federal awards for the enhancement of educational programs. Federal awards are received based on applications submitted to various granting agencies. Total revenues and expenditures in the 2011-12 fiscal year accounted for in the Special Revenue – Other Fund were \$10,691,220 each. The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$1,052,007 each, and the funding was mainly used for instruction. This activity represents a significant decrease in activity from the prior fiscal year due to the expiration of certain Federal stimulus programs. Because grant revenues attributed to the grants accounted for in these funds are not recognized until expenditures are incurred, the funds generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,627,881, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased primarily as a result of a reduction in capital spending in the current fiscal year.

Proprietary Funds

Net assets of the Heartland Educational Consortium Fund increased \$109,961 to \$1,353,493 at June 30, 2012, primarily because of a decrease in salaries and benefits expenses.

The Heartland Educational Consortium – ARRA Fund has total revenues and expenses of \$178,640 each. Because revenues attributed to the grants accounted for in this fund are not recognized until expenses are incurred, the fund generally does not accumulate net assets.

Unrestricted net assets of the internal service fund increased \$153,120 to \$869,377 at June 30, 2012, because premium revenues exceeded expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the fiscal year. The final category includes the Board approved transfers between expenditure functions and objects. There were no significant variances noted between the original budget, final budget, and actual revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

For the current fiscal year, the governmental activities net capital assets decreased \$6,076,122 from the previous fiscal year primarily due to depreciation expense exceeding capital outlays. Additional information on the District's capital assets can be found in note 4 to the financial statements.

Long-Term Debt

The District's long-term debt decreased by \$3,225,000 during the fiscal year, or 5 percent, due to payments on current debt issues. Additional information on the District's long-term debt can be found in notes 5 through 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Approximately 56 percent of the total General Fund revenues are from the State of Florida. The primary source of revenue for the State is the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida, will impact the amount of revenue received by the District. Changes in levels of tourism, immigration into the State of Florida and unemployment have a significant impact on establishing the State budget as well as the District budget. Federal stimulus funds helped in the short-term but, with the exception of the Race-to-the-Top program, these funds are generally no longer available.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent's Office, Highlands County District School Board, 426 School Street, Sebring, FL 33870.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 15,260,485.26	\$ 837,611.59	\$ 16,098,096.85	\$ 19,813.35
Accounts Receivable	69,869.06		69,869.06	
Due from Other Agencies	580,804.10	136,157.18	716,961.28	
Inventories	942,102.84		942,102.84	
Restricted Cash with Fiscal Agent	65,914.69		65,914.69	
Investments	743,926.55		743,926.55	
Capital Assets:				
Nondepreciable Capital Assets	5,700,878.49	126,607.00	5,827,485.49	
Depreciable Capital Assets, Net	129,820,392.66	288,867.72	130,109,260.38	
TOTAL ASSETS	\$ 153,184,373.65	\$ 1,389,243.49	\$ 154,573,617.14	\$ 19,813.35
LIABILITIES				
Payroll Deductions and Withholdings	\$ 4,021,510.84	\$ 8,217.69	\$ 4,029,728.53	\$ 1.57
Accounts Payable	267,631.36	24,513.09	292,144.45	
Deferred Revenue	206,089.89		206,089.89	
Estimated Insurance Claims Payable	20,501.70		20,501.70	
Long-Term Liabilities:				
Portion Due Within One Year	3,805,000.00		3,805,000.00	
Portion Due After One Year	63,000,643.07	3,019.80	63,003,662.87	
Total Liabilities	71,321,376.86	35,750.58	71,357,127.44	1.57
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	74,496,271.15	415,474.72	74,911,745.87	
Restricted for:				
State Required Carryover Programs	59,215.15		59,215.15	
Debt Service	1,054,078.75		1,054,078.75	
Capital Projects	3,951,318.54		3,951,318.54	
Food Service	878,131.39		878,131.39	
Fuel Tax	224,051.18		224,051.18	
Advanced Placement	18,215.58		18,215.58	
Other Purposes				19,811.78
Unrestricted	1,181,715.05	938,018.19	2,119,733.24	
Total Net Assets	81,862,996.79	1,353,492.91	83,216,489.70	19,811.78
TOTAL LIABILITIES AND NET ASSETS	\$ 153,184,373.65	\$ 1,389,243.49	\$ 154,573,617.14	\$ 19,813.35

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 52,858,494.02	\$	\$	\$
Pupil Personnel Services	5,107,319.86			
Instructional Media Services	817,898.50			
Instruction and Curriculum Development Services	2,551,371.60			
Instructional Staff Training Services	1,805,260.65			
Instruction Related Technology	1,763,205.03			
School Board	440,132.39			
General Administration	754,791.44			
School Administration	6,163,125.73			
Facilities Acquisition and Construction	946,680.86			77,248.27
Fiscal Services	740,249.20			
Food Services	7,845,443.48	1,519,820.16	6,554,975.38	
Central Services	1,130,243.11			
Pupil Transportation Services	6,008,498.93		2,344,899.00	
Operation of Plant	8,461,452.63			
Maintenance of Plant	2,178,927.16			
Administrative Technology Services	390,851.89			
Community Services	542,394.77			
Unallocated Interest on Long-Term Debt	2,765,243.01		375,322.53	
Unallocated Depreciation Expense*	7,063,503.28			
Total Governmental Activities	110,335,087.54	1,519,820.16	9,275,196.91	77,248.27
Business-Type Activities:				
Heartland Educational Consortium	586,802.15	359,980.75		
Heartland Educational Consortium - ARRA	178,639.94			
Total Business-Type Activities	765,442.09	359,980.75		
Total Primary Government	\$ 111,100,529.63	\$ 1,879,800.91	\$ 9,275,196.91	\$ 77,248.27
Component Unit				
Highlands County Education Foundation, Inc.	\$ 94,223.30	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

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

Total General Revenues

Change in Net 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 Unit
Governmental Activities	Business-Type Activities	Total	
\$ (52,858,494.02)	\$	\$ (52,858,494.02)	\$
(5,107,319.86)		(5,107,319.86)	
(817,898.50)		(817,898.50)	
(2,551,371.60)		(2,551,371.60)	
(1,805,260.65)		(1,805,260.65)	
(1,763,205.03)		(1,763,205.03)	
(440,132.39)		(440,132.39)	
(754,791.44)		(754,791.44)	
(6,163,125.73)		(6,163,125.73)	
(869,432.59)		(869,432.59)	
(740,249.20)		(740,249.20)	
229,352.06		229,352.06	
(1,130,243.11)		(1,130,243.11)	
(3,663,599.93)		(3,663,599.93)	
(8,461,452.63)		(8,461,452.63)	
(2,178,927.16)		(2,178,927.16)	
(390,851.89)		(390,851.89)	
(542,394.77)		(542,394.77)	
(2,389,920.48)		(2,389,920.48)	
(7,063,503.28)		(7,063,503.28)	
(99,462,822.20)		(99,462,822.20)	
	(226,821.40)	(226,821.40)	
	(178,639.94)	(178,639.94)	
	(405,461.34)	(405,461.34)	
(99,462,822.20)	(405,461.34)	(99,868,283.54)	
			(94,223.30)
31,404,742.50		31,404,742.50	
7,467,629.87		7,467,629.87	
53,630,529.29	426,420.94	54,056,950.23	
96,121.48	12,782.50	108,903.98	292.26
2,272,863.27	76,219.21	2,349,082.48	94,166.17
94,871,886.41	515,422.65	95,387,309.06	94,458.43
(4,590,935.79)	109,961.31	(4,480,974.48)	235.13
86,453,932.58	1,243,531.60	87,697,464.18	19,576.65
\$ 81,862,996.79	\$ 1,353,492.91	\$ 83,216,489.70	\$ 19,811.78

**HIGHLANDS 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	\$ 9,406,513.91	\$ 264,013.82	\$ 1,064.03
Investments			
Accounts Receivable	66,043.38		
Due from Other Funds		280,000.00	
Due from Other Agencies	111,639.20		283,249.43
Inventories	536,263.95		
Restricted Cash with Fiscal Agent			
Investments in SBA Fund B Surplus Funds Trust Funds	73,461.98		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 10,193,922.42</u>	<u>\$ 544,013.82</u>	<u>\$ 284,313.46</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 3,604,766.78	\$ 325,144.88	\$ 3,006.27
Accounts Payable	194,692.43	42,849.44	1,307.19
Due to Other Funds			280,000.00
Deferred Revenue		176,019.50	
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>3,799,459.21</u>	<u>544,013.82</u>	<u>284,313.46</u>
Fund Balances:			
Nonspendable:			
Inventory	536,263.95		
Fund B Surplus Funds Trust Fund	73,461.98		
Total Nonspendable Fund Balance	<u>609,725.93</u>	<u> </u>	<u> </u>
Restricted for:			
State Required Carryover Programs	59,215.15		
Debt Service			
Capital Projects			
Food Service			
Advanced Placement	18,215.58		
Fuel Tax	224,051.18		
Total Restricted Fund Balance	<u>301,481.91</u>	<u> </u>	<u> </u>
Assigned for:			
Carry Forwards	419,737.91		
Purchase Commitments	130,756.15		
Donations	20,754.39		
Total Assigned Fund Balance	<u>571,248.45</u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>4,912,006.92</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>6,394,463.21</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,193,922.42</u>	<u>\$ 544,013.82</u>	<u>\$ 284,313.46</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,807,874.31	\$ 891,140.67	\$ 14,370,606.74
	46,603.45	46,603.45
	3,825.68	69,869.06
	191,000.00	471,000.00
8,023.51	177,891.96	580,804.10
	405,838.89	942,102.84
	65,914.69	65,914.69
	623,861.12	697,323.10
<u>\$ 3,815,897.82</u>	<u>\$ 2,406,076.46</u>	<u>\$ 17,244,223.98</u>
\$ 5,017.23	\$ 88,592.91	\$ 4,021,510.84
183,000.00	23,765.07	267,631.36
	8,000.00	471,000.00
	30,070.39	206,089.89
<u>188,017.23</u>	<u>150,428.37</u>	<u>4,966,232.09</u>
	405,838.89	942,102.84
	623,861.12	697,323.10
	<u>1,029,700.01</u>	<u>1,639,425.94</u>
		59,215.15
	430,217.63	430,217.63
3,627,880.59	323,437.95	3,951,318.54
	472,292.50	472,292.50
		18,215.58
		224,051.18
<u>3,627,880.59</u>	<u>1,225,948.08</u>	<u>5,155,310.58</u>
		419,737.91
		130,756.15
		20,754.39
		<u>571,248.45</u>
		<u>4,912,006.92</u>
<u>3,627,880.59</u>	<u>2,255,648.09</u>	<u>12,277,991.89</u>
<u>\$ 3,815,897.82</u>	<u>\$ 2,406,076.46</u>	<u>\$ 17,244,223.98</u>

**HIGHLANDS 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 \$ 12,277,991.89

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. 135,521,271.15

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 869,376.82

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	\$ 2,590,000.00	
Certificates of Participation Payable	58,435,000.00	
Compensated Absences Payable	4,467,643.07	
Other Postemployment Benefits Payable	1,313,000.00	(66,805,643.07)

Total Net Assets - Governmental Activities \$ 81,862,996.79

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 161,539.08	\$ 138,074.37	\$
Federal Through State and Local	544,905.15	10,553,145.19	1,052,006.89
State	43,306,987.59		
Local:			
Property Taxes	31,404,742.50		
Charges for Services - Food Service			
Miscellaneous	2,040,866.43		
Total Local Revenues	<u>33,445,608.93</u>		
Total Revenues	<u>77,459,040.75</u>	<u>10,691,219.56</u>	<u>1,052,006.89</u>
Expenditures			
Current - Education:			
Instruction	47,667,623.75	5,247,631.78	198,536.88
Pupil Personnel Services	3,990,982.56	1,118,186.99	
Instructional Media Services	815,093.65		
Instruction and Curriculum Development Services	756,165.64	1,694,660.87	91,896.09
Instructional Staff Training Services	587,675.41	1,050,284.02	167,301.22
Instruction Related Technology	594,773.20	757,792.13	404,593.08
School Board	438,623.03		
General Administration	448,316.87	291,071.84	12,814.30
School Administration	6,297,709.45		
Facilities Acquisition and Construction			
Fiscal Services	763,663.83		
Food Services			
Central Services	1,132,855.42		
Pupil Transportation Services	5,288,783.98	106,037.95	
Operation of Plant	8,449,624.92	2,275.46	
Maintenance of Plant	2,152,875.70		
Administrative Technology Services	389,511.53		
Community Services	540,534.72		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	4,790.00		
Other Capital Outlay	73,806.73	423,278.52	176,865.32
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>80,393,410.39</u>	<u>10,691,219.56</u>	<u>1,052,006.89</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,934,369.64)</u>		
Other Financing Sources (Uses)			
Transfers In	735,000.00		
Transfers Out			
Total Other Financing Sources (Uses)	<u>735,000.00</u>		
Net Change in Fund Balances	(2,199,369.64)		
Fund Balances, Beginning	8,593,832.85		
Fund Balances, Ending	<u>\$ 6,394,463.21</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	299,613.45	18,564,620.61
	6,414,563.38	44,118,740.41
	811,752.82	
7,467,629.87		38,872,372.37
	1,519,820.16	1,519,820.16
103,560.95	71,437.69	2,215,865.07
7,571,190.82	1,591,257.85	42,608,057.60
7,571,190.82	8,817,574.05	105,591,032.07
		53,113,792.41
		5,109,169.55
		815,093.65
		2,542,722.60
		1,805,260.65
		1,757,158.41
		438,623.03
		752,203.01
		6,297,709.45
655,647.63	291,033.23	946,680.86
		763,663.83
	7,818,538.84	7,818,538.84
		1,132,855.42
		5,394,821.93
		8,451,900.38
		2,152,875.70
		389,511.53
		540,534.72
2,200.00	189,044.94	196,034.94
653,370.81	103,333.06	1,430,654.44
	3,225,000.00	3,225,000.00
	2,765,243.01	2,765,243.01
1,311,218.44	14,392,193.08	107,840,048.36
6,259,972.38	(5,574,619.03)	(2,249,016.29)
	3,909,424.95	4,644,424.95
(4,599,424.95)	(45,000.00)	(4,644,424.95)
(4,599,424.95)	3,864,424.95	
1,660,547.43	(1,710,194.08)	(2,249,016.29)
1,967,333.16	3,965,842.17	14,527,008.18
\$ 3,627,880.59	\$ 2,255,648.09	\$ 12,277,991.89

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

Net Change in Fund Balances - Governmental Funds \$ (2,249,016.29)

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. (6,070,101.60)

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

Bonds Payable	\$ 420,000.00	
Certificates of Participation Payable	<u>2,805,000.00</u>	3,225,000.00

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. 651,062.42

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. (301,000.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. 153,119.68

Change in Net Assets - Governmental Activities \$ (4,590,935.79)

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2012**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 836,617.99	\$ 993.60	\$ 837,611.59	\$ 889,878.52
Due From Other Funds	126,000.00		126,000.00	
Due From Other Agencies		136,157.18	136,157.18	
Total Current Assets	962,617.99	137,150.78	1,099,768.77	889,878.52
Noncurrent Assets:				
Land	126,607.00		126,607.00	
Buildings and Fixed Equipment, Net	281,068.28		281,068.28	
Furniture, Fixtures, and Equipment, Net	7,799.44		7,799.44	
Total Noncurrent Assets	415,474.72		415,474.72	
TOTAL ASSETS	\$ 1,378,092.71	\$ 137,150.78	\$ 1,515,243.49	\$ 889,878.52
LIABILITIES				
Current Liabilities:				
Payroll Deductions and Withholdings	\$ 2,415.75	\$ 5,801.94	\$ 8,217.69	\$
Accounts Payable	19,164.25	5,348.84	24,513.09	
Due to Other Funds		126,000.00	126,000.00	
Total Current Liabilities	21,580.00	137,150.78	158,730.78	
Noncurrent Liabilities:				
Compensated Absences Payable	3,019.80		3,019.80	
Estimated Insurance Claims Payable				20,501.70
Total Noncurrent Liabilities	3,019.80		3,019.80	20,501.70
Total Liabilities	24,599.80	137,150.78	161,750.58	20,501.70
NET ASSETS				
Invested in Capital Assets	415,474.72		415,474.72	
Unrestricted	938,018.19		938,018.19	869,376.82
Total Net Assets	1,353,492.91		1,353,492.91	869,376.82
TOTAL LIABILITIES AND NET ASSETS	\$ 1,378,092.71	\$ 137,150.78	\$ 1,515,243.49	\$ 889,878.52

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
OPERATING REVENUES				
Charges for Services	\$ 377,980.75	\$	\$ 377,980.75	\$
Premium Revenues				887,507.22
Other Operating Revenues	58,219.21		58,219.21	
Total Operating Revenues	<u>436,199.96</u>		<u>436,199.96</u>	<u>887,507.22</u>
OPERATING EXPENSES				
Salaries	81,732.11	79,581.63	161,313.74	
Employee Benefits	32,737.09	23,471.20	56,208.29	
Purchased Services	413,966.10	72,238.85	486,204.95	
Energy Services	12,072.47		12,072.47	
Materials and Supplies	13,705.80	3,348.26	17,054.06	
Capital Outlay	727.32		727.32	
Insurance Claims				706,354.04
Other Expenses	21,885.36		21,885.36	28,033.50
Depreciation	9,975.90		9,975.90	
Total Operating Expenses	<u>586,802.15</u>	<u>178,639.94</u>	<u>765,442.09</u>	<u>734,387.54</u>
Operating Income (Loss)	<u>(150,602.19)</u>	<u>(178,639.94)</u>	<u>(329,242.13)</u>	<u>153,119.68</u>
NONOPERATING REVENUES				
Federal Grants		178,639.94	178,639.94	
State Grants	247,781.00		247,781.00	
Interest Revenue	12,782.50		12,782.50	
Total Nonoperating Revenues	<u>260,563.50</u>	<u>178,639.94</u>	<u>439,203.44</u>	
Change in Net Assets	109,961.31		109,961.31	153,119.68
Net Assets - Beginning	1,243,531.60		1,243,531.60	716,257.14
Net Assets - Ending	<u>\$ 1,353,492.91</u>	<u>\$ 0.00</u>	<u>\$ 1,353,492.91</u>	<u>\$ 869,376.82</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Services	\$ 377,980.75	\$	\$ 377,980.75	\$ 887,507.22
Cash Received from Other Operating Revenues	(67,780.79)	(10,157.18)	(77,937.97)	
Cash Payments to Suppliers for Goods and Services	(454,922.86)	(75,587.11)	(530,509.97)	(28,033.50)
Cash Payments to Employees for Services	(156,384.71)	(91,902.05)	(248,286.76)	
Cash Payments for Insurance Claims				(718,260.14)
Net Cash Provided (Used) by Operating Activities	(301,107.61)	(177,646.34)	(478,753.95)	141,213.58
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Received from Federal Grants		178,639.94	178,639.94	
Cash Received from State Grants	247,781.00		247,781.00	
Net Cash Provided by Noncapital Financing Activities	247,781.00	178,639.94	426,420.94	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(3,955.61)		(3,955.61)	
Net Cash Used by Capital and Related Financing Activities	(3,955.61)		(3,955.61)	
CASH FLOWS FROM NONCAPITAL INVESTING ACTIVITIES				
Interest Income	12,782.50		12,782.50	
Net Cash Provided by Investing Activities	12,782.50		12,782.50	
Net Increase (Decrease) in Cash and Cash Equivalents	(44,499.72)	993.60	(43,506.12)	141,213.58
Cash and Cash Equivalents, Beginning	881,117.71		881,117.71	748,664.94
Cash and Cash Equivalents, Ending	\$ 836,617.99	\$ 993.60	\$ 837,611.59	\$ 889,878.52

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

Operating Income (Loss)	\$ (150,602.19)	\$ (178,639.94)	\$ (329,242.13)	\$ 153,119.68
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	9,975.90		9,975.90	
Changes in Assets and Liabilities:				
Increase in Due From Other Agencies		(136,157.18)	(136,157.18)	
Increase in Due to Other Funds		126,000.00	126,000.00	
Increase in Due from Other Funds	(126,000.00)		(126,000.00)	
Increase in Accounts Payable	7,434.19	5,348.84	12,783.03	
Increase (Decrease) in Payroll Deductions and Withholdings Payable	(6,888.95)	5,801.94	(1,087.01)	
Decrease in Estimated Insurance Claims Payable				(11,906.10)
Decrease in Compensated Absences Payable	(35,026.56)		(35,026.56)	
Total Adjustments	(150,505.42)	993.60	(149,511.82)	(11,906.10)
Net Cash Provided (Used) by Operating Activities	\$ (301,107.61)	\$ (177,646.34)	\$ (478,753.95)	\$ 141,213.58

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

**HIGHLANDS 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	\$ 289,977.75	\$ 1,538,059.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 1,538,059.00
	<u> </u>	<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	289,977.75	
	<u> </u>	
TOTAL LIABILITIES AND NET ASSETS	\$ 289,977.75	
	<u> </u>	

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

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

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 19,225.00
	<u> </u>
Investment Earnings:	
Interest	2,134.34
	<u> </u>
Total Additions	<u>21,359.34</u>
DEDUCTIONS	
Scholarship Payments	<u>19,000.00</u>
Change in Net Assets Held in Trust for:	
Scholarships for Individuals	2,359.34
Net Assets - Beginning	<u>287,618.41</u>
Net Assets - Ending	<u><u>\$ 289,977.75</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Highlands County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Highlands 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 Highlands County.

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

Blended Component Unit. The Highlands County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the District's other component unit. The Highlands County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the School Board; to promote education; and to encourage research, learning, and dissemination of information. The Foundation is considered a component unit of the District because the District must approve all members of the Foundation Board, and the District has the ability to impose its will on the Foundation. It is considered a discretely presented component unit because the two boards are not the same, and the Foundation does not provide services entirely or nearly entirely to the District.

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 units. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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

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 and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments are allocated to the pupil transportation services and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements, except for interfund services provided and used, and the net residual amounts between governmental and business-type activities.

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

The District reports the following major governmental funds:

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

The District reports the following major enterprise funds:

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

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

- Internal Service Fund – to account for the District's individual self-insurance program.

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for services. Operating expenses include personnel costs, purchased services, and related costs. The principal operating revenues of the District's internal service fund are charges for employee dental insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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, shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

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, and amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission 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.

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

Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

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

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

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

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

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

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

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

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

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

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 Highlands County Property Appraiser, and property taxes are collected by the Highlands County Tax Collector.

The Board adopted the 2011 tax levy on September 6, 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 Highlands County Tax Collector at fiscal year-end but not yet remitted to the District.

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

Educational Impact Fees. Highlands County (County) imposes an educational impact fee based on an ordinance adopted by the County Commission in 2007. In June 2008, the ordinance was amended, in part, to establish revised collection rates for the fee. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fee shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition, facility design and construction costs, furniture and equipment, and payment of principal, interest, and related costs of indebtedness. The County approved the suspension of the fee for one year in the 2009-10 fiscal year and the Board extended this suspension throughout the 2011-12 fiscal year.

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.

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)(2)	38 Day Average	\$ 8,220,325.33
Fund B (2)	5.73 Year Average	697,323.10
Debt Service Accounts	6 Months	46,603.45
Total Investments		<u>\$ 8,964,251.88</u>

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

(2) Investments totaling \$64,822.09 in Florida PRIME and \$623,861.12 in Fund B are held under trust agreements pursuant to financing agreements for the Certificates of Participation, Series 2005 and 2006.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits investments to a maximum of five years, the investment of tax-exempt debt issues to three years, and the investment of current funds to twelve months.

Florida PRIME had a weighted average days to maturity (WAM) of 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

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

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.

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(16), Florida Statutes, limits investments to the SBA's Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; Federal agencies and instrumentalities; rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel; securities of, or other interests in, any open-end management-type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and other investments authorized by law or by resolution for a school district or special district.

The District's investment policy limits investments to Florida PRIME; United States Treasury securities, including but not limited to notes, bills, bonds, strips, and State and local government series; obligations of United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government; SEC registered money market funds with the highest rating and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; securities or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940; certificates of deposit in State qualified public depositories; and other investments permitted by the State statute and not prohibited by this policy. Securities of United States Government enterprises and instrumentalities are not eligible investments under this policy.

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.

As of June 30, 2012, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

**HIGHLANDS 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	\$ 5,700,878.49	\$	\$	\$ 5,700,878.49
Total Capital Assets Not Being Depreciated	5,700,878.49			5,700,878.49
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	11,249,844.66	123,227.21		11,373,071.87
Buildings and Fixed Equipment	179,529,991.02	72,807.73		179,602,798.75
Furniture, Fixtures, and Equipment	14,045,369.47	589,833.11	1,023,495.98	13,611,706.60
Motor Vehicles	11,899,221.10		540,227.00	11,358,994.10
Audio Visual Materials and Computer Software	4,050,526.85	840,821.33	732,475.73	4,158,872.45
Total Capital Assets Being Depreciated	220,774,953.10	1,626,689.38	2,296,198.71	220,105,443.77
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	8,665,805.34	449,044.69		9,114,850.03
Buildings and Fixed Equipment	53,424,732.99	4,442,648.91		57,867,381.90
Furniture, Fixtures, and Equipment	10,224,452.03	1,309,135.39	1,023,495.98	10,510,091.44
Motor Vehicles	9,962,704.72	633,287.70	540,227.00	10,055,765.42
Audio Visual Materials and Computer Software	2,606,763.76	862,674.29	732,475.73	2,736,962.32
Total Accumulated Depreciation	84,884,458.84	7,696,790.98	2,296,198.71	90,285,051.11
Total Capital Assets Being Depreciated, Net	135,890,494.26	(6,070,101.60)		129,820,392.66
Governmental Activities Capital Assets, Net	\$141,591,372.75	\$ (6,070,101.60)	\$ 0.00	\$135,521,271.15

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 126,607.00	\$	\$	\$ 126,607.00
Total Capital Assets Not Being Depreciated	126,607.00			126,607.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	379,822.00			379,822.00
Furniture, Fixtures, and Equipment	59,838.73	2,956.11	1,638.52	61,156.32
Audio Visual Materials and Computer Software	1,448.29	999.50	1,448.29	999.50
Total Capital Assets Being Depreciated	441,109.02	3,955.61	3,086.81	441,977.82
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	91,157.28	7,596.44		98,753.72
Furniture, Fixtures, and Equipment	53,615.44	2,179.56	1,638.52	54,156.48
Audio Visual Materials and Computer Software	1,448.29	199.90	1,448.29	199.90
Total Accumulated Depreciation	146,221.01	9,975.90	3,086.81	153,110.10
Total Capital Assets Being Depreciated, Net	294,888.01	(6,020.29)		288,867.72
Governmental Activities Capital Assets, Net	\$ 421,495.01	\$ (6,020.29)	\$ 0.00	\$ 415,474.72

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 601,623.32
Maintenance of Plant	31,664.38
Unallocated	7,063,503.28
Total Depreciation Expense - Governmental Activities	\$ 7,696,790.98
BUSINESS-TYPE ACTIVITIES	
Heartland Educational Consortium	\$ 9,975.90

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

5. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2012, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
2005, Refunding	\$ 9,900,000	3.50 - 4.75	2025	\$ 9,900,000
2006A and 2006B, Refunding	48,535,000	3.625 - 5.000	2027	59,090,000
Total Certificates of Participation	<u>\$ 58,435,000</u>			<u>\$ 68,990,000</u>

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

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

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

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

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,413,443.76	\$ 2,905,000.00	\$ 2,508,443.76
2014	5,418,137.52	3,015,000.00	2,403,137.52
2015	5,416,418.76	3,145,000.00	2,271,418.76
2016	5,417,243.76	3,270,000.00	2,147,243.76
2017	5,413,358.76	3,395,000.00	2,018,358.76
2018-2022	27,077,107.50	19,125,000.00	7,952,107.50
2023-2027	27,074,275.00	23,580,000.00	3,494,275.00
Total Minimum Lease Payments	<u>\$ 81,229,985.06</u>	<u>\$ 58,435,000.00</u>	<u>\$ 22,794,985.06</u>

6. BONDS PAYABLE

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A, Refunding	\$ 85,000	5.0	2016
Series 2005B, Refunding	1,150,000	5.0	2018
Series 2009A, Refunding	190,000	4.0 - 5.0	2019
District Revenue Bonds:			
Series 1999A	<u>1,165,000</u>	5.100 - 5.375	2018
Total Bonds Payable	<u>\$ 2,590,000</u>		

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

➤ State School Bonds

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

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

➤ District Revenue Bonds

The School Board issued \$2,425,000 in Refunding Certificates of Indebtedness, Series 1999, dated September 1, 1999. The proceeds were used to refund the Certificates of Indebtedness, Series 1978A, and for the acquisition and construction of certain capital school projects. These bonds are secured by a pledge of funds accruing to the District from the State's Pari-mutuel Tax Collection Trust Fund pursuant to 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 District has pledged a combined total of \$1,380,883 of sales tax revenues in connection with the 1999A District Revenue Bonds, described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling \$223,500 and expended \$195,484 (87 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 March 1, 2018. Approximately 68 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:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 376,150.00	\$ 305,000.00	\$ 71,150.00
2014	376,000.00	320,000.00	56,000.00
2015	370,000.00	330,000.00	40,000.00
2016	383,500.00	360,000.00	23,500.00
2017	45,500.00	40,000.00	5,500.00
2018-2019	74,500.00	70,000.00	4,500.00
Total State School Bonds	1,625,650.00	1,425,000.00	200,650.00
District Revenue Bonds:			
2013	278,663.76	220,000.00	58,663.76
2014	198,912.51	150,000.00	48,912.51
2015	200,715.63	160,000.00	40,715.63
2016	201,981.26	170,000.00	31,981.26
2017	202,709.38	180,000.00	22,709.38
2018	297,900.01	285,000.00	12,900.01
Total District Revenue Bonds	1,380,882.55	1,165,000.00	215,882.55
Total	\$3,006,532.55	\$2,590,000.00	\$ 416,532.55

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

7. 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	\$ 3,010,000.00	\$	\$ 420,000.00	\$ 2,590,000.00	\$ 525,000.00
Certificates of Participation Payable	61,240,000.00		2,805,000.00	58,435,000.00	2,905,000.00
Compensated Absences Payable	5,118,705.49	172,354.28	823,416.70	4,467,643.07	375,000.00
Other Postemployment Benefits Payable	1,012,000.00	649,000.00	348,000.00	1,313,000.00	
Total Governmental Activities	<u>\$ 70,380,705.49</u>	<u>\$ 821,354.28</u>	<u>\$ 4,396,416.70</u>	<u>\$ 66,805,643.07</u>	<u>\$ 3,805,000.00</u>
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	<u>\$ 38,046.36</u>	<u>\$ 2,578.33</u>	<u>\$ 37,604.89</u>	<u>\$ 3,019.80</u>	<u>\$ 0.00</u>

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

8. 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:		
Special Revenue:		
Other	\$ 280,000.00	\$
Federal Economic Stimulus Fund		280,000.00
Capital Projects:		
Local Capital Improvement Fund		183,000.00
Nonmajor Governmental	191,000.00	8,000.00
Heartland Educational Consortium	126,000.00	
Heartland Educational Consortium - ARRA		126,000.00
Total	<u>\$ 597,000.00</u>	<u>\$ 597,000.00</u>

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

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 735,000.00	\$
Capital Projects:		
Local Capital Improvement		4,599,424.95
Nonmajor Governmental	3,909,424.95	45,000.00
Total	<u>\$4,644,424.95</u>	<u>\$4,644,424.95</u>

Transfers out of the Capital Projects – Local Capital Improvement Fund were to provide debt service payments, and provide funding for certain expenditures of the District's facilities, maintenance, and technology departments. Transfers out of the nonmajor governmental funds represent unspent capital proceeds from the Certificates of Participation, Series 2006 issue to provide for debt service payments.

9. FUND BALANCE REPORTING

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

➤ **Nonspendable**

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

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than in the General Fund as restricted, as well as unspent State categorical and earmarked educational funding, fuel tax rebates, and advanced placement programs 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. The District did not have any committed fund balances at June 30, 2012.

➤ **Assigned**

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

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

classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Assistant Superintendent, as authorized by the Board on July 5, 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.

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Governmental Funds:	
Florida Education Finance Program	\$ 29,577,670.00
Categorical Educational Program - Class Size Reduction	12,716,177.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	452,570.80
School Recognition	376,606.00
State License Tax	233,858.38
Food Service Supplement	140,412.00
Voluntary Prekindergarten Program	124,809.74
Discretionary Lottery Funds	36,896.00
Miscellaneous	459,740.49
Subtotal - Governmental	44,118,740.41
Enterprise Fund:	
Regional Educational Consortium Services	247,781.00
Total	<u><u>\$ 44,366,521.41</u></u>

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

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

11. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.315	\$ 27,282,638.68
Basic Discretionary Local Effort	0.748	3,839,598.68
Critical Operating Needs	0.250	1,283,288.33
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	7,699,709.07
 Total	<u>7.813</u>	<u>\$ 40,105,234.76</u>

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

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

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

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
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 \$5,318,796.69, \$5,784,120.60, and \$3,795,093.28, respectively, which were equal to the required contributions for each fiscal year.

There were 239 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$596,023.13, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

13. 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 healthcare and dental coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, employees electing participation in the Retirement Incentive Program obtain \$20,000 in District-provided (explicitly subsidized) life insurance for 10 years after their retirement date. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another 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, 63 and 295 retirees received other postemployment benefits for healthcare and dental, respectively. The District provided required contributions of \$348,000 toward the annual OPEB cost, net of retiree contributions totaling \$604,960, which represents 1 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:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 291,000
Amortization of Unfunded Actuarial Accrued Liability	386,000
Interest on Normal Cost and Amortization	8,000
Annual Required Contribution	685,000
Interest on Net OPEB Obligation	25,000
Adjustment to Annual Required Contribution	(61,000)
Annual OPEB Cost (Expense)	649,000
Contribution Toward the OPEB Cost	(348,000)
Increase in Net OPEB Obligation	301,000
Net OPEB Obligation, Beginning of Year	1,012,000
Net OPEB Obligation, End of Year	<u>\$ 1,313,000</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
2009-10	\$ 702,086	52.3%	\$ 665,311
2010-11	655,000	47.1%	1,012,000
2011-12	649,000	53.6%	1,313,000

Funded Status and Funding Progress. As of July 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$6,785,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,785,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$60,496,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.2 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

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

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

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

The District's OPEB actuarial valuation as of July 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 2.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2 percent per year, an inflation rate of 2.5 percent, and an annual healthcare cost trend rate of 9.5 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 16 years.

14. OPERATING LEASE COMMITMENTS

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

Fiscal Year Ending June 30	Amount
2013	\$ 95,000
2014	95,000
2015	95,000
2016	95,000
2017	95,000
2018-2019	190,000
Total Minimum Payments Required	<u>\$ 665,000</u>

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

15. CONSORTIUM

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

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; third party injuries and/or property damage and natural disasters. The District is a member of the South Central Educational Risk Management Consortium (SCERMP), a consortium under which eight district school boards have established a public entity risk sharing-pool for property, general liability, automobile liability, workers' compensation, government crime, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member contributions (premiums), and purchased insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, in which case 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. Employer's 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 named wind/hail/hurricane deductible is 5 percent of replacement cost value with a minimum of \$100,000 per occurrence. The deductible for all other wind events is \$100,000. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents plus \$100,000 time element per occurrence. The flood deductible outside a special flood hazard area is \$100,000. 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 \$2,000,000 in the aggregate.

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

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of governmental entities for tort claims to \$200,000 per claim and \$300,000 per occurrence.

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

Fiscal Year	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2010-11	\$ 36,986.33	\$ 720,788.67	\$ (725,367.20)	\$ 32,407.80
2011-12	32,407.80	706,354.04	(718,260.14)	20,501.70

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

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

17. LITIGATION

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 114,390.00	\$ 161,539.08	\$ 161,539.08	\$
Federal Through State and Local	350,000.00	544,905.15	544,905.15	
State	43,892,661.00	43,306,987.61	43,306,987.59	(0.02)
Local:				
Property Taxes	30,783,429.00	31,404,742.50	31,404,742.50	
Miscellaneous	1,352,458.00	2,040,866.43	2,040,866.43	
Total Revenues	76,492,938.00	77,459,040.77	77,459,040.75	(0.02)
Expenditures				
Current - Education:				
Instruction	47,773,627.00	47,730,455.57	47,667,623.75	62,831.82
Pupil Personnel Services	3,650,574.00	3,991,244.56	3,990,982.56	262.00
Instructional Media Services	821,678.00	815,093.65	815,093.65	
Instruction and Curriculum Development Services	763,484.00	757,228.56	756,165.64	1,062.92
Instructional Staff Training Services	569,413.00	587,743.29	587,675.41	67.88
Instruction Related Technology	381,351.00	614,145.90	594,773.20	19,372.70
School Board	546,244.00	444,395.18	438,623.03	5,772.15
General Administration	433,040.00	448,316.87	448,316.87	
School Administration	6,036,547.00	6,298,569.40	6,297,709.45	859.95
Fiscal Services	741,455.00	763,663.83	763,663.83	
Central Services	1,272,019.00	1,133,455.42	1,132,855.42	600.00
Pupil Transportation Services	5,834,740.00	5,299,040.31	5,288,783.98	10,256.33
Operation of Plant	9,458,676.00	8,456,397.57	8,449,624.92	6,772.65
Maintenance of Plant	2,149,660.00	2,162,956.14	2,152,875.70	10,080.44
Administrative Technology Services	393,787.00	389,911.53	389,511.53	400.00
Community Services	414,745.00	540,534.72	540,534.72	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		5,990.00	4,790.00	1,200.00
Other Capital Outlay	18,204.00	85,001.74	73,806.73	11,195.01
Total Expenditures	81,259,244.00	80,524,144.24	80,393,410.39	130,733.85
Excess (Deficiency) of Revenues Over Expenditures	(4,766,306.00)	(3,065,103.47)	(2,934,369.64)	130,733.83
Other Financing Sources				
Transfers In	2,362,153.00	735,000.00	735,000.00	
Net Change in Fund Balances	(2,404,153.00)	(2,330,103.47)	(2,199,369.64)	130,733.83
Fund Balances, Beginning	8,593,832.85	8,593,832.85	8,593,832.85	
Fund Balances, Ending	\$ 6,189,679.85	\$ 6,263,729.38	\$ 6,394,463.21	\$ 130,733.83

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 9,954,581.00	\$ 213,739.99 11,781,190.07	\$ 138,074.37 10,553,145.19	\$ (75,665.62) (1,228,044.88)	\$	\$ 1,234,855.53	\$ 1,052,006.89	\$ (182,848.64)
9,954,581.00	11,994,930.06	10,691,219.56	(1,303,710.50)		1,234,855.53	1,052,006.89	(182,848.64)
4,414,043.00	5,906,384.58	5,247,631.78	658,752.80		198,536.88	198,536.88	
1,208,542.00	1,221,173.14	1,118,186.99	102,986.15				
3,000.00	3,000.00		3,000.00				
1,631,282.00	1,907,090.54	1,694,660.87	212,429.67		91,896.09	91,896.09	
1,230,803.00	1,162,616.73	1,050,284.02	112,332.71		238,797.79	167,301.22	71,496.57
906,410.00	769,689.42	757,792.13	11,897.29		504,091.08	404,593.08	99,498.00
295,649.00	355,034.96	291,071.84	63,963.12		24,668.37	12,814.30	11,854.07
61,947.00	180,218.26	106,037.95	74,180.31				
7,000.00	5,755.29	2,275.46	3,479.83				
195,905.00	483,967.14	423,278.52	60,688.62		176,865.32	176,865.32	
9,954,581.00	11,994,930.06	10,691,219.56	1,303,710.50		1,234,855.53	1,052,006.89	182,848.64
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**HIGHLANDS 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]
October 1, 2007	\$ 0	\$ 6,576,802	\$ 6,576,802	0.0%	\$ 59,482,745	11.1%
July 1, 2010	0	6,785,000	6,785,000	0.0%	60,496,000	11.2%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HIGHLANDS 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)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 788,267.34	\$
National School Lunch Program	10.555	300, 350	1,722,529.56	
Summer Food Service Program for Children	10.559	323	124,587.06	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	1,079,399.88	
National School Lunch Program	10.555 (2)	300, 350	2,501,795.22	
Summer Food Service Program for Children	10.559	323	83,260.96	
Total Child Nutrition Cluster			6,299,840.02	
Florida Department of Education:				
Fresh Fruit and Vegetable Program	10.582	330	60,401.99	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	330	54,321.37	
Total United States Department of Agriculture			6,414,563.38	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	138,074.37	9,225.27
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	3,414,553.29	218,233.58
Special Education - Preschool Grants	84.173	266, 267	216,822.85	27,951.06
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	86,288.99	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	41.07	
Total Special Education Cluster			3,717,706.20	246,184.64
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	4,320,645.42	
Migrant Education - State Grant Program	84.011	217	827,235.41	
Career and Technical Education - Basic Grants to States	84.048	161	228,934.46	
Twenty-First Century Community Learning Centers	84.287	244	453,774.95	
Education Technology State Grants	84.318	122	59,907.29	
Reading First State Grants	84.357	None	3,138.98	
Rural Education	84.358	110	256,834.61	
English Language Acquisition Grants	84.365	102	136,962.59	
Improving Teacher Quality State Grants	84.367	224	617,835.34	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211	937,084.49	2,087.88
Education Jobs Fund	84.410	541	35,528.00	
Putnam County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	377.28	
Washington County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	171,327.00	
University of South Florida:				
Mathematics and Science Partnerships	84.366	None	16,500.00	
Total Indirect			11,783,792.02	248,272.52
Total United States Department of Education			11,921,866.39	257,497.79
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	161,539.08	
Total Expenditures of Federal Awards			\$ 18,497,968.85	\$ 257,497.79

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 \$333,289.64 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board as of and for the fiscal year ended June 30, 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 Highlands 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 19, 2013



DAVID W. MARTIN, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

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

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

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
March 19, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Improving Teacher Quality State Grants (CFDA No. 84.367); 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:	\$554,939
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

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

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

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

In October 2012, the Board adopted the 2012-13 fiscal year salary schedule and union contract for instructional personnel, which provided consideration of differentiated pay based on additional responsibilities, school demographics, level of job performance difficulties, and critical shortage areas. 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. 2011-145 and 2012-117.

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. 2: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds

include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; and the purchase of operating system or enterprise resource software applications used to support Districtwide administration subject to certain conditions and limitations. The District separately accounts for each ad valorem tax levy in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2011-12 fiscal year, the District had LCI Fund expenditures totaling \$1,311,218 and transfers totaling \$4,599,425 to other funds. Our review of District records disclosed \$73,139 of LCI fund expenditures that did not appear to be for purposes authorized by Section 1011.71, Florida Statutes. Included in these expenditures were \$72,410 for bus route mapping software, video conferencing software, Web page design software, and other software that was not an operating system or enterprise resource software application and \$729 for printer ink and copy machine toner. As a result, these expenditures represent questioned costs of the ad valorem tax levy proceeds. A similar finding was noted in our report No. 2012-117.

Recommendation: The District should enhance controls to ensure that ad valorem tax levy proceeds are used only for authorized purposes. In addition, the District should document to the Florida Department of Education the allowability of the \$73,139 of questioned costs or restore this amount to the LCI Fund.

Finding No. 3: Facilities Management

The facilities department is responsible for managing construction and renovation projects, and ensuring facilities are safe and suitable for their intended use. Facilities department personnel performed minor construction and renovation services and heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the department employed 24 full-time employees and its operating cost was \$2 million. At June 30, 2012, the cost of the District's educational and ancillary facilities was \$122 million and, as shown on the Florida Department of Education's (FDOE) Florida Inventory of School Houses data, the average age of its permanent facilities was 27 years.

Given the significant commitment of public funds to maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establishing documented processes for evaluating maintenance techniques to determine the most cost effective and efficient technique. In addition, performance evaluations could include established goals for maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals are achieved and accountability for facilities department employees. While our review indicated that District procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Maintenance Techniques.** Maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by facilities department personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various maintenance-related job techniques and, while they consider alternative techniques, they have not documented an evaluation of the various approaches to determine for each significant maintenance-related job which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial maintenance technique.
- **Accountability.** The facilities department had established broad goals and objectives; however, these goals and objectives did not address accountability for the department. For example, the goals and objectives included providing safe and functional learning environments for faculty and students and customer service

to children, teachers, and administrators and using their dollars to the fullest. However, the goals and objectives of the department did not sufficiently identify efficiency or cost-effectiveness outcomes.

To adequately establish outcome measures, the department could set goals such as completing maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities department is operating as cost-effectively and efficiently as possible.

Recommendation: The District should develop written policies and procedures requiring periodic evaluations of alternative significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop goals and objectives for the facilities department to identify efficiency or cost-effectiveness outcomes for department personnel.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Unknown

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations (CFR), require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

Pursuant to Section 1010.20, Florida Statutes, the District is responsible for preparation of an annual cost report to account, in part, for expenditures of all State, local, and Federal funds on an aggregate basis for each funded program. The cost report expenditures included direct and indirect program costs based on an index of relative costs per full-time equivalent (FTE) enrollment. District personnel indicated that the cost report was used to demonstrate compliance with the Special Education program maintenance of effort requirement as disclosed in the following schedule:

Source	Fiscal Years		Difference
	2010-11	2011-12	
General Fund Special Education Expenditures Per Cost Report	\$ 18,578,460	\$ 18,918,301	\$ 339,841
FTE Enrollment in Special Education	1,934	1,912	(22)
Average Expenditures per Capita (FTE)	\$ 9,606	\$ 9,895	\$ 288

However, District records did not evidence that the FDOE approved use of the cost report to demonstrate compliance with the maintenance of effort requirements as the expenditures included in the cost report differ from the general ledger. The cost report includes indirect costs, such as general administration, fiscal and central services, and operation and maintenance of plant expenditures, whereas indirect costs are not included in the expenditure amounts summarized from the general ledger. Further, according to the FDOE's publication titled *Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), school districts are required to separately account for exceptional student education (ESE) expenditures in their general ledger using a specific ESE functional classification, but the District recorded ESE expenditures with other instruction expenditures, precluding the comparison of ESE expenditures for the two fiscal years. Consequently, District records did not evidence compliance with maintenance of effort requirements. Without adequate procedures to demonstrate compliance with the maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Recommendation: The District should enhance its procedures over State and local resources allocated and expended for Special Education programs to ensure compliance with the Federal maintenance of effort requirements. The District should also document to the grantor (FDOE) its compliance with the maintenance of effort requirements for the 2011-12 fiscal year.

District Contact Person: Mike Averyt, Assistant Superintendent Business Operations

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education (FDOE) and Florida Department of Agriculture and Consumer Services (FDOA)

Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555 and 10.559) and Special Education Cluster (CFDA No. 84.027)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Special Education Cluster \$29,300; Child Nutrition Cluster \$85,652

Allowable Costs/Cost Principles and Procurement. United States Office of Management and Budget (OMB) Circular A-87 provides that costs allowable under Federal awards must be consistent with policies, regulations, and procedures applicable to other District activities and, pursuant to Section 1001.41(4), Florida Statutes, the Board is the contracting agent for the District. Also, Title 7, Section 3016.36(i), CFR, requires that procurement contracts involving Federal funds contain certain provisions, including a provision for termination for cause and convenience, access to records of the contractor that are pertinent to the contract, and required retention of records.

In addition, State Board of Education (SBE) Rule 6A-1.012(7), Florida Administrative Code (FAC), generally requires the District to obtain competitive bids from three or more sources for purchases of commodities or contractual services exceeding \$50,000. SBE Rule 6A-1.012(6), FAC, provides that, in lieu of the competitive bids, the District may make purchases at or below the specified prices from contracts awarded by other governmental agencies, when contractors permit purchases by the District at the same terms, conditions, and prices or below such prices awarded in the contracts, and the purchases are to the District's economic advantage.

For the 2011-12 fiscal year, Child Nutrition Cluster (CNC) and Special Education (SE) program expenditures totaled \$6.3 million and \$3.7 million, respectively. Our tests of 40 CNC program expenditures and 25 SE program expenditures disclosed certain control deficiencies and noncompliance related to contract payments, as follows:

- The Board requested bids and awarded a contract to a temporary staffing services provider for food service workers and, during the 2011-12 fiscal year, the District paid \$276,924 from CNC program funds for the services. However, District procedures did not ensure that charges reconciled to the contract and the rate charged and paid exceeded the contract rate, resulting in \$6,501 of overpayments and questioned costs, subject to disallowance by the grantors (FDOE or FDOA).
- The District issued a blanket purchase order for audiology services to a vendor and, during the 2011-12 fiscal year, the District paid \$67,257 from SE program funds for the services. The purchase order was based on rates for directly billed time for audiology services, nondirect contact time with school personnel and others, and for audiological evaluations.

Invoices and related District records supporting payments to the vendor evidenced receipt of the services for 2 invoices totaling \$5,865 of the 11 invoices tested totaling \$35,165; however, for 9 invoices totaling \$29,300, District records did not evidence persons with direct knowledge of the services confirmed receipt of the services. District records also did not evidence that District personnel verified the invoices for mathematical accuracy as 6 of the 9 invoices contained mathematical errors ranging from \$2 to \$332, resulting in \$1,124 of overpayments. Without District records to confirm receipt of the services for 9 invoices tested totaling \$29,300, this amount represents questioned costs subject to disallowance by the FDOE or FDOA.

- Contrary to Federal regulations, the contract with the temporary staffing services provider, mentioned above, did not contain provisions for access to records or retention of records and the purchase order with the audiologist, mentioned above, did not contain any of the required contract provisions.
- The District paid \$397,674 from CNC program funds during the 2011-12 fiscal year to a vendor that provided the District fresh fruits and vegetables. District personnel indicated that they communicated periodically with the vendor to obtain market pricing and that the Director of Food Services authorized purchase orders for purchases from the vendor; however, District records did not evidence that the purchases were made pursuant to competitive bids, contrary to SBE Rule 6A-1.012, FAC.
- District personnel indicated that they relied on the bid and contract of another school board, pursuant to SBE Rule 6A-1.012(6), FAC, for purchases of dairy products and juice, and the District paid \$784,484 from CNC program funds for these purchases; however, District records indicated that five items obtained from this vendor totaling \$79,151 were not included in the other school board's bid and contract. As District records did not evidence an established understanding of the prices paid for dairy products and juice purchases, the \$79,151 of questioned costs are subject to disallowance by the FDOE or FDOA.

District personnel indicated that each department supervisor was responsible for monitoring contract payments and compliance with purchasing requirements and that the supervisors were trained to understand these responsibilities. However, District personnel indicated that the above control deficiencies and noncompliance exceptions were due to oversights. Without documented evidence that contracted goods and services are properly received prior to payment and consistent with contract terms and applicable bids, there is an increased risk that services may not be consistent with Board intent and Federal regulations, and for purchases that are not obtained at the lowest cost to the District consistent with acceptable quality and performance.

Recommendation: The District should enhance its controls to ensure that goods and services are obtained consistent with contract terms, pursuant to bids as required, prior to payment, and pursuant to contracts containing Federally-required provisions. Also, the District should document to the grantors (FDOE or FDOA) the allowability of the \$114,952 of questioned costs, or restore appropriate amounts to the Special Education and applicable Child Nutrition Cluster programs. In addition, the District should seek recovery of any overpayments.

District Contact Person: Pat Landress, Director of Student Support Services, and Martha Brown, Director of Food Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-117. The following table provides information on recurring District 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
1	Audit Report No. 2012-117, Finding No. 3	Audit Report No. 2011-145, Finding No. 3
2	Audit Report No. 2012-117, Finding No. 6	NA

NA – Not applicable

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2012-117 (1)	Special Education Grants to States, Recovery Act (CFDA No. 84.391) - Allowable Cost/Cost Principles	Budgetary controls over the administration and use of Federal Special Education program resources were not sufficient, resulting in \$40,385 of questioned costs.	Uncorrected.	In January 2013, the grantor directed the District to restore \$16,625 in questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE



Wally Cox
Superintendent

Andy Tuck
Chairperson

Ronnie Jackson
Vice Chairperson

Bill Brantley
Donna Howerton
Jan Shoop

The School Board of Highlands County

426 School Street • Sebring, FL 33870-4048

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February 26, 2013

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

Subject: Audit Response

Dear Mr. Martin:

We have enclosed our responses to the preliminary and tentative audit findings of the audit conducted by your office for the period ending June 30, 2012.

Finding No. 1: Compensation and Salary Schedules

During the 2011-12 school year, the Board has taken action for ensuring that a portion of each instructional employee's compensation is based on student performance and differentiated pay of instructional personnel and school-based administrators. The District will continue to negotiate with the union to develop a salary schedule that includes compensation based on student performance and differentiated pay per Section 1012.22(1)(c)2, Florida Statutes.

Finding No. 2: Ad Valorem Taxation

The District believes that \$72,410 of the \$73,139 expenditures qualify as capital expenditures allowable under Section 1011.71, Florida Statutes. The District will contact the Department of Education to get further clarification.

Finding No. 3: Facilities Management

The School District will review its procedures to ensure that periodic evaluations of alternative significant maintenance-related techniques are conducted and develop goals to identify cost-effectiveness outcomes for the facilities department.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Audit Response
February 26, 2013
Page 2

Federal Awards Finding No. 1: Matching, Level of Effort, Earmarking- Maintenance of Effort

The District believes it has met the maintenance of effort requirement for federal special education programs. Utilizing the Cost report for fiscal year 2011 and 2012 we were able to demonstrate maintenance of effort as indicated below:

MAINTENANCE OF EFFORT (NET OF GIFTED PROGRAMS)			
	2010/11	2011/12	DIFFERENCE
COST REPORT (All ESE PROGRAMS)			
	SCHOOL TOTAL	SCHOOL TOTAL	
GENERAL FUND	18,578,460.00	18,918,301.00	339,841.00

The District will contact the Department of Education to get further clarification on the finding.

Federal Awards Finding No. 2: Allowable Costs/Cost Principles and Procurement

The District has been reimbursed the three invoices totaling \$125.50 for overpayment of temporary staffing services.

The District will review its procedures to ensure that invoices for audiology services are approved prior to payment. In addition we will seek reimbursement for overpayments from the vendor.

The District will review its procedures to ensure future purchases are referenced to a bid. We will contact the Department of Education concerning the questioned costs.

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

Sincerely,



Wally Cox
Superintendent of Schools

MA:WC/pk