

HIGHLANDS COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Ronnie Jackson, Vice Chair from 11-20-12	1
Donna Howerton	2
J. Ned Hancock to 11-19-12, Chair	3
Jan Shoop from 11-20-12	3
Bill Brantley	4
Andy Tuck, Vice Chair to 11-19-12, Chair from 11-20-12	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 Gregory J. Lemieux, CPA, and the audit was supervised by David A. Blanton, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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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: Controls over information technology purchases could be improved.

Finding No. 2: Controls over facilities maintenance activities could be enhanced.

Finding No. 3: Improvements could be made in controls over contractual services.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Migrant Education, Special Education Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the 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. 2013-168.

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, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 41 percent of the assets and 98 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller

General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Highlands County District School Board as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA

Tallahassee, Florida

March 25, 2014

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, 2013. 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 2012-13 fiscal year are as follows:

- In total, net position decreased \$4,884,938, which represents a 5.9 percent decrease from the 2011-12 fiscal year. This is mainly due to the increase in expenses and decrease in property taxes levied for operational purposes.
- General revenues total \$95,733,088, or 89.4 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$11,336,068, or 10.6 percent of all revenues.
- Expenses total \$111,954,094. Only \$11,336,068 of these expenses were 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 \$5,939,282, which is \$455,181 less than the prior fiscal year balance. The fund balance includes \$556,346 of nonspendable funds; \$405,419 of restricted funds; \$630,282 of assigned funds; and \$4,347,235 of unassigned funds.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Food Service 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 Heartland Educational Consortium.

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

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

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

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2013, compared to net position as of June 30, 2012:

	Net Position, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-13	6-30-12	6-30-13	6-30-12	6-30-13	6-30-12
Current and						
Other Assets	\$14,844,574.25	\$17,663,102.50	\$ 752,606.94	\$ 973,768.77	\$15,597,181.19	\$18,636,871.27
Capital Assets	<u>130,353,145.69</u>	<u>135,521,271.15</u>	<u>405,498.82</u>	<u>415,474.72</u>	<u>130,758,644.51</u>	<u>135,936,745.87</u>
Total Assets	<u>145,197,719.94</u>	<u>153,184,373.65</u>	<u>1,158,105.76</u>	<u>1,389,243.49</u>	<u>146,355,825.70</u>	<u>154,573,617.14</u>
Long-Term Liabilities	63,310,438.85	66,805,643.07	4,302.14	3,019.80	63,314,740.99	66,808,662.87
Other Liabilities	<u>4,667,845.24</u>	<u>4,515,733.79</u>	<u>41,687.76</u>	<u>32,730.78</u>	<u>4,709,533.00</u>	<u>4,548,464.57</u>
Total Liabilities	<u>67,978,284.09</u>	<u>71,321,376.86</u>	<u>45,989.90</u>	<u>35,750.58</u>	<u>68,024,273.99</u>	<u>71,357,127.44</u>
Net Position:						
Net Investment in						
Capital Assets	72,758,145.69	74,496,271.15	405,498.82	415,474.72	73,163,644.51	74,911,745.87
Restricted	3,755,539.02	6,185,010.59			3,755,539.02	6,185,010.59
Unrestricted	<u>705,751.14</u>	<u>1,181,715.05</u>	<u>706,617.04</u>	<u>938,018.19</u>	<u>1,412,368.18</u>	<u>2,119,733.24</u>
Total Net Position	<u>\$77,219,435.85</u>	<u>\$81,862,996.79</u>	<u>\$1,112,115.86</u>	<u>\$1,353,492.91</u>	<u>\$78,331,551.71</u>	<u>\$83,216,489.70</u>

The largest portion of the District's net position (93.4 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position (4.8 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$1,412,368 (1.8 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position for the government as a whole, and for its separate governmental and business-type activities. Positive balances were similarly reported for the prior fiscal year.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		Business-Type Activities		Total	
	6-30-13	6-30-12	6-30-13	6-30-12	6-30-13	6-30-12
Program Revenues:						
Charges for Services	\$ 1,476,692.63	\$ 1,519,820.16	\$ 202,151.80	\$ 359,980.75	\$ 1,678,844.43	\$ 1,879,800.91
Operating Grants and Contributions	9,580,162.82	9,275,196.91			9,580,162.82	9,275,196.91
Capital Grants and Contributions	77,060.83	77,248.27			77,060.83	77,248.27
General Revenues:						
Property Taxes, Levied for						
Operational Purposes	29,772,324.41	31,404,742.50			29,772,324.41	31,404,742.50
Property Taxes, Levied for Capital Projects	7,207,463.75	7,467,629.87			7,207,463.75	7,467,629.87
Grants and Contributions Not Restricted						
to Specific Programs	56,321,259.60	53,630,529.29	221,386.65	426,420.94	56,542,646.25	54,056,950.23
Unrestricted Investment Earnings	66,898.81	96,121.48	8,300.19	12,782.50	75,199.00	108,903.98
Miscellaneous	2,093,626.44	2,272,863.27	41,827.88	76,219.21	2,135,454.32	2,349,082.48
Total Revenues	106,595,489.29	105,744,151.75	473,666.52	875,403.40	107,069,155.81	106,619,555.15
Functions/Program Expenses:						
Instruction	54,086,431.46	52,858,494.02			54,086,431.46	52,858,494.02
Pupil Personnel Services	4,960,196.67	5,107,319.86			4,960,196.67	5,107,319.86
Instructional Media Services	841,825.65	817,898.50			841,825.65	817,898.50
Instruction and Curriculum						
Development Services	2,471,501.33	2,551,371.60			2,471,501.33	2,551,371.60
Instructional Staff Training Services	1,958,902.15	1,805,260.65			1,958,902.15	1,805,260.65
Instruction Related Technology	1,529,745.45	1,763,205.03			1,529,745.45	1,763,205.03
School Board	446,009.47	440,132.39			446,009.47	440,132.39
General Administration	658,283.91	754,791.44			658,283.91	754,791.44
School Administration	6,210,171.99	6,163,125.73			6,210,171.99	6,163,125.73
Facilities Acquisition and Construction	1,285,130.80	946,680.86			1,285,130.80	946,680.86
Fiscal Services	752,717.69	740,249.20			752,717.69	740,249.20
Food Services	8,223,785.44	7,845,443.48			8,223,785.44	7,845,443.48
Central Services	1,252,837.31	1,130,243.11			1,252,837.31	1,130,243.11
Pupil Transportation Services	5,933,176.32	6,008,498.93			5,933,176.32	6,008,498.93
Operation of Plant	8,142,873.92	8,461,452.63			8,142,873.92	8,461,452.63
Maintenance of Plant	2,071,314.60	2,178,927.16			2,071,314.60	2,178,927.16
Administrative Technology Services	400,122.37	390,851.89			400,122.37	390,851.89
Community Services	557,777.53	542,394.77			557,777.53	542,394.77
Unallocated Interest on Long-Term Debt	2,648,314.16	2,765,243.01			2,648,314.16	2,765,243.01
Unallocated Depreciation Expense	6,807,932.01	7,063,503.28			6,807,932.01	7,063,503.28
Heartland Educational Consortium			493,656.92	586,802.15	493,656.92	586,802.15
Heartland Educational Consortium - ARRA			221,386.65	178,639.94	221,386.65	178,639.94
Total Functions/Program Expenses	111,239,050.23	110,335,087.54	715,043.57	765,442.09	111,954,093.80	111,100,529.63
Change in Net Position	(4,643,560.94)	(4,590,935.79)	(241,377.05)	109,961.31	(4,884,937.99)	(4,480,974.48)
Net Position - Beginning	81,862,996.79	86,453,932.58	1,353,492.91	1,243,531.60	83,216,489.70	87,697,464.18
Net Position - Ending	\$ 77,219,435.85	\$ 81,862,996.79	\$ 1,112,115.86	\$ 1,353,492.91	\$ 78,331,551.71	\$ 83,216,489.70

The largest revenue source is the State of Florida (45 percent), which increased by \$4,020,318 or 9.1 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain

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

Instruction and instruction related technology expenses represent 49.7 percent of total governmental expenses for the 2012-13 fiscal year. Instruction and instruction related technology expenses increased by \$994,478, or approximately 2 percent, from the previous fiscal year mainly due to an increase in salaries.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$2,988,590 during the fiscal year to \$9,289,402 at June 30, 2013. Approximately 46.8 percent of this amount is unassigned fund balance (\$4,347,235), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$1,249,519), 2) restricted for particular purposes (\$3,062,366), or 3) assigned for particular purposes (\$630,282).

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 \$4,347,235, while the total fund balance is \$5,939,282.

General Fund balance decreased by \$455,181 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- General Fund revenues increased \$2,639,154 or 3.4 percent, caused mainly by an increase in FEFP revenues.
- General Fund expenditures increased by \$2,394,966, or 3 percent, due mainly to increases in salaries.

The Special Revenue – Food Service Program is used to account for Federal, State, and local food service resources. Federal and State funds are received based on reimbursed rates for breakfast and lunches served. Local funds are received based on cafeteria food sales. Fund balance decreased \$299,777 during the 2012-13 fiscal year mainly because of increased food service expenditures. It should be noted that \$156,250 has been encumbered for specific purposes.

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 and revenues and expenditures totaled \$9,318,792 each for the 2012-13 fiscal year. The Special Revenue – Federal Economic Stimulus Fund was mainly used for instruction and revenues and expenditures totaled \$875,730 each for the 2012-13 fiscal year. Because grant revenues attributed to the grants accounted for in these funds are not recognized until expenditures are incurred, these funds generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,586,634, which is restricted for the acquisition, construction and maintenance of capital assets. The fund balance decreased \$2,041,247 because of increased capital spending and transfers to fund maintenance activity in the current fiscal year.

Proprietary Funds

Net position of the Heartland Educational Consortium Fund decreased by \$241,377 to \$1,112,116 at June 30, 2013. This decrease occurred primarily because of the discontinuance of State revenues provided by the regional educational consortium services grant.

The Heartland Educational Consortium – ARRA Fund has total revenues and expenses of \$221,387 each. Because revenues attributed to the grants accounted for in this fund are not recognized until expenses are incurred, the fund generally does not accumulate net position.

Unrestricted net position of the Internal Service Fund increased \$17,950 to \$887,327, essentially unchanged from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the 2012-13 fiscal year, the Board revised the District budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the fiscal year. The final category includes the Board-approved transfers between expenditure function and objects. Original budgets were subsequently amended to reflect increased FEFP funding. There were no significant variances noted between the final budget and actual revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

For the current fiscal year, capital assets decreased \$5,178,101 due to depreciation expenses exceeding capital asset additions. Additional information on the District's capital assets can be found in note II.C to the financial statements.

Long-Term Debt

The District's long-term debt decreased by \$3,430,000 during the fiscal year, or approximately 5.6 percent, due to scheduled debt payments. Additional information on the District's long-term debt can be found in note II.I to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Approximately 59 percent of the total General Fund revenues are from the State of Florida. The primary source of revenue for the State is the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida, will impact the amount of revenue received by the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment have a significant impact on establishing the State budget as well as the District budget. Federal stimulus funds helped in the short-term, but with the exception of the Race-to-the-Top program, these funds are no longer available.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2013**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 10,967,724.34	\$ 685,186.26	\$ 11,652,910.60	\$ 14,561.21
Accounts Receivable	85,334.49		85,334.49	
Due from Other Agencies	2,195,835.68	67,420.68	2,263,256.36	
Inventories	802,384.75		802,384.75	
Restricted Cash with Fiscal Agent	311,361.92		311,361.92	
Investments	481,933.07		481,933.07	
Capital Assets:				
Nondepreciable Capital Assets	5,709,983.92	126,607.00	5,836,590.92	
Depreciable Capital Assets, Net	124,643,161.77	278,891.82	124,922,053.59	
TOTAL ASSETS	145,197,719.94	1,158,105.76	146,355,825.70	14,561.21
LIABILITIES				
Payroll Deductions and Withholdings	4,235,799.00	11,337.60	4,247,136.60	
Accounts Payable	365,221.27	30,350.16	395,571.43	
Unearned Revenue	31,178.68		31,178.68	
Estimated Insurance Claims Payable	35,646.29		35,646.29	
Long-Term Liabilities:				
Portion Due Within One Year	3,810,000.00		3,810,000.00	
Portion Due After One Year	59,500,438.85	4,302.14	59,504,740.99	
TOTAL LIABILITIES	67,978,284.09	45,989.90	68,024,273.99	
NET POSITION				
Net Investment in Capital Assets	72,758,145.69	405,498.82	73,163,644.51	
Restricted for:				
State Required Carryover Programs	131,964.82		131,964.82	
Debt Service	987,814.63		987,814.63	
Capital Projects	1,783,950.93		1,783,950.93	
Food Service	578,354.21		578,354.21	
Fuel Tax	241,780.25		241,780.25	
Advanced Placement	17,650.52		17,650.52	
Other Purposes	14,023.66		14,023.66	
Unrestricted	705,751.14	706,617.04	1,412,368.18	14,561.21
TOTAL NET POSITION	\$ 77,219,435.85	\$ 1,112,115.86	\$ 78,331,551.71	\$ 14,561.21

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, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 54,086,431.46	\$	\$	\$
Pupil Personnel Services	4,960,196.67			
Instructional Media Services	841,825.65			
Instruction and Curriculum Development Services	2,471,501.33			
Instructional Staff Training Services	1,958,902.15			
Instruction Related Technology	1,529,745.45			
School Board	446,009.47			
General Administration	658,283.91			
School Administration	6,210,171.99			
Facilities Acquisition and Construction	1,285,130.80			77,060.83
Fiscal Services	752,717.69			
Food Services	8,223,785.44	1,476,692.63	6,717,597.85	
Central Services	1,252,837.31			
Pupil Transportation Services	5,933,176.32		2,486,062.00	
Operation of Plant	8,142,873.92			
Maintenance of Plant	2,071,314.60			
Administrative Technology Services	400,122.37			
Community Services	557,777.53			
Unallocated Interest on Long-Term Debt	2,648,314.16		376,502.97	
Unallocated Depreciation Expense*	6,807,932.01			
Total Governmental Activities	111,239,050.23	1,476,692.63	9,580,162.82	77,060.83
Business-Type Activities:				
Heartland Educational Consortium	493,656.92	202,151.80		
Heartland Educational Consortium - ARRA	221,386.65			
Total Business-Type Activities	715,043.57	202,151.80		
Total Primary Government	\$ 111,954,093.80	\$ 1,678,844.43	\$ 9,580,162.82	\$ 77,060.83
Component Unit				
Highlands County Education Foundation, Inc.	\$ 101,656.20	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

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

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Primary Government		Component Unit
	Business-Type Activities	Total	
\$ (54,086,431.46)	\$	\$ (54,086,431.46)	\$
(4,960,196.67)		(4,960,196.67)	
(841,825.65)		(841,825.65)	
(2,471,501.33)		(2,471,501.33)	
(1,958,902.15)		(1,958,902.15)	
(1,529,745.45)		(1,529,745.45)	
(446,009.47)		(446,009.47)	
(658,283.91)		(658,283.91)	
(6,210,171.99)		(6,210,171.99)	
(1,208,069.97)		(1,208,069.97)	
(752,717.69)		(752,717.69)	
(29,494.96)		(29,494.96)	
(1,252,837.31)		(1,252,837.31)	
(3,447,114.32)		(3,447,114.32)	
(8,142,873.92)		(8,142,873.92)	
(2,071,314.60)		(2,071,314.60)	
(400,122.37)		(400,122.37)	
(557,777.53)		(557,777.53)	
(2,271,811.19)		(2,271,811.19)	
(6,807,932.01)		(6,807,932.01)	
(100,105,133.95)		(100,105,133.95)	
	(291,505.12)	(291,505.12)	
	(221,386.65)	(221,386.65)	
	(512,891.77)	(512,891.77)	
(100,105,133.95)	(512,891.77)	(100,618,025.72)	
			(101,656.20)
29,772,324.41		29,772,324.41	
7,207,463.75		7,207,463.75	
56,321,259.60	221,386.65	56,542,646.25	
66,898.81	8,300.19	75,199.00	320.46
2,093,626.44	41,827.88	2,135,454.32	96,085.17
95,461,573.01	271,514.72	95,733,087.73	96,405.63
(4,643,560.94)	(241,377.05)	(4,884,937.99)	(5,250.57)
81,862,996.79	1,353,492.91	83,216,489.70	19,811.78
\$ 77,219,435.85	\$ 1,112,115.86	\$ 78,331,551.71	\$ 14,561.21

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 7,959,526.45	\$ 1,936.64	\$ 5,102.67	\$ 1,967.50
Investments				
Accounts Receivable	81,508.81	3,825.68		
Due from Other Funds	842,000.00			
Due from Other Agencies	502,070.67	934,429.22	629,449.65	124,051.46
Inventories	509,524.70	292,860.05		
Restricted Cash with Fiscal Agent				
Investments in SBA Fund B Surplus Trust Funds	46,821.51			
	<u>46,821.51</u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 9,941,452.14</u>	<u>\$ 1,233,051.59</u>	<u>\$ 634,552.32</u>	<u>\$ 126,018.96</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 3,825,645.31	\$ 89,144.53	\$ 320,462.76	\$ 546.40
Accounts Payable	176,524.66	89,374.17	37,089.56	5,472.56
Due to Other Funds		445,000.00	277,000.00	120,000.00
Unearned Revenue		31,178.68		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>4,002,169.97</u>	<u>654,697.38</u>	<u>634,552.32</u>	<u>126,018.96</u>
Fund Balances:				
Nonspendable:				
Inventories	509,524.70	292,860.05		
Investments in SBA Fund B	46,821.51			
Total Nonspendable Fund Balance	<u>556,346.21</u>	<u>292,860.05</u>	<u> </u>	<u> </u>
Restricted for:				
State Required Carryover Programs	131,964.82			
Debt Service				
Capital Projects				
Food Service		285,494.16		
Advanced Placement	17,650.52			
Fuel Tax	241,780.25			
Other	14,023.66			
Total Restricted Fund Balance	<u>405,419.25</u>	<u>285,494.16</u>	<u> </u>	<u> </u>
Assigned for:				
Subsequent Fiscal Year's Budget: Appropriation of Fund Balance	456,512.20			
School Supplies and Equipment	173,769.39			
Total Assigned Fund Balance	<u>630,281.59</u>	<u> </u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>4,347,235.12</u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>5,939,282.17</u>	<u>578,354.21</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,941,452.14</u>	<u>\$ 1,233,051.59</u>	<u>\$ 634,552.32</u>	<u>\$ 126,018.96</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,633,735.07	\$ 442,482.65	\$ 10,044,750.98
	34,798.53	34,798.53
		85,334.49
		842,000.00
5,834.68		2,195,835.68
		802,384.75
	311,361.92	311,361.92
	400,313.03	447,134.54
<u>\$ 1,639,569.75</u>	<u>\$ 1,188,956.13</u>	<u>\$ 14,763,600.89</u>
\$ 52,936.18	\$ 3,824.14	\$ 4,235,799.00
		365,221.27
		842,000.00
		31,178.68
<u>52,936.18</u>	<u>3,824.14</u>	<u>5,474,198.95</u>
		802,384.75
	400,313.03	447,134.54
	400,313.03	1,249,519.29
		131,964.82
	587,501.60	587,501.60
1,586,633.57	197,317.36	1,783,950.93
		285,494.16
		17,650.52
		241,780.25
		14,023.66
<u>1,586,633.57</u>	<u>784,818.96</u>	<u>3,062,365.94</u>
		456,512.20
		173,769.39
		630,281.59
		4,347,235.12
<u>1,586,633.57</u>	<u>1,185,131.99</u>	<u>9,289,401.94</u>
<u>\$ 1,639,569.75</u>	<u>\$ 1,188,956.13</u>	<u>\$ 14,763,600.89</u>

HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds \$ 9,289,401.94

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 130,353,145.69

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 887,327.07

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	\$	2,065,000.00	
Certificates of Participation Payable		55,530,000.00	
Compensated Absences Payable		4,251,438.85	
Other Postemployment Benefits Payable		1,464,000.00	(63,310,438.85)

Net Position - Governmental Activities \$ 77,219,435.85

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, 2013**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 169,220.68	\$	\$ 63,918.25	\$
Federal Through State and Local	649,599.44	6,578,301.85	9,254,873.55	875,730.03
State	47,573,577.63	143,164.00		
Local:				
Property Taxes	29,772,324.41			
Charges for Services - Food Service		1,476,692.63		
Miscellaneous	1,933,472.96	2,224.55		
Total Local Revenues	<u>31,705,797.37</u>	<u>1,478,917.18</u>		
Total Revenues	<u>80,098,195.12</u>	<u>8,200,383.03</u>	<u>9,318,791.80</u>	<u>875,730.03</u>
Expenditures				
Current - Education:				
Instruction	49,586,924.67		4,229,146.88	323,440.01
Pupil Personnel Services	3,987,782.75		982,058.80	
Instructional Media Services	840,481.59		50.00	
Instruction and Curriculum Development Services	766,710.71		1,639,367.88	63,769.34
Instructional Staff Training Services	606,560.02		1,242,644.80	109,487.13
Instruction Related Technology	633,301.65		773,094.29	129,632.84
School Board	445,323.86			
General Administration	452,462.27		190,617.61	14,192.11
School Administration	6,220,054.11			
Facilities Acquisition and Construction				
Fiscal Services	758,036.76			
Food Services		8,213,302.46		
Central Services	1,253,070.15			
Pupil Transportation Services	5,320,393.92		109,851.96	
Operation of Plant	8,143,796.38		1,671.26	
Maintenance of Plant	2,044,072.04			
Administrative Technology Services	399,507.30			
Community Services	556,920.11			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	114,023.85	134,130.15		
Other Capital Outlay	658,954.02	152,727.60	150,288.32	235,208.60
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>82,788,376.16</u>	<u>8,500,160.21</u>	<u>9,318,791.80</u>	<u>875,730.03</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,690,181.04)</u>	<u>(299,777.18)</u>		
Other Financing Sources (Uses)				
Transfers In	2,235,000.00			
Transfers Out				
Total Other Financing Sources (Uses)	<u>2,235,000.00</u>			
Net Change in Fund Balances	<u>(455,181.04)</u>	<u>(299,777.18)</u>		
Fund Balances, Beginning	6,394,463.21	878,131.39		
Fund Balances, Ending	<u>\$ 5,939,282.17</u>	<u>\$ 578,354.21</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
\$	\$	\$
		233,138.93
		17,358,504.87
	670,097.82	48,386,839.45
7,207,463.75		36,979,788.16
		1,476,692.63
19,320.12	187,557.37	2,142,575.00
<u>7,226,783.87</u>	<u>187,557.37</u>	<u>40,599,055.79</u>
<u>7,226,783.87</u>	<u>857,655.19</u>	<u>106,577,539.04</u>
		54,139,511.56
		4,969,841.55
		840,531.59
		2,469,847.93
		1,958,691.95
		1,536,028.78
		445,323.86
		657,271.99
		6,220,054.11
1,131,693.39	153,437.41	1,285,130.80
		758,036.76
		8,213,302.46
		1,253,070.15
		5,430,245.88
		8,145,467.64
		2,044,072.04
		399,507.30
		556,920.11
29,094.62	14,329.26	291,577.88
638,070.70	38,131.25	1,873,380.49
	3,430,000.00	3,430,000.00
	<u>2,648,314.16</u>	<u>2,648,314.16</u>
<u>1,798,858.71</u>	<u>6,284,212.08</u>	<u>109,566,128.99</u>
<u>5,427,925.16</u>	<u>(5,426,556.89)</u>	<u>(2,988,589.95)</u>
	5,279,172.18	7,514,172.18
(7,469,172.18)	(45,000.00)	(7,514,172.18)
<u>(7,469,172.18)</u>	<u>5,234,172.18</u>	
(2,041,247.02)	(192,384.71)	(2,988,589.95)
<u>3,627,880.59</u>	<u>1,377,516.70</u>	<u>12,277,991.89</u>
<u>\$ 1,586,633.57</u>	<u>\$ 1,185,131.99</u>	<u>\$ 9,289,401.94</u>

HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Governmental Funds \$ (2,988,589.95)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (5,168,125.46)

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

Bonds Payable	\$ 525,000.00	
Certificates of Participation Payable	2,905,000.00	3,430,000.00

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. 216,204.22

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. (151,000.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service fund is reported with governmental activities. 17,950.25

Change in Net Position - Governmental Activities \$ (4,643,560.94)

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2013**

	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	\$ 680,542.49	\$ 4,643.77	\$ 685,186.26	\$ 922,973.36
Due From Other Funds	45,000.00		45,000.00	
Due From Other Agencies		67,420.68	67,420.68	
Total Current Assets	725,542.49	72,064.45	797,606.94	922,973.36
Noncurrent Assets:				
Land	126,607.00		126,607.00	
Buildings & Fixed Equipment, Net	273,471.84		273,471.84	
Furniture, Fixtures, and Equipment, Net	5,419.98		5,419.98	
Total Noncurrent Assets	405,498.82		405,498.82	
TOTAL ASSETS	\$ 1,131,041.31	\$ 72,064.45	\$ 1,203,105.76	\$ 922,973.36
LIABILITIES				
Current Liabilities:				
Payroll Deductions and Withholdings	\$ 4,649.65	\$ 6,687.95	\$ 11,337.60	\$
Accounts Payable	9,973.66	20,376.50	30,350.16	
Due to Other Funds		45,000.00	45,000.00	
Total Current Liabilities	14,623.31	72,064.45	86,687.76	
Noncurrent Liabilities:				
Compensated Absences Payable	4,302.14		4,302.14	
Estimated Insurance Claims Payable				35,646.29
Total Noncurrent Liabilities	4,302.14		4,302.14	35,646.29
Total Liabilities	18,925.45	72,064.45	90,989.90	35,646.29
NET POSITION				
Investment in Capital Assets	405,498.82		405,498.82	
Unrestricted	706,617.04		706,617.04	887,327.07
Total Net Position	1,112,115.86		1,112,115.86	887,327.07
TOTAL LIABILITIES AND NET POSITION	\$ 1,131,041.31	\$ 72,064.45	\$ 1,203,105.76	\$ 922,973.36

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Heartland Educational Consortium	Heartland Educational Consortium - ARRA	Total	
OPERATING REVENUES				
Charges for Services	\$ 220,151.80	\$	\$ 220,151.80	\$
Premium Revenues				813,993.97
Other Operating Revenues	23,827.88		23,827.88	
Total Operating Revenues	243,979.68		243,979.68	813,993.97
OPERATING EXPENSES				
Salaries	127,862.04	112,501.67	240,363.71	
Employee Benefits	37,131.24	31,558.66	68,689.90	
Purchased Services	283,751.06	69,918.23	353,669.29	
Energy Services	10,730.23		10,730.23	
Materials and Supplies	6,536.88	1,618.56	8,155.44	
Capital Outlay	1,681.08		1,681.08	
Insurance Claims				763,461.72
Other Expenses	15,988.49	5,789.53	21,778.02	32,582.00
Depreciation	9,975.90		9,975.90	
Total Operating Expenses	493,656.92	221,386.65	715,043.57	796,043.72
Operating Income (Loss)	(249,677.24)	(221,386.65)	(471,063.89)	17,950.25
NONOPERATING REVENUES				
Federal Grants		221,386.65	221,386.65	
Interest Revenue	8,300.19		8,300.19	
Total Nonoperating Revenues	8,300.19	221,386.65	229,686.84	
Change in Net Position	(241,377.05)		(241,377.05)	17,950.25
Total Net Position - Beginning	1,353,492.91		1,353,492.91	869,376.82
Total Net Position - Ending	\$ 1,112,115.86	\$ 0.00	\$ 1,112,115.86	\$ 887,327.07

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, 2013**

	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	\$ 220,151.80	\$	\$ 220,151.80	\$ 813,993.97
Cash Received from Other Operating Revenues	104,827.88		104,827.88	
Cash Payments to Suppliers for Goods and Services	(327,878.33)	(62,154.66)	(390,032.99)	(32,582.00)
Cash Payments to Employees for Services	(161,477.04)	(143,318.32)	(304,795.36)	
Cash Payments for Miscellaneous		(12,263.50)	(12,263.50)	
Cash Payments for Insurance Claims				(748,317.13)
Net Cash Provided (Used) by Operating Activities	(164,375.69)	(217,736.48)	(382,112.17)	33,094.84
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Received from Federal Grants		221,386.65	221,386.65	
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	8,300.19		8,300.19	
Net Increase (Decrease) in Cash and Cash Equivalents	(156,075.50)	3,650.17	(152,425.33)	33,094.84
Cash and Cash Equivalents, Beginning	836,617.99	993.60	837,611.59	889,878.52
Cash and Cash Equivalents, Ending	\$ 680,542.49	\$ 4,643.77	\$ 685,186.26	\$ 922,973.36

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

Operating Income (Loss)	\$ (249,677.24)	\$ (221,386.65)	\$ (471,063.89)	\$ 17,950.25
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:				
Due From Other Funds	81,000.00		81,000.00	
Due From Other Agencies		68,736.50	68,736.50	
Accounts Payable	(9,190.59)	15,027.66	5,837.07	
Salaries and Benefits Payable	2,233.90	886.01	3,119.91	
Due To Other Funds		(81,000.00)	(81,000.00)	
Compensated Absences Payable	1,282.34		1,282.34	
Estimated Insurance Claims Payable				15,144.59
Total Adjustments	85,301.55	3,650.17	88,951.72	15,144.59
Net Cash Provided (Used) by Operating Activities	\$ (164,375.69)	\$ (217,736.48)	\$ (382,112.17)	\$ 33,094.84

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2013**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 121,734.07	\$ 1,555,489.00
Investments		<u>4,760.00</u>
TOTAL ASSETS	<u>\$ 121,734.07</u>	<u>\$ 1,560,249.00</u>
LIABILITIES		
Internal Accounts Payable	\$ <u> </u>	<u>\$ 1,560,249.00</u>
NET POSITION		
Held in Trust for Scholarships and Other Purposes	<u>121,734.07</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 121,734.07</u>	

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Private-Purpose Trust Funds
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 10,230.00
Investment Earnings:	
Interest	1,659.36
Total Additions	<u>11,889.36</u>
DEDUCTIONS	
Refund of Contributions	171,783.04
Scholarships Payments	<u>8,350.00</u>
Total Deductions	<u>180,133.04</u>
Change in Net Position	(168,243.68)
Net Position - Beginning	<u>289,977.75</u>
Net Position - Ending	<u><u>\$ 121,734.07</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, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Highland County School District's (District) governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments are allocated to the 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.

B. Reporting Entity

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

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

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

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

The Highlands County Education Foundation, Inc. (Foundation) is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the 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. 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, 2013. The audit report is filed in the District's administrative offices.

C. Basis of Presentation: Government-wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

- **General Fund** – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

- Special Revenue - Food Service Fund – to account for Federal, State, and local program food resources.
- 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).
- 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.
- Private-Purpose Trust Fund – to account for scholarship trust funds provided by private donors.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

E. Basis of Accounting

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

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

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

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

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

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, 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 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

3. Inventories

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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.

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

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

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

5. Long-Term Liabilities

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

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

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2013.

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

3. District Property Taxes

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

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

The Board adopted the 2012 tax levy on September 4, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Educational Impact Fees

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

collection rates for the fee. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness. The County approved the suspension of the fee for one year in the 2009-10 fiscal year, and the Board extended this suspension throughout the 2012-13 fiscal year.

5. Federal Revenue Sources

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

6. Compensated Absences

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

7. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
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Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance on average daily balances.

B. Investments

As of June 30, 2013, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)(2)	40 Day Average	\$ 399,596.57
Fund B (2)	3.98 Year Average	451,894.54
Debt Service Accounts	6 Months	34,798.53
Certificates of Deposits(1)	14 Days	6,002,136.02
Total Investments		<u>\$6,888,425.66</u>

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.

(2) Investments totaling \$311,362 in Florida PRIME and \$400,313 in Fund B are held under trust agreements pursuant to financing agreements for the Certificates of Participation, Series 2005 and 2006. The fiduciary funds hold \$4,760 of Fund B investments.

➤ **Interest Rate Risk**

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 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(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission

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(SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury.

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

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

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

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 5,700,878.49	\$ 9,105.43	\$	\$ 5,709,983.92
Total Capital Assets Not Being Depreciated	5,700,878.49	9,105.43		5,709,983.92
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	11,373,071.87	37,018.45		11,410,090.32
Buildings and Fixed Equipment	179,602,798.75	245,454.00		179,848,252.75
Furniture, Fixtures, and Equipment	13,611,706.60	917,868.90	840,169.22	13,689,406.28
Motor Vehicles	11,358,994.10		148,702.43	11,210,291.67
Audio Visual Materials and Computer Software	4,158,872.45	955,511.59	886,849.53	4,227,534.51
Total Capital Assets Being Depreciated	220,105,443.77	2,155,852.94	1,875,721.18	220,385,575.53
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	9,114,850.03	437,094.97		9,551,945.00
Buildings and Fixed Equipment	57,867,381.90	4,265,280.61		62,132,662.51
Furniture, Fixtures, and Equipment	10,510,091.44	1,229,149.73	840,169.22	10,899,071.95
Motor Vehicles	10,055,765.42	525,151.82	148,702.43	10,432,214.81
Audio Visual Materials and Computer Software	2,736,962.32	876,406.70	886,849.53	2,726,519.49
Total Accumulated Depreciation	90,285,051.11	7,333,083.83	1,875,721.18	95,742,413.76
Total Capital Assets Being Depreciated, Net	129,820,392.66	(5,177,230.89)		124,643,161.77
Governmental Activities Capital Assets, Net	\$ 135,521,271.15	\$ (5,168,125.46)	\$ 0.00	\$ 130,353,145.69

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	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 126,607.00	\$	\$	\$ 126,607.00
Total Capital Assets Not Being Depreciated	126,607.00			126,607.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	379,822.00			379,822.00
Furniture, Fixtures, and Equipment	61,156.32			61,156.32
Audio Visual Materials and Computer Software	999.50			999.50
Total Capital Assets Being Depreciated	441,977.82			441,977.82
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	98,753.72	7,596.44		106,350.16
Furniture, Fixtures, and Equipment	54,156.48	2,179.56		56,336.04
Audio Visual Materials and Computer Software	199.90	199.90		399.80
Total Accumulated Depreciation	153,110.10	9,975.90		163,086.00
Total Capital Assets Being Depreciated, Net	288,867.72	(9,975.90)		278,891.82
Business-Type Activities Capital Assets, Net	\$ 415,474.72	\$ (9,975.90)	\$ 0.00	\$ 405,498.82

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 498,894.23
Maintenance of Plant	26,257.59
Unallocated	6,807,932.01
Total Depreciation Expense - Governmental Activities	\$ 7,333,083.83
BUSINESS-TYPE ACTIVITIES	
Heartland Educational Consortium	\$ 9,975.90

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D. Florida Retirement System

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

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to		
Members from All of the Above Classes	0.00	5.44
FRS, 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, 2011, June 30, 2012, and June 30, 2013, totaled \$5,784,120.60, \$3,795,093.28, and \$3,967,124.29, respectively, which were equal to the required contributions for each fiscal year.

There were 252 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$625,639.06, which was equal to the required contribution for the 2012-13 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.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and dental coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, employees electing participation in the Retirement Incentive Program obtain \$20,000 in District-provided (explicitly subsidized) life insurance for 10 years after their retirement date. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

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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 2012-13 fiscal year, 75 retirees and dependents received other postemployment benefits. The District provided required contributions of \$222,000 toward the annual OPEB cost, net of retiree contributions totaling \$459,000, which represents 0.8 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 185,000
Amortization of Unfunded Actuarial	
Accrued Liability	232,000
Interest on Normal Cost and Amortization	<u>5,000</u>
Annual Required Contribution	422,000
Interest on Net OPEB Obligation	33,000
Adjustment to Annual Required Contribution	<u>(82,000)</u>
Annual OPEB Cost (Expense)	373,000
Contribution Toward the OPEB Cost	<u>(222,000)</u>
Increase in Net OPEB Obligation	151,000
Net OPEB Obligation, Beginning of Year	<u>1,313,000</u>
Net OPEB Obligation, End of Year	<u>\$ 1,464,000</u>

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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, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 655,000	47.1%	\$1,012,000
2011-12	649,000	53.6%	1,313,000
2012-13	373,000	59.5%	1,464,000

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

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of July 1, 2012 used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and to estimate the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 2.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2 percent per year, an inflation rate of 2.5 percent, and an annual healthcare cost trend rate of 9.5 percent initially for the 2012 calendar year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level

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percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 16 years.

F. Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2013:

Major Funds						
General	Special Revenue - Food Service	Special Revenue - Other	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvem ent	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 214,159</u>	<u>\$ 156,250</u>	<u>\$ 740,406</u>	<u>\$ 3,153</u>	<u>\$ 14,418</u>	<u>\$ 46,540</u>	<u>\$ 1,174,926</u>

G. Risk Management Programs

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

The Board of Directors for SCERMP is composed of superintendents, finance directors, or authorized representatives of all participating districts. Ascension, 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 named 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

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occurrence. The flood deductible outside a special flood hazard area is \$100,000. SCREMP's purchased excess property loss limit during the 2012-13 fiscal year was \$100 million, 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 2012-13 fiscal year was \$850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employers Liability is included subject to \$2,000,000 each accident and \$4,000,000 in the aggregate.

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

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

Fiscal Years	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2011-12	\$ 32,407.80	\$ 706,354.04	\$ (718,260.14)	\$ 20,501.70
2012-13	20,501.70	763,461.72	(748,317.13)	35,646.29

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

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

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H. 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
2014	\$ 95,000
2015	95,000
2016	95,000
2017	95,000
2018	95,000
2019	95,000
Total Minimum Payments Required	<u>570,000</u>

I. Long-Term Liabilities

1. Certificates of Participation

Certificates of participation at June 30, 2013, 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	45,630,000	3.625 - 5.000	2027	59,090,000
Total Certificates of Participation	<u>\$ 55,530,000</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.

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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.

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:

Fiscal Year Ending June 30	Total	Principal	Interest
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	5,413,690.00	3,530,000.00	1,883,690.00
2019-2023	27,078,392.50	19,905,000.00	7,173,392.50
2024-2027	21,659,300.00	19,270,000.00	2,389,300.00
Total Minimum Lease Payments	<u>\$ 75,816,541.30</u>	<u>\$ 55,530,000.00</u>	<u>\$ 20,286,541.30</u>

2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A, Refunding	\$ 75,000	5.0	2016
Series 2005B, Refunding	890,000	5.0	2018
Series 2009A, Refunding	155,000	5.0	2019
District Revenue Bonds:			
Series 1999A	<u>945,000</u>	5.375	2018
Total Bonds Payable	<u>\$ 2,065,000</u>		

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

➤ State School Bonds

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

➤ District Revenue Bonds

The School Board issued \$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 (pledged revenues) pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2012)).

The District has pledged a combined total of \$1,102,219 of pledged revenues in connection with the District Revenue Bonds of 1999A, described above. During the 2012-13 fiscal year, the District recognized pledged revenues totaling \$223,250 and expended \$278,664 (125 percent) of pledged revenues for debt service directly collateralized by these revenues. The pledged revenues are committed until final maturity of the debt on March 1, 2018. Approximately 71 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, 2013, are as follows:

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Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	53,500.00	50,000.00	3,500.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	<u>1,249,500.00</u>	<u>1,120,000.00</u>	<u>129,500.00</u>
District Revenue Bonds:			
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	<u>1,102,218.79</u>	<u>945,000.00</u>	<u>157,218.79</u>
Total	<u>\$ 2,351,718.79</u>	<u>\$ 2,065,000.00</u>	<u>\$ 286,718.79</u>

3. 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	\$ 2,590,000.00	\$	\$ 525,000.00	\$ 2,065,000.00	\$ 470,000.00
Certificates of Participation Payable	58,435,000.00		2,905,000.00	55,530,000.00	3,015,000.00
Compensated Absences Payable	4,467,643.07	362,539.46	578,743.68	4,251,438.85	325,000.00
Other Postemployment Benefits Payable	1,313,000.00	373,000.00	222,000.00	1,464,000.00	
Total Governmental Activities	<u>\$ 66,805,643.07</u>	<u>\$ 735,539.46</u>	<u>\$ 4,230,743.68</u>	<u>\$ 63,310,438.85</u>	<u>\$ 3,810,000.00</u>
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	<u>\$ 3,019.80</u>	<u>\$ 1,736.12</u>	<u>\$ 453.78</u>	<u>\$ 4,302.14</u>	<u>\$ 0.00</u>

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

J. Fund Balance Reporting

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

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

K. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 842,000.00	\$
Special Revenue:		
Food Service		445,000.00
Other		277,000.00
Federal Economic Stimulus		120,000.00
Enterprise:		
Heartland Educational Consortium	45,000.00	
Heartland Educational Consortium - ARRA		45,000.00
Total	<u>\$ 887,000.00</u>	<u>\$ 887,000.00</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, 2013**

L. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2012-13 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 33,267,489.00
Categorical Educational Program - Class Size Reduction	12,887,396.00
School Recognition	552,645.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	453,563.80
State License Tax	222,121.59
Food Service Supplement	139,296.00
Voluntary Prekindergarten Program	97,011.57
Miscellaneous	767,316.49
Total	<u>\$ 48,386,839.45</u>

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.200	\$ 25,638,116.39
Basic Discretionary Local Effort	0.748	3,687,944.74
Critical Operating Needs	0.250	1,232,629.97
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	7,395,643.31
Total	<u>7.698</u>	<u>\$ 37,954,334.41</u>

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

M. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 2,235,000.00	\$
Capital Projects:		
Local Capital Improvement		7,469,172.18
Nonmajor Governmental	5,279,172.18	45,000.00
Total	<u>\$ 7,514,172.18</u>	<u>\$ 7,514,172.18</u>

Transfers out of the Capital Projects – Local Capital Improvement Fund were to provide debt service payments for Debt Service Funds, and provide funding for insurance and certain expenditures of the District's facilities and maintenance department.

III. 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.

IV. 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, 2013**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 114,390.00	\$ 169,220.68	\$ 169,220.68	\$
Federal Through State and Local	400,000.00	649,599.44	649,599.44	
State	46,400,273.00	47,573,577.63	47,573,577.63	
Local:				
Property Taxes	29,126,246.00	29,772,324.41	29,772,324.41	
Charges for Service - Food Service				
Miscellaneous	1,352,458.00	1,933,472.96	1,933,472.96	
Total Local Revenues	30,478,704.00	31,705,797.37	31,705,797.37	
Total Revenues	77,393,367.00	80,098,195.12	80,098,195.12	
Expenditures				
Current - Education:				
Instruction	47,276,742.30	49,671,814.21	49,586,924.67	84,889.54
Pupil Personnel Services	3,531,240.00	3,989,172.81	3,987,782.75	1,390.06
Instructional Media Services	820,974.00	843,829.36	840,481.59	3,347.77
Instruction and Curriculum Development Services	805,413.00	782,549.99	766,710.71	15,839.28
Instructional Staff Training Services	583,763.00	611,542.68	606,560.02	4,982.66
Instruction Related Technology	625,048.00	634,957.11	633,301.65	1,655.46
School Board	504,781.00	448,309.88	445,323.86	2,986.02
General Administration	444,242.00	452,462.27	452,462.27	
School Administration	5,978,558.20	6,220,305.07	6,220,054.11	250.96
Fiscal Services	729,091.00	758,036.76	758,036.76	
Food Services				
Central Services	1,189,788.00	1,255,268.10	1,253,070.15	2,197.95
Pupil Transportation Services	5,693,171.00	5,322,988.43	5,320,393.92	2,594.51
Operation of Plant	8,791,134.00	8,146,776.38	8,143,796.38	2,980.00
Maintenance of Plant	2,060,901.00	2,070,498.65	2,044,072.04	26,426.61
Administrative Technology Services	394,050.00	399,507.30	399,507.30	
Community Services	414,745.00	570,889.71	556,920.11	13,969.60
Fixed Capital Outlay:				
Facilities Acquisition and Construction		444,480.25	114,023.85	330,456.40
Other Capital Outlay	23,666.50	672,160.82	658,954.02	13,206.80
Total Expenditures	79,867,308.00	83,295,549.78	82,788,376.16	507,173.62
Excess (Deficiency) of Revenues Over Expenditures	(2,473,941.00)	(3,197,354.66)	(2,690,181.04)	507,173.62
Other Financing Sources				
Transfers In	2,473,941.00	2,235,000.00	2,235,000.00	
Total Other Financing Sources	2,473,941.00	2,235,000.00	2,235,000.00	
Net Change in Fund Balances		(962,354.66)	(455,181.04)	507,173.62
Fund Balances, Beginning	6,394,463.21	6,394,463.21	6,394,463.21	
Fund Balances, Ending	\$ 6,394,463.21	\$ 5,432,108.55	\$ 5,939,282.17	\$ 507,173.62

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$
6,056,800.00	6,643,754.00	6,578,301.85	(65,452.15)	9,745,237.20	75,665.62	63,918.25	(11,747.37)
146,500.00	151,127.00	143,164.00	(7,963.00)		11,382,671.85	9,254,873.55	(2,127,798.30)
1,624,500.00	1,711,545.00	1,476,692.63	(234,852.37)				
	4,500.00	2,224.55	(2,275.45)				
1,624,500.00	1,716,045.00	1,478,917.18	(237,127.82)				
7,827,800.00	8,510,926.00	8,200,383.03	(310,542.97)	9,745,237.20	11,458,337.47	9,318,791.80	(2,139,545.67)
				3,690,931.60	5,450,227.93	4,229,146.88	1,221,081.05
				1,223,109.00	1,188,344.29	982,058.80	206,285.49
				3,000.00	100.00	50.00	50.00
				1,522,531.00	1,714,466.11	1,639,367.88	75,098.23
				1,970,041.00	1,474,611.40	1,242,644.80	231,966.60
				811,827.00	796,144.50	773,094.29	23,050.21
				345,494.13	333,717.21	190,617.61	143,099.60
7,692,228.00	8,404,982.08	8,213,302.46	191,679.62				
				21,823.00	122,696.29	109,851.96	12,844.33
				8,000.00	8,252.87	1,671.26	6,581.61
					67,503.00		67,503.00
135,572.00	134,130.15	134,130.15	82.00	148,480.47	199,735.87	150,288.32	49,447.55
	152,809.60	152,727.60					
7,827,800.00	8,691,921.83	8,500,160.21	191,761.62	9,745,237.20	11,355,799.47	9,318,791.80	2,037,007.67
	(180,995.83)	(299,777.18)	(118,781.35)		102,538.00		(102,538.00)
	(180,995.83)	(299,777.18)	(118,781.35)		102,538.00		(102,538.00)
878,131.39	878,131.39	878,131.39					
\$ 878,131.39	\$ 697,135.56	\$ 578,354.21	\$ (118,781.35)	\$ 0.00	\$ 102,538.00	\$ 0.00	\$ (102,538.00)

HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS (Continued)
For the Fiscal Year Ended June 30, 2013

	Special Revenue - Federal Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State		934,026.69	875,730.03	(58,296.66)
Local:				
Property Taxes				
Charges for Service - Food Service				
Miscellaneous				
Total Local Revenues				
Total Revenues		934,026.69	875,730.03	(58,296.66)
Expenditures				
Current - Education:				
Instruction		323,440.01	323,440.01	
Pupil Personnel Services				
Instructional Media Services				
Instruction and Curriculum Development Services		63,769.34	63,769.34	
Instructional Staff Training Services		165,116.83	109,487.13	55,629.70
Instruction Related Technology		130,489.96	129,632.84	857.12
School Board		16,001.95	14,192.11	1,809.84
General Administration				
School Administration				
Fiscal Services				
Food Services				
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		235,208.60	235,208.60	
Total Expenditures		934,026.69	875,730.03	58,296.66
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources				
Transfers In				
Total Other Financing Sources				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	\$ 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%
July 1, 2012	0	3,714,000	3,714,000	0.0%	58,060,000	6.4%

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

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

I. BUDGETARY BASIS OF ACCOUNTING

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, 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.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The District is required to perform periodic actuarial valuations of its postemployment benefits other than pensions. For the July 1, 2012, valuation, the following key assumptions were modified to reflect current experience: (1) the medical trend rates have been reset to 9.5 percent for Pre-Medicare coverage and Medicare Supplement in 2012 and thereafter at a rate of 0.5 percent per year until an ultimate rate of 5 percent is reached; and (2) the assumed per capita claim costs were reduced based on updated census and premium rates. Overall, the plan experienced a significant decrease in the Actuarial Accrued Liability (AAL), primarily due to a significant reduction in premium rates as a result of the change in providers and demographic experience. The expected AAL at July 1, 2012, was \$7,060,000, while the actual AAL is \$3,714,000.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

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:				
Florida Department of Agriculture and Consumer Services:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	\$ 1,952,351.92	\$
National School Lunch Program	10.555 (2)(A)	300, 350	4,365,881.85	
Summer Food Service Program for Children	10.559	323	125,419.56	
Total Child Nutrition Cluster			6,443,653.33	
Fresh Fruit and Vegetable Program	10.582	330	134,648.52	
Total United States Department of Agriculture			6,578,301.85	
United States General Services Administration:				
Indirect:				
Florida Department of Management Services:				
Donation of Federal Surplus Personal Property	39.003 (2)(B)	None	12,749.71	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	63,918.25	2,237.85
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (4)	262, 263	3,229,677.19	146,839.84
Special Education - Preschool Grants	84.173	266, 267	177,301.35	24,461.34
University of South Florida:				
Special Education - Grants to States	84.027 (4)	None	4,446.62	
Total Special Education Cluster			3,411,425.16	171,301.18
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212,222,226,228	3,428,654.41	
Migrant Education - State Grant Program	84.011	217	919,489.11	
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	223	1,567.20	
Career and Technical Education - Basic Grants to States	84.048	161	238,141.37	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	2,991.64	
Twenty-First Century Community Learning Centers	84.287	244	403,809.95	
Rural Education	84.358	110	254,694.17	
English Language Acquisition State Grants	84.365	102	82,450.81	
Improving Teacher Quality State Grants	84.367	224	474,407.79	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	RL111, RD211, RG311, RG411	881,344.29	9,203.58
Washington District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	None	215,772.39	
University of South Florida:				
Mathematics and Science Partnerships	84.366	None	11,000.00	
Advancement Via Individual Determination:				
Investing in Innovation (I3) Fund	84.411	None	26,241.94	
Total Indirect			10,351,990.23	180,504.76
Total United States Department of Education			10,428,658.19	182,742.61
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	169,220.68	
Total Expenditures of Federal Awards			\$ 17,176,180.72	\$ 182,742.61

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:

(A) National School Lunch Program - Includes \$379,755.11 of donated food used received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) Donation of Federal Surplus Personal Property - Represents 23.3 percent of the original acquisition costs of the donated Federal surplus personal property obtained during the fiscal year.

(3) State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures are \$1,097,116.68.

(4) Special Education - Grants to States. Total CFDA No. 84.027 expenditures are \$3,234,123.81.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 25, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the 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 of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2014



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Highlands County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2014

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.011	Migrant Education
84.027 and 84.173	Special Education Cluster
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$515,285
Auditee qualified as low-risk auditee?	No

**HIGHLANDS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ADDITIONAL MATTERS

Finding No. 1: Procurement – Information Technology Resources

Pursuant to State Board of Education Rule 6A-1.012(14), Florida Administrative Code, the District may acquire information technology (IT) resources, such as computers, through the competitive solicitation process or by direct negotiation and contract with a provider as best fits the District's needs determined by the Board. Good business practice dictates that selection and purchase of IT resources include documented considerations of the costs in relation to the benefits to specific user needs. Effective procurement procedures serve to increase public confidence in the procurement process.

The District purchasing manual provides that the coordinator of purchasing is primarily responsible for purchases; however, during the 2012-13 fiscal year through the date of our field work (January 2014), the coordinator of purchasing position was vacant and the purchasing manual was not updated to provide guidance to assist departments in consolidating similar purchases, nor did the manual provide guidance for IT purchases. The District purchased 534 refurbished computers (234 in August 2012 and 300 in October 2012) from one vendor for a total of \$217,200 to use in two departments. District personnel indicated that a national purchasing cooperative identified the vendor as having refurbished computers that the District believed were at the best price for the departments' needs.

To confirm that the purchase prices were competitive, District personnel said they discussed pricing with certain vendors and compared refurbished computer prices reviewed on Web sites; however, District records did not evidence these procedures. As such, District records did not evidence that these purchases were made at the lowest price consistent with desired quality. Consolidating the refurbished computer purchases or utilizing independently developed cost estimates for the computers would have provided more complete evidence upon which to negotiate the purchases.

Recommendation: The District should enhance its purchasing manual and related procedures to ensure, for future IT resource purchases, that District records clearly demonstrate that purchases are made at the lowest price consistent with desired quality. Such enhancements should also ensure, to the extent practical, that similar purchases are consolidated.

Finding No. 2: Facilities Management

The facilities department is responsible for managing construction and renovation projects. In addition, the department is responsible for ensuring facilities are safe and suitable for their intended use, by performing heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the facilities department employed 24 full-time employees, and the department's operating cost was \$2 million. Also, during this fiscal year, the District had expenditures totaling approximately \$43,400 for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as

approved by the Board on August 26, 2013, the District planned to spend \$384,000 on construction and renovation projects and \$2.5 million on maintenance over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$197 million and, as shown on the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 28 years.

Based on our review of controls over the District's maintenance activities, as noted in our report No. 2013-168, we recommended that the District develop written policies and procedures requiring documented periodic evaluations of alternative significant maintenance-related job techniques and develop additional goals and objectives for the facilities department to identify cost-effectiveness or efficiency outcomes for department personnel.

In his response, the District's Superintendent indicated the District would 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. However, as of January 2014, District records did not evidence that the District had developed written policies and procedures regarding the evaluation of alternative maintenance-related techniques and additional goals and accountability objectives for the facilities department.

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

Finding No. 3: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are consistent with contract terms and conditions. For the 2012-13 fiscal year, payments for contractual services totaled approximately \$6 million. To determine the propriety of payments for contractual services during the 2012-13 fiscal year, we tested five consultant services contracts totaling \$935,592, and noted controls over contractual services could be improved. For example:

- The District executed a contract and issued blanket purchase orders totaling \$340,900 for speech and occupational therapy services to a vendor and, during the 2012-13 fiscal year, the District paid \$339,778 for these services at a rate of \$58 per hour. The District established a daily schedule per week form to evidence details of the services provided and sign-in, sign-out sheets for each of the four therapists working at various schools and employed by the vendor. However, our review disclosed the following:
 - The sign-in, sign out sheets generally evidenced eight-hour work days, which included lunch breaks, and District personnel indicated that the therapists generally took half-hour lunch breaks during the work days. However, the contract did not specify that the \$58 per hour charge would apply to lunch breaks and providing paid half-hour lunch breaks for each of the four therapists results in questioned expenditures of approximately \$21,000.
 - Although some of the therapists sign-in, sign out sheets evidenced an eight-hour work day, activities described on the daily schedule did not always correlate to the sign in, sign-out sheets. For example, the sign-in, sign out sheet for one therapist evidenced an eight-hour work day from 7:30 am to 3:30 pm; however, the daily schedule listed no activities from 1:30 p.m. to 3:30 p.m.
 - Some therapists worked teacher planning days while others did not. Our review of one month's billings disclosed that two of the four therapists worked on a planning day when students were not present; however, the daily schedule for these therapists did not evidence the services provided for the eight-hour day charged. The undocumented services result in questioned expenditures of \$928.

- Section 1001.41(4), Florida Statutes, establishes the Board as the contracting agent for the District. Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract, the Sheriff provided a school resource officer (SRO) at seven schools and the District paid \$246,513 for the services, excluding after-school SRO services. The contract provided that each SRO would be assigned to a school on a full-time or part-time basis on those days and hours that the school is in regular session. Also, the contract provided that the SRO may be temporarily unavailable due to sickness, leave, law enforcement emergency or other matters at the discretion of the Sheriff without need for temporary replacement of the SRO.

On December 7, 2012, the District paid the \$246,513 for the 2012-13 fiscal year SRO services based on approval by the secretary of the Deputy Superintendent of Operations. However, since SRO services were provided through June 2013, the District prepaid approximately \$164,000 for these services. In addition, District personnel with direct knowledge of the SRO services did not document receipt of the services through time records, such as SRO sign-in, sign-out sheets, or class rosters. District personnel indicated that the time records were not maintained because SROs report their hours to the Sheriff and the District does not pay them individually; however, without records to confirm receipt of SRO services, there is an increased risk of overpayment for these services.

Further, the Sheriff provided security for various after school functions at \$40 per hour and the District paid \$80,580 for these services. However, the services and related hourly rate were not established pursuant to a Board-approved contract, contrary to Section 1001.41(4), Florida Statutes, and District employees with direct knowledge of the SRO services did not evidence satisfactory receipt of the after-school services.

Without effective procedures to confirm that services are satisfactorily received and consistent with the contract terms, prior to payment, there is an increased risk of overpayment or that services provided may not be consistent with the Board's intent.

Recommendation: The District should enhance its procedures to ensure that services are satisfactorily received and consistent with the contract terms, prior to payment. In addition, the District should obtain sufficient documentation to support the above-noted questioned expenditures and seek recovery of any overpayments, as appropriate.

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. 2013-168. The following table provides information on District recurring audit findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
2	Audit Report No. 2013-168, Finding No. 3	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

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, 2013*

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 Costs/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.	Corrected.	Per grantor instructions, the District restored \$16,625 to the grant by March 15, 2013. The remaining questioned costs were not required to be restored.
2013-168 (1)	Special Education cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, Earmarking - Maintenance of Effort	District records did not evidence that the maintenance of effort requirements for Special Education programs were met.	Partially Corrected.	District met maintenance of effort in the current fiscal year; however, the questioned costs are pending resolution by the grantor.
2013-168 (2)	Special Education Cluster - Grants to States (CFDA No. 84.027) and Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles and Procurement	Control deficiencies and noncompliance were noted for certain contract payments, resulting in questioned costs of \$29,300 for the Special Education Cluster and \$85,652 for the Child Nutrition Cluster programs.	Partially Corrected.	District has recovered certain questioned costs resulting from vendor over-payments. Questioned costs resolution pending determination of grantor.

EXHIBIT A
MANAGEMENT'S RESPONSE



The School Board of Highlands County

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Superintendent

Ronnie Jackson
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Bill Brantley
Vice Chairperson

Donna Howerton
Jan Shoop
Andy Tuck

February 26, 2014

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, 2013.

Finding No. 1: Procurement – Information Technology Resources

The District will review its purchasing manual and make the necessary changes to insure Schools and Departments are aware of the required procedures and documentation regarding not only IT resource purchases but all District purchases.

Finding No. 2: Facilities Management

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

Finding No. 3: Contracted Services

The School District will review its procedures to ensure that services are satisfactorily received and consistent with the contract terms prior to payment. In addition, the District will seek reimbursement from the vendor for question costs for speech and occupational therapy services.

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

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