

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Susan L. Valdes, Vice Chair from 11-19-13	1
Candy Olson	2
Cynthia “Cindy” Stuart	3
Stacy R. White, Pharm. D.	4
Doretha W. Edgecomb	5
April Griffin, Chair to 11-18-13	6
Carol W. Kurdell, Vice Chair to 11-18-13, Chair from 11-19-13	7

MaryEllen Elia, 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 Anna A. McCormick, CPA, and the audit was supervised by Eric Davis, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

**HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District provided cash resources to its direct-support organization without specific legal authority.

Finding No. 2: The District had not competitively selected insurance providers, contrary to Section 112.08(2)(a), Florida Statutes.

Finding No. 3: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 4: The District did not advertise or keep minutes for insurance committee meetings, contrary to the Sunshine Law, and Board meeting minutes were not always timely approved.

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 6: The District could enhance its procedures to ensure that the required number of VIP options is offered.

Finding No. 7: VIP provider contracts did not include all statutorily required and necessary provisions.

Finding No. 8: The District could enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 9: Certain unnecessary information technology (IT) access privileges existed.

Finding No. 10: District IT security controls related to user authentication and data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster, Career and Technical Education, Voluntary Public School Choice, Improving Teacher Quality, and Temporary Assistance for Needy Families programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance finding as summarized below.

Federal Awards Finding No. 2014-001: The District transferred funds totaling \$3.1 million from the Workers' Compensation internal service fund to the General Liability internal service fund, and no determination was made of the portion that should be credited to Federal programs.

Audit Objectives and Scope

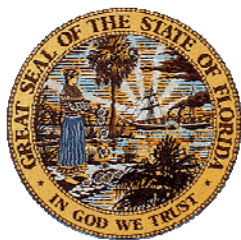
Our audit objectives were to determine whether the Hillsborough County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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 previously issued reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2014. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 23 percent of the assets and 56 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' 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 aggregate discretely presented component units, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Hillsborough County District School Board as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General Fund and each major special revenue fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note II to the basic financial statements, the District adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities*, which affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year, and No. 67, *Financial Reporting for Pension Plans – an amendment of GASB No. Statement 25*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Hillsborough County's (District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the District's basic financial statements. The District's 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 contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to the corporate private sector. On these financial statements, governmental activities are consolidated for the primary government.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, and liabilities, with the assets plus deferred outflows of resources, minus liabilities being reported as net position. This statement combines the governmental funds current financial resources (short-term spendable resources) with capital assets and long term obligations. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District has changed.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying obligation/event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The government-wide financial statements include not only the District but its component units as well. The Hillsborough School Board Leasing Corporation, although also legally separate, functions for all practical purposes, as a department of the District, and therefore has been included as an integral part of the primary government. The Hillsborough Education Foundation, Inc., and several separate public charter schools are included as discretely presented component units.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. 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. Funds are established for various purposes and the fund financial statements allow for the demonstration of sources and uses and/or budgetary compliance associated therewith. All funds of the District can be divided into three major categories: governmental funds, proprietary funds, and fiduciary funds.

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, the governmental funds focus on the sources and uses of liquid resources and balances of spendable resources available at the end of the fiscal year.

This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Because the focus is narrower than that of government-wide financial statements, it is useful to compare it to the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Reconciliation between the government-wide and the governmental fund financial information is necessary because of the different measurement focus (current financial resources versus total economic resources); such reconciliation is reflected on the page following each statement. The flow of current financial resources reflects debt proceeds and interfund transfers as other financing sources, as well as capital expenditures and debt principal payments as expenditures. The reconciliations eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the governmental activities column in the government-wide statements.

The District maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue – Other Federal Programs Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other Fund, Debt Service – ARRA Economic Stimulus Fund, Capital Projects – Local Capital Improvement Fund, Capital Projects – Other Fund, and Capital Projects – ARRA Economic Stimulus Fund, which are considered to be major funds. Data from the other 4 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for all its governmental funds.

Proprietary Funds: The internal service fund is the District's only proprietary fund type. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its group health, workers' compensation, and liability self-insurance activities. Because these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds: The District is the trustee, or fiduciary, for its employee pension plan. It is also responsible for other assets that, because of a trust agreement, can be used only for the trust beneficiaries. Additionally, the District uses agency funds to account for resources held for student activities and groups. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets plus deferred outflows of resources exceeded liabilities by \$1,634,903,069.74 at the end of the current fiscal year.

The following is a summary of the District's net position as of June 30, 2014, compared to net position as of June 30, 2013:

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-14	6-30-13 (Restated) *
Current and Other Assets	\$ 729,878,118.13	\$ 780,437,144.83
Capital Assets	2,325,407,001.31	2,363,606,664.55
Total Assets	3,055,285,119.44	3,144,043,809.38
Deferred Outflows of Resources	43,557,005.96	46,405,738.56
Long-Term Liabilities	1,337,077,405.36	1,356,558,970.47
Other Liabilities	126,861,650.30	117,155,707.90
Total Liabilities	1,463,939,055.66	1,473,714,678.37
Net Position:		
Net Investment in Capital Assets	1,260,997,496.62	1,266,015,434.84
Restricted	325,924,969.57	326,543,761.48
Unrestricted	47,980,603.55	124,175,673.25
Total Net Position	\$ 1,634,903,069.74	\$ 1,716,734,869.57

* Prior year amounts have been restated for the District's implementation of GASB Statement No. 65.

By far the largest portion of the District's net position (77 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$47,980,603.55. Unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.

The District's net position decreased by \$81,831,799.83 from last fiscal year, due to current fiscal year operations. During the current fiscal year, unrestricted net position decreased by \$76,195,069.70. This decrease was primarily due to salary increases.

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

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-14	6-30-13 Restated *
Program Revenues:		
Charges for Services	\$ 51,277,948.80	\$ 50,666,070.53
Operating Grants and Contributions	82,477,651.76	74,682,132.81
Capital Grants and Contributions	7,658,000.65	7,747,071.67
General Revenues:		
Property Taxes, Levied for Operational Purposes	418,312,866.48	408,137,020.58
Property Taxes, Levied for Capital Projects	101,321,821.14	96,077,473.99
Local Sales Tax	25,879,851.17	24,660,463.02
Grants and Contributions Not Restricted to Specific Programs	1,220,399,170.59	1,132,298,156.45
Unrestricted Investment Earnings	2,454,713.18	6,176,479.20
Miscellaneous	80,024,134.66	77,202,450.38
Total Revenues	1,989,806,158.43	1,877,647,318.63
Functions/Program Expenses:		
Instruction	1,114,285,007.69	1,032,881,317.57
Student Personnel Services	81,678,993.08	75,721,749.19
Instructional Media Services	23,389,687.37	21,917,317.13
Instruction and Curriculum Development Services	50,476,135.73	43,922,584.78
Instructional Staff Training Services	42,277,426.98	48,385,855.26
Instruction Related Technology	35,015,753.85	29,762,882.75
School Board	2,450,302.69	1,518,495.72
General Administration	11,978,921.01	11,006,154.87
School Administration	96,079,598.17	91,712,279.70
Facilities Acquisition and Construction	118,081,464.54	111,835,939.47
Fiscal Services	7,781,376.64	7,478,461.78
Food Services	105,851,170.67	95,897,060.57
Central Services	39,737,123.20	26,521,976.17
Student Transportation Services	72,785,759.38	70,805,450.42
Operation of Plant	110,961,359.61	110,235,594.20
Maintenance of Plant	28,063,065.82	28,968,877.25
Administrative Technology Services	926,983.48	526,524.89
Community Services	85,306,779.42	83,642,269.91
Interest on Long-Term Debt	44,213,724.39	45,856,729.56
Unallocated Depreciation Expense	297,324.54	344,115.41
Total Functions/Program Expenses	2,071,637,958.26	1,938,941,636.60
Change in Net Position	(81,831,799.83)	(61,294,317.97)
Net Position - Beginning - Restated *	1,716,734,869.57	1,778,029,187.54
Net Position - Ending	\$ 1,634,903,069.74	\$ 1,716,734,869.57

* Prior year amounts have been restated for the District's implementation of GASB Statement No. 65.

The increase in unrestricted grants and contributions revenue of \$88,101,014.14 is the result of an increase in Florida Education Finance Program (FEFP) funding. Property taxes increased during the year as a result of an increase in assessed values.

For the most part, the increase in expenses was due to the increase in costs for other postemployment benefits and compensated absences, an increase in salaries due to the implementation of the Empowering Effective Teachers evaluation system, and an increase in retirement costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$542,853,218.50, a decrease of \$45,049,933.95 as compared to the prior fiscal year.

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$95,796,572.78, while total fund balance was \$229,632,311.42. The fund balance of the District's General Fund decreased by \$39,636,218.54 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6 percent of total general fund expenditures, while total fund balance represents approximately 15 percent of that same amount. The fund balance decrease of \$39,636,218.54 in the current fiscal year was due in part to:

- Additional expenditures required for common core training and the required materials;
- Computers/technology and infrastructure for the upcoming State Accountability Standards along with escalating online testing requirements;
- The legislative mandate for the "Additional Hour of Intensive Reading" each instructional day for the one hundred lowest performing elementary schools in the State (based on the State reading assessment). This mandate requires an additional hour of intensive reading instruction beyond the normal school day for all students in these schools. Our district had 11 schools included in this category;
- Increased instructional materials expense due to the state-mandated Math Textbook Adoption and alignment to state standards and digital content requirements;
- Increased expenditures due to more than 1,400 aging school buses. As the funding for capital outlay has diminished over the last seven years, the general fund has become responsible for paying these expenditures;
- Additionally, services for exceptional students have grown and the funding for these programs has not kept pace with the expenditure increases;
- Student funding remains below pre-recession levels. At the start of the 2007-08 school year, funding per unweighted full-time equivalent student was \$7,123.18. In the 2013-14 fiscal year, the District's funding per unweighted full-time equivalent student was \$6,750.20. This loss of \$372.98 per student, plus 9,971 new students, equals \$3,719,103 in funding the District did not receive;

- The State wide proration (reduction of FEFP funds) was \$51,655,306. Of that amount, the District's share was \$3,890,308; and
- Increased school security measures in response to the tragic events on school campuses across the country.

The Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund have zero fund balances at the end of the current fiscal year. Because revenue is recognized to the extent that eligible expenditures have been incurred, these funds generally do not accumulate fund balances. For the Special Revenue – Federal Economic Stimulus Fund, revenues have decreased significantly since the inception of the programs in 2009-10 fiscal year due to the reduction in available stimulus funds.

The Debt Service – Other Fund and Debt Service – ARRA Economic Stimulus Fund show nearly the same fund balances as the prior fiscal year because debt service payments are approximately equal over the years.

The Capital Projects – Local Capital Improvement Fund's ending fund balance of \$103,649,916.56 decreased \$23,978,181.18 from the prior fiscal year. Although taxes for capital outlay were \$5,244,347.15 more this fiscal year, expenditures for various projects were \$12,321,079.75 higher than last fiscal year due to additional maintenance of schools.

The Capital Projects – Other Fund accounts for projects funded from the certificates of participation. Overall, there was an increase of \$8,681,223.47 in fund balance from \$54,019,911.31 to \$62,701,134.78. The increase was due to the revenues outpacing the expenditures due to increases in local sales tax and impact fee revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the District revised its budget and brought amendments to the Board on a monthly basis. These amendments were needed to adjust to actual revenues and direct resources where needed. The Board approves the final amendment to the budget after fiscal year-end.

Budgeted expenditures increased \$113,397,152.44 from the original budget to the final amended budget. The increases were due in part to the increase in salaries due to the implementation of the Empowering Effective Teacher's evaluation system.

Actual expenditures were \$140,347,470.42 below the final amended expenditure budget. Unexpended appropriations of \$140,347,470.42 were composed of the following: (1) \$31,062,879.86 in restricted programs, (2) \$97,684,423.85 in other earmarked assigned funds, and (3) \$11,600,166.71 in other unexpended budget items. The \$11,600,166.71 reflects less than 1 percent of the final budget. In the normal course of business, some of the budget is left unspent, primarily due to temporarily unfilled positions.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$2,325,407,001.31 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and systems; furniture, fixtures, and equipment; motor vehicles; audio visual equipment; and computer software, as follows:

	Governmental	
	Activities	
	6-30-14	6-30-13
Land	\$ 160,441,219.85	\$ 154,608,011.30
Land Improvements	90,256,158.19	90,066,705.30
Construction in Progress	33,205,073.56	16,452,467.37
Improvements Other Than Buildings	82,212,441.26	83,823,548.58
Buildings and Systems	1,915,877,549.57	1,966,016,161.77
Furniture, Fixtures and Equipment	32,015,173.40	35,989,151.04
Motor Vehicles	9,946,628.26	13,937,053.83
Audio Visual Equipment	1,739.94	
Computer Software	1,451,017.28	2,713,565.36
Total Capital Assets, Net	<u>\$ 2,325,407,001.31</u>	<u>\$ 2,363,606,664.55</u>

This year's additions of \$60,553,062.74 included several renovation projects. Total capital assets decreased due to the fact that deletions and depreciation were higher than additions.

Additional information on the District's capital assets can be found in notes I.F.4 and III.D to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the District had total borrowed and bonded debt outstanding of \$1,088,810,068.65, which includes unamortized bond premiums of \$28,191,208.15.

	6-30-14	6-30-13
Bonds Payable	\$ 238,225,802.53	\$ 255,055,747.87
Certificates of Participation Payable	850,584,266.12	879,958,180.88
Total Long-Term Debt	<u>\$ 1,088,810,068.65</u>	<u>\$ 1,135,013,928.75</u>

The District's total borrowed and bonded debt decreased by \$46,203,860.10 (net of repayment of principal on outstanding debt) during the current fiscal year. The decrease is due to the payment of principal and the removal of refunded debt (\$86,508,731.60) offset by the issuance of new refunding debt totaling \$42,236,000.00.

The District has been given the following bond ratings:

	Sales Tax Revenue Bonds	
	Insured	Underlying
Moody's	A2	A2
Standard & Poor's	AA/BBB+	BBB
Fitch IBCA		BBB+

	Certificates of Participation	
	Insured	Underlying
Moody's	Aa2	Aa2
Standard & Poor's	AA-	AA-
Fitch IBCA		AA

Additional information on the District's long-term debt can be found in notes III.F and III.H through III.J to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School District of Hillsborough County's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Accounting Department, 901 E. Kennedy Blvd., Tampa, Florida, 33602, or call 813-272-4292.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	\$ 207,995,368.07	\$ 29,663,856.00
Investments	465,758,783.21	5,961,952.00
Accounts Receivable	11,117,633.90	2,264,645.00
Due from Other Agencies	39,081,235.27	673,857.00
Other Assets		463,837.00
Prepaid Items		4,388,026.00
Inventories	5,925,097.68	185.00
Capital Assets:		
Nondepreciable Capital Assets	283,902,451.60	9,153,799.00
Depreciable Capital Assets, Net	2,041,504,549.71	59,076,490.00
TOTAL ASSETS	3,055,285,119.44	111,646,647.00
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging		
Derivatives	19,156,442.00	121,183.00
Deferred charge on refunding	24,400,563.96	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	43,557,005.96	121,183.00
LIABILITIES		
Salaries and Benefits Payable	1,144,623.09	3,407,981.00
Payroll Deductions and Withholdings	3,099,137.34	9,884.00
Accounts Payable	55,657,432.26	14,948,884.00
Construction Contracts Payable - Retainage	2,019,383.36	
Due to Other Agencies	6,573,770.43	30,066.00
Accrued Interest Payable	16,339,434.01	
Deposits Payable	55,578.56	44,000.00
Advanced Revenue	14,954,294.25	290,730.00
Derivative Instrument - Liability	27,017,997.00	121,183.00
Long-Term Liabilities:		
Portion Due Within One Year	68,862,106.43	2,323,592.00
Portion Due After One Year	1,268,215,298.93	72,248,117.00
TOTAL LIABILITIES	1,463,939,055.66	93,424,437.00
NET POSITION		
Net Investment in Capital Assets	1,260,997,496.62	(5,193,131.00)
Restricted for:		
State Required Carryover Programs	13,473,744.76	
Debt Service	93,074,900.54	1,439,516.00
Capital Projects	166,268,091.53	38,356.00
Food Service	35,519,097.64	
Other Purposes	17,589,135.10	7,312,177.00
Unrestricted	47,980,603.55	14,746,475.00
TOTAL NET POSITION	\$ 1,634,903,069.74	\$ 18,343,393.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 1,114,285,007.69	\$ 23,451,266.57	\$	\$
Student Personnel Services	81,678,993.08			
Instructional Media Services	23,389,687.37			
Instruction and Curriculum Development Services	50,476,135.73			
Instructional Staff Training Services	42,277,426.98			
Instruction Related Technology	35,015,753.85			
School Board	2,450,302.69			
General Administration	11,978,921.01			
School Administration	96,079,598.17			
Facilities Acquisition and Construction	118,081,464.54			850,360.40
Fiscal Services	7,781,376.64			
Food Services	105,851,170.67	25,021,585.20	82,477,651.76	
Central Services	39,737,123.20			
Student Transportation Services	72,785,759.38	2,805,097.03		
Operation of Plant	110,961,359.61			
Maintenance of Plant	28,063,065.82			
Administrative Technology Services	926,983.48			
Community Services	85,306,779.42			
Interest on Long-Term Debt	44,213,724.39			6,807,640.25
Unallocated Depreciation Expense*	297,324.54			
Total Governmental Activities	<u>2,071,637,958.26</u>	<u>51,277,948.80</u>	<u>82,477,651.76</u>	<u>7,658,000.65</u>
Component Units				
Charter Schools/Educational Foundation	<u>\$ 114,966,979.00</u>	<u>\$ 4,579,523.00</u>	<u>\$ 5,031,758.00</u>	<u>\$ 4,312,588.00</u>

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning, as Restated (See Note II)

Net Position - Ending

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

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component
Governmental	Units
Activities	
\$ (1,090,833,741.12)	\$
(81,678,993.08)	
(23,389,687.37)	
(50,476,135.73)	
(42,277,426.98)	
(35,015,753.85)	
(2,450,302.69)	
(11,978,921.01)	
(96,079,598.17)	
(117,231,104.14)	
(7,781,376.64)	
1,648,066.29	
(39,737,123.20)	
(69,980,662.35)	
(110,961,359.61)	
(28,063,065.82)	
(926,983.48)	
(85,306,779.42)	
(37,406,084.14)	
(297,324.54)	
(1,930,224,357.05)	
	(101,043,110.00)
418,312,866.48	
101,321,821.14	
25,879,851.17	
1,220,399,170.59	99,223,065.00
2,454,713.18	498,892.00
80,024,134.66	5,682,300.00
1,848,392,557.22	105,404,257.00
(81,831,799.83)	4,361,147.00
1,716,734,869.57	13,982,246.00
\$ 1,634,903,069.74	\$ 18,343,393.00

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund	Debt Service - ARRA Economic Stimulus Fund
ASSETS					
Cash	\$ 197,194,063.68	\$ 66,571.18	\$ 1,134.02	\$ 4,388.37	\$
Investments	31,059,015.37	9.94		95,232,985.77	6,343,717.95
Accounts Receivable	10,651,425.79	5,122.45			
Due from Other Funds	12,781,816.24	136,996.07		3,917,209.66	
Due from Other Agencies	8,637,170.90	18,032,422.75	226,474.10	4,037,251.86	
Inventories	5,088,434.93				
TOTAL ASSETS	\$ 265,411,926.91	\$ 18,241,122.39	\$ 227,608.12	\$ 103,191,835.66	\$ 6,343,717.95
LIABILITIES					
Liabilities:					
Salaries and Benefits Payable	\$ 1,141,049.23	\$	\$	\$	\$
Payroll Deductions and Withholdings	3,099,137.34				
Accounts Payable	19,961,633.06	6,085,741.33	105,944.96	2,747,209.66	
Due to Other Funds	563,574.73	11,634,003.94	121,663.16		
Due to Other Agencies	6,573,276.06	494.37			
Deposits Payable				55,578.56	
Advanced Revenue	4,440,945.07	520,882.75			
TOTAL LIABILITIES	35,779,615.49	18,241,122.39	227,608.12	2,802,788.22	
Fund Balances:					
Nonspendable:					
Inventories	5,088,434.93				
Restricted for:					
Federal Required Carryover Programs	181,147.64				
State Required Carryover Programs	21,827,990.94				
Local Carryover Programs	9,053,741.28				
Debt Service				100,389,047.44	6,343,717.95
Capital Projects					
Total Restricted Fund Balance	31,062,879.86			100,389,047.44	6,343,717.95
Assigned for:					
District Operations	97,684,423.85				
Unassigned Fund Balance	95,796,572.78				
Total Fund Balances	229,632,311.42			100,389,047.44	6,343,717.95
TOTAL LIABILITIES AND FUND BALANCES	\$ 265,411,926.91	\$ 18,241,122.39	\$ 227,608.12	\$ 103,191,835.66	\$ 6,343,717.95

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$ 6,010,635.67	\$	\$	\$ 76,246.60	\$ 203,353,039.52
110,443,270.52	60,008,130.60		40,255,247.36	343,342,377.51
			261,239.52	10,917,787.76
497,212.58			254,237.22	17,587,471.77
919,581.66	5,666,132.17		976,785.82	38,495,819.26
			836,662.75	5,925,097.68
<u>\$ 117,870,700.43</u>	<u>\$ 65,674,262.77</u>	<u>\$ 0.00</u>	<u>\$ 42,660,419.27</u>	<u>\$ 619,621,593.50</u>
\$	\$	\$	\$ 3,573.86	\$ 1,144,623.09
				3,099,137.34
9,857,748.43	2,611,436.85		955,831.05	42,325,545.34
4,363,035.44	361,691.14		543,503.36	17,587,471.77
				6,573,770.43
				55,578.56
			1,020,420.65	5,982,248.47
<u>14,220,783.87</u>	<u>2,973,127.99</u>		<u>2,523,328.92</u>	<u>76,768,375.00</u>
			836,662.75	5,925,097.68
			34,682,434.89	34,863,582.53
				21,827,990.94
				9,053,741.28
			2,681,569.16	109,414,334.55
103,649,916.56	62,701,134.78		1,936,423.55	168,287,474.89
<u>103,649,916.56</u>	<u>62,701,134.78</u>		<u>39,300,427.60</u>	<u>343,447,124.19</u>
				97,684,423.85
				95,796,572.78
103,649,916.56	62,701,134.78		40,137,090.35	542,853,218.50
<u>\$ 117,870,700.43</u>	<u>\$ 65,674,262.77</u>	<u>\$ 0.00</u>	<u>\$ 42,660,419.27</u>	<u>\$ 619,621,593.50</u>

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

Total Fund Balances - Governmental Funds \$ 542,853,218.50

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. 2,325,407,001.31

Deferred outflows of resources are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds. These are the deferred outflows reported as a result of changes in the fair value of hedging of derivative instruments and deferred charges on refunded debt in the statement of net position. 43,557,005.96

The derivative instrument liability is not due and payable in the current period and therefore is not reported in the governmental funds. (27,017,997.00)

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. 88,315,817.70

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	\$ 238,225,802.53	
Certificates of Participation Payable	850,584,266.12	
Compensated Absences Payable	135,594,276.71	
Other Postemployment Benefits Payable	<u>95,448,814.00</u>	(1,319,853,159.36)

Accrued interest on long-term liabilities is not due and payable in the current period and therefore, is not reported in the governmental funds. (16,339,434.01)

Accrued retainage payable is not due and payable in the current period and therefore is not reported in the governmental funds. (2,019,383.36)

Net Position - Governmental Activities \$ 1,634,903,069.74

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

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund	Debt Service - ARRA Economic Stimulus Fund
Revenues					
Intergovernmental:					
Federal Direct	\$ 2,660,232.35	\$ 16,231,295.70	\$	\$	\$
Federal Through State and Local	10,272,164.43	182,833,155.94	9,716,931.39		
State	991,805,549.12	791,045.41			
Local:					
Property Taxes	418,312,866.48				
Local Sales Taxes				21,879,851.17	
Impact Fees					
Charges for Services - Food Service					
Miscellaneous	82,327,705.78	468,647.25		623,841.23	8,875.91
Total Local Revenues	500,640,572.26	468,647.25		22,503,692.40	8,875.91
Total Revenues	1,505,378,518.16	200,324,144.30	9,716,931.39	22,503,692.40	8,875.91
Expenditures					
Current - Education:					
Instruction	1,005,516,167.64	82,877,686.99	323,627.00		
Student Personnel Services	60,041,890.83	20,063,229.57			
Instructional Media Services	20,420,838.29	2,511,738.46			
Instruction and Curriculum Development Services	24,088,725.19	24,189,967.50	307,836.59		
Instructional Staff Training Services	24,367,131.46	14,147,775.92	3,870,711.20		
Instruction Related Technology	31,085,426.73	1,743,767.32	126,445.08		
School Board	2,453,535.80				
General Administration	4,478,497.90	7,043,065.23	422,573.26		
School Administration	91,820,317.91	2,135,210.22	61,622.03		
Facilities Acquisition and Construction	1,254,107.67	22,745.87			
Fiscal Services	7,225,353.47	489,011.81			
Food Services	348,912.03				
Central Services	31,460,345.43	1,088,914.26	4,577,548.28		
Student Transportation Services	68,446,178.10	991,988.96	8,532.80		
Operation of Plant	107,763,072.78	194,465.51			
Maintenance of Plant	26,810,056.55				
Administrative Technology Services	1,000,159.01				
Community Services	44,451,186.69	40,728,122.15			
Fixed Capital Outlay:					
Facilities Acquisition and Construction	266,921.63	391,066.35			
Other Capital Outlay	5,542,362.28	1,732,368.46	18,035.15		
Debt Service:					
Principal				39,110,000.00	
Interest and Fiscal Charges				45,443,505.22	157,157.66
Total Expenditures	1,558,841,187.39	200,351,124.58	9,716,931.39	84,553,505.22	157,157.66
Excess (Deficiency) of Revenues Over Expenditures	(53,462,669.23)	(26,980.28)		(62,049,812.82)	(148,281.75)
Other Financing Sources (Uses)					
Transfers In	13,853,430.97	26,980.28		66,395,150.28	2,264,657.66
Refunding Bonds Issued					
Premium on Sale of Refunding Bonds					
Refunding Certificates of Participation				39,950,000.00	
Payments to Refunding Escrow Agent				(40,262,013.23)	
Transfers Out	(26,980.28)			(75,045.96)	
Total Other Financing Sources (Uses)	13,826,450.69	26,980.28		66,008,091.09	2,264,657.66
Net Change in Fund Balances	(39,636,218.54)			3,958,278.27	2,116,375.91
Fund Balances, Beginning	269,268,529.96			96,430,769.17	4,227,342.04
Fund Balances, Ending	\$ 229,632,311.42	\$ 0.00	\$ 0.00	\$ 100,389,047.44	\$ 6,343,717.95

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$
	5,756,614.00		81,059,232.76 9,408,601.90	18,891,528.05 283,881,484.52 1,007,761,810.43
101,321,821.14				519,634,687.62
	4,000,000.00			25,879,851.17
	17,960,428.48			17,960,428.48
			25,021,585.20	25,021,585.20
1,797,630.44	92,638.65		109,380.78	85,428,720.04
103,119,451.58	22,053,067.13		25,130,965.98	673,925,272.51
103,119,451.58	27,809,681.13		115,598,800.64	1,984,460,095.51
				1,088,717,481.63
				80,105,120.40
				22,932,576.75
				48,586,529.28
				42,385,618.58
				32,955,639.13
				2,453,535.80
				11,944,136.39
				94,017,150.16
28,366,995.40	61,919.71		1,709,823.97	31,415,592.62
				7,714,365.28
			102,523,699.00	102,872,611.03
				37,126,807.97
				69,446,699.86
				107,957,538.29
				26,810,056.55
				1,000,159.01
				85,179,308.84
33,523,911.87	9,931,887.46	747.44	115,996.97 1,596,617.85	44,230,531.72 8,889,383.74
			5,168,731.60	44,278,731.60
			2,254,763.38	47,855,426.26
61,890,907.27	9,993,807.17	747.44	113,369,632.77	2,038,875,000.89
41,228,544.31	17,815,873.96	(747.44)	2,229,167.87	(54,414,905.38)
			855,437.94	83,395,657.13
			2,486,000.00	2,486,000.00
			397,217.63	397,217.63
				39,950,000.00
(65,206,725.49)	(9,134,650.49)		(2,158,487.88)	(42,420,501.11)
				(74,443,402.22)
(65,206,725.49)	(9,134,650.49)		1,580,167.69	9,364,971.43
(23,978,181.18)	8,681,223.47	(747.44)	3,809,335.56	(45,049,933.95)
127,628,097.74	54,019,911.31	747.44	36,327,754.79	587,903,152.45
\$ 103,649,916.56	\$ 62,701,134.78	\$ 0.00	\$ 40,137,090.35	\$ 542,853,218.50

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

Net Change in Fund Balances - Governmental Funds **\$ (45,049,933.95)**

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 by which capital outlays (\$53,119,915.46) was less than depreciation expense (\$97,159,940.32) during the current period. (44,040,024.86)

The statement of activities reflects only the gain/loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net position differs by the cost of assets sold. (394,848.37)

Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 5,328,267.28

Debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayments of principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which payments of principal (\$44,278,731.60) and payments to refunding agent (\$42,420,501.11) were more than the proceeds of (\$42,436,000) in the current fiscal year. 44,263,232.71

Governmental funds report costs associated with certain bond transaction as resources or uses. However, in the statement of activities these transactions are reported over the life of the debt as expenses. This is the premium on new debt issued in the current fiscal year. (397,217.63)

Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds:

Other postemployment benefits	\$(20,316,355.00)	
Interest expense	1,506,867.45	
Compensated absences	(5,305,973.99)	
Amortization of bond discount and premium	1,261,328.42	
Amortization of investment derivative	<u>873,506.00</u>	<u>(21,980,627.12)</u>

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (19,560,647.89)

Change in Net Position - Governmental Activities **\$ (81,831,799.83)**

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

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 4,263,697.90	\$ 2,660,232.35	\$ 2,660,232.35	\$
Federal Through State and Local	8,976,696.89	10,272,164.43	10,272,164.43	
State	981,123,651.28	993,114,210.26	991,805,549.12	(1,308,661.14)
Local:				
Property Taxes	414,319,827.26	418,340,623.61	418,312,866.48	(27,757.13)
Miscellaneous	77,590,833.28	87,504,695.62	82,327,705.78	(5,176,989.84)
Total Local Revenues	<u>491,910,660.54</u>	<u>505,845,319.23</u>	<u>500,640,572.26</u>	<u>(5,204,746.97)</u>
Total Revenues	<u>1,486,274,706.61</u>	<u>1,511,891,926.27</u>	<u>1,505,378,518.16</u>	<u>(6,513,408.11)</u>
Expenditures				
Current - Education:				
Instruction	1,032,201,250.72	1,063,275,304.11	1,005,516,167.64	57,759,136.47
Student Personnel Services	63,070,152.22	61,976,889.10	60,041,890.83	1,934,998.27
Instructional Media Services	21,462,834.28	20,992,705.78	20,420,838.29	571,867.49
Instruction and Curriculum Development Services	22,849,279.40	25,617,878.81	24,088,725.19	1,529,153.62
Instructional Staff Training Services	37,752,586.94	29,043,781.69	24,367,131.46	4,676,650.23
Instruction Related Technology	29,648,623.98	36,413,749.88	31,085,426.73	5,328,323.15
School Board	1,526,284.74	2,801,297.34	2,453,535.80	347,761.54
General Administration	4,813,071.16	6,257,905.78	4,478,497.90	1,779,407.88
School Administration	96,463,396.03	92,282,252.98	91,820,317.91	461,935.07
Facilities Acquisition and Construction	2,300,882.28	2,607,180.82	1,254,107.67	1,353,073.15
Fiscal Services	7,164,589.50	30,260,403.46	7,225,353.47	23,035,049.99
Food Services	463,195.44	348,912.03	348,912.03	
Central Services	22,783,484.59	43,066,780.72	31,460,345.43	11,606,435.29
Student Transportation Services	66,049,808.92	69,649,607.44	68,446,178.10	1,203,429.34
Operation of Plant	103,816,267.96	118,872,502.36	107,763,072.78	11,109,429.58
Maintenance of Plant	29,062,663.78	35,474,101.77	26,810,056.55	8,664,045.22
Administrative Technology Services	713,627.24	1,005,228.16	1,000,159.01	5,069.15
Community Services	43,649,506.19	53,432,891.67	44,451,186.69	8,981,704.98
Fixed Capital Outlay:				
Facilities Acquisition and Construction		266,921.63	266,921.63	
Other Capital Outlay		5,542,362.28	5,542,362.28	
Total Expenditures	<u>1,585,791,505.37</u>	<u>1,699,188,657.81</u>	<u>1,558,841,187.39</u>	<u>140,347,470.42</u>
Deficiency of Revenues Over Expenditures	<u>(99,516,798.76)</u>	<u>(187,296,731.54)</u>	<u>(53,462,669.23)</u>	<u>133,834,062.31</u>
Other Financing Sources				
Transfers In	3,000,100.00	13,853,530.97	13,853,430.97	(100.00)
Transfers Out	<u>(33,146.40)</u>	<u>(28,756.61)</u>	<u>(26,980.28)</u>	<u>1,776.33</u>
Total Other Financing Sources (Uses)	<u>2,966,953.60</u>	<u>13,824,774.36</u>	<u>13,826,450.69</u>	<u>1,676.33</u>
Net Change in Fund Balances	<u>(96,549,845.16)</u>	<u>(173,471,957.18)</u>	<u>(39,636,218.54)</u>	<u>133,835,738.64</u>
Fund Balances, Beginning	<u>269,268,529.96</u>	<u>269,268,529.96</u>	<u>269,268,529.96</u>	
Fund Balances, Ending	<u>\$ 172,718,684.80</u>	<u>\$ 95,796,572.78</u>	<u>\$ 229,632,311.42</u>	<u>\$ 133,835,738.64</u>

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE - OTHER FEDERAL PROGRAMS FUND
For the Fiscal Year Ended June 30, 2014**

	Special Revenue - Other Federal Programs Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 12,018,458.87	\$ 31,547,052.99	\$ 16,231,295.70	\$ (15,315,757.29)
Federal Through State and Local	156,870,460.05	222,363,424.94	182,833,155.94	(39,530,269.00)
State	986,711.58	2,298,981.85	791,045.41	(1,507,936.44)
Local:				
Property Taxes				
Miscellaneous	364,377.55	833,409.04	468,647.25	(364,761.79)
Total Local Revenues	364,377.55	833,409.04	468,647.25	(364,761.79)
Total Revenues	<u>170,240,008.05</u>	<u>257,042,868.82</u>	<u>200,324,144.30</u>	<u>(56,718,724.52)</u>
Expenditures				
Current - Education:				
Instruction	80,262,159.59	110,651,030.19	82,877,686.99	27,773,343.20
Student Personnel Services	14,715,053.55	22,632,224.51	20,063,229.57	2,568,994.94
Instructional Media Services	2,308,458.91	3,972,927.70	2,511,738.46	1,461,189.24
Instruction and Curriculum Development Services	19,480,430.15	27,664,888.84	24,189,967.50	3,474,921.34
Instructional Staff Training Services	11,199,441.86	25,171,560.42	14,147,775.92	11,023,784.50
Instruction Related Technology	1,390,480.57	2,803,949.20	1,743,767.32	1,060,181.88
School Board	1,851,210.96			
General Administration	3,537,104.82	10,132,038.65	7,043,065.23	3,088,973.42
School Administration	2,430,911.01	2,297,044.92	2,135,210.22	161,834.70
Facilities Acquisition and Construction	373,222.96	468,049.18	22,745.87	445,303.31
Fiscal Services	595,218.33	491,928.23	489,011.81	2,916.42
Food Services				
Central Services	694,235.12	3,910,561.98	1,088,914.26	2,821,647.72
Student Transportation Services	1,116,351.83	1,841,132.27	991,988.96	849,143.31
Operation of Plant	141,880.14	233,021.45	194,465.51	38,555.94
Maintenance of Plant	697.04			
Administrative Technology Services		176,207.37		176,207.37
Community Services	30,176,197.61	42,501,525.71	40,728,122.15	1,773,403.56
Fixed Capital Outlay:				
Facilities Acquisition and Construction		391,066.35	391,066.35	
Other Capital Outlay		1,732,368.46	1,732,368.46	
Total Expenditures	<u>170,273,054.45</u>	<u>257,071,525.43</u>	<u>200,351,124.58</u>	<u>56,720,400.85</u>
Deficiency of Revenues Over Expenditures	<u>(33,046.40)</u>	<u>(28,656.61)</u>	<u>(26,980.28)</u>	<u>1,676.33</u>
Other Financing Sources (Uses)				
Transfers In	33,146.40	28,756.61	26,980.28	(1,776.33)
Transfers Out	(100.00)	(100.00)		100.00
Total Other Financing Sources	<u>33,046.40</u>	<u>28,656.61</u>	<u>26,980.28</u>	<u>(1,676.33)</u>
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
SPECIAL REVENUE - FEDERAL ECONOMIC STIMULUS FUND
For the Fiscal Year Ended June 30, 2014

	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	15,151,328.08	15,441,152.68	9,716,931.39	(5,724,221.29)
Local:				
Property Taxes				
Miscellaneous				
Total Local Revenues				
Total Revenues	<u>15,151,328.08</u>	<u>15,441,152.68</u>	<u>9,716,931.39</u>	<u>(5,724,221.29)</u>
Expenditures				
Current - Education:				
Instruction	5,627,913.01	323,627.00	323,627.00	
Student Personnel Services				
Instructional Media Services				
Instruction and Curriculum Development Services	306,228.26	351,784.05	307,836.59	43,947.46
Instructional Staff Training Services	2,398,668.43	4,825,988.05	3,870,711.20	955,276.85
Instruction Related Technology	153,526.82	130,006.16	126,445.08	3,561.08
School Board				
General Administration	486,618.08	590,613.60	422,573.26	168,040.34
School Administration	61,005.04	61,622.03	61,622.03	
Facilities Acquisition and Construction				
Fiscal Services				
Food Services				
Central Services	6,112,603.44	9,130,943.84	4,577,548.28	4,553,395.56
Student Transportation Services	4,765.00	8,532.80	8,532.80	
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction		18,035.15	18,035.15	
Other Capital Outlay				
Total Expenditures	<u>15,151,328.08</u>	<u>15,441,152.68</u>	<u>9,716,931.39</u>	<u>5,724,221.29</u>
Excess (Deficiency) of Revenues Over Expenditures				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Cash	\$ 4,642,328.55
Investments	122,416,405.70
Accounts Receivable	199,846.14
Due from Other Agencies	585,416.01
TOTAL ASSETS	127,843,996.40
LIABILITIES	
Current Liabilities:	
Accounts Payable	13,331,886.92
Advanced Revenue	8,972,045.78
Estimated Insurance Claims Payable	8,420,749.65
Total Current Liabilities	30,724,682.35
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	8,803,496.35
TOTAL LIABILITIES	39,528,178.70
NET POSITION	
Unrestricted	\$ 88,315,817.70

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

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

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	\$ 157,215,585.86
Other Operating Revenues	1,470,290.00
Total Operating Revenues	158,685,875.86
OPERATING EXPENSES	
Salaries	452,657.84
Employee Benefits	155,115.08
Purchased Services	309,717.04
Insurance Claims	11,499,914.81
Insurance Premiums	157,215,585.86
Total Operating Expenses	169,632,990.63
Operating Loss	(10,947,114.77)
NONOPERATING REVENUES	
Interest Revenue	338,721.79
Total Nonoperating Revenues	338,721.79
Loss Before Transfers	(10,608,392.98)
Transfers Out	(8,952,254.91)
Change in Net Position	(19,560,647.89)
Total Net Position - Beginning	107,876,465.59
Total Net Position - Ending	\$ 88,315,817.70

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

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

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Interfund Services Provided	\$ 157,125,791.03
Cash Payments to Suppliers for Goods and Services	(167,667,670.40)
Cash Payments to Employees for Services	(607,772.92)
Other Receipts	1,447,922.96
Net Cash Used by Operating Activities	<u>(9,701,729.33)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	<u>(8,952,254.91)</u>
Net Cash Used by Noncapital Financing Activities	<u>(8,952,254.91)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturity of Investments	19,519,445.96
Interest Income	338,721.79
Purchase of Investments	<u>(352,372.28)</u>
Net Cash Provided by Investing Activities	<u>19,505,795.47</u>
Net Increase in Cash	851,811.23
Cash, Beginning	<u>3,790,517.32</u>
Cash, Ending	<u><u>\$ 4,642,328.55</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (10,947,114.77)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(5,497.84)
Due From Other Agencies	38,630.33
Accounts Payable	218,950.98
Advanced Revenue	(106,664.03)
Estimated Insurance Claims Payable	<u>1,099,966.00</u>
Total Adjustments	<u>1,245,385.44</u>
Net Cash Used by Operating Activities	<u><u>\$ (9,701,729.33)</u></u>

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

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2014**

	Pension Trust Fund	Agency Funds
ASSETS		
Cash	\$	\$ 15,895,902.53
Investments:		
State Board of Administration		37,290,825.02
United States Treasury Securities	6,954,844.50	
Federal Home Loan Mgt. Corp	2,505,022.50	
Federal National Mgt. Assn	2,011,626.85	
Federal Home Loan Bank	1,262,240.00	
Federated Prime Obligations Fund - Money Market	237,206.70	
Accounts Receivable	31,457.41	
Inventories		160,955.84
TOTAL ASSETS	\$ 13,002,397.96	\$ 53,347,683.39
LIABILITIES		
Payroll Deductions and Withholdings	\$	\$ 35,036,425.54
Accounts Payable		1,452,480.37
Internal Accounts Payable		16,858,777.48
Total Liabilities		\$ 53,347,683.39
NET POSITION		
Held in Trust for Pension Benefits	\$ 13,002,397.96	

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

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

	Pension Trust Fund
	<u> </u>
ADDITIONS	
Contributions:	
Employer	<u>\$ 1,355,705.00</u>
Investment Earnings:	
Net Increase in Fair Value of Investments	6,189.83
Interest, Dividends, and Other	<u>107,137.56</u>
Total Investment Income	113,327.39
Less Investment Expense	<u>32,774.18</u>
Net Investment Income	<u>80,553.21</u>
Total Additions	<u>1,436,258.21</u>
DEDUCTIONS	
Benefits Paid to Participants	2,023,059.16
Administrative Expenses	<u>12,765.93</u>
Total Deductions	<u>2,035,825.09</u>
Change in Net Position	(599,566.88)
Net Position - Beginning	<u>13,601,964.84</u>
Net Position - Ending	<u><u>\$ 13,002,397.96</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Hillsborough County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense, which can be associated with a specific program or activity, is allocated to the related function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Hillsborough 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 seven elected members. The appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hillsborough County.

The accompanying financial statements present the activities of the Board and its component units. 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 (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's financial statements to be misleading.

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

Blended Component Unit. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the District. The Hillsborough School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further

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

discussed in note III.F. 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 Units. The component unit columns in the government-wide financial statements include the financial data of the District's other component units for the fiscal year ended June 30, 2014. These component units consist of the Hillsborough Education Foundation, Inc. (Foundation) and the District's charter schools. Both the Foundation and the charter schools are reported in a separate column to emphasize that they are legally separate from the District. The charter schools are considered to be a component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District. None of the individual component units are considered to be major.

The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of, the District.

Complete financial statements of the Foundation can be obtained from their administrative office at:

Hillsborough Education Foundation, Inc.
2306 N. Howard Ave.
Tampa, Florida 33607

The charter schools are separate not-for-profit corporations organized under Section 1002.33, Florida Statutes to operate as public (as opposed to private) schools and are held responsible for prudent use of the public funds they receive. Each charter school is a separate component unit that operates under a charter approved by their sponsor, the District. There are forty (40) charter schools operating in the District that meet the criteria for presentation as a discretely presented component unit.

The individual charter schools are listed below. Further, complete audited financial statements of the individual component units can be obtained from their administrative offices. These schools include:

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

Advantage Academy of Hillsborough
350 West Prosser Drive
Plant City, Fl 33563

Advantage Academy Middle School
350 West Prosser Drive
Plant City, Fl 33563

Bell Creek Academy
13221 Boyette Road
Riverview, Fl 33569

Bell Creek Academy High School
13221 Boyette Road
Riverview, Fl 33569

Brooks DeBartolo Collegiate High School
10948 N. Central Avenue
Tampa, Fl 33612

Channelside Academy of Math and Science
1029 E. Twiggs St.
Tampa, Fl 33602

Channelside Academy Middle School
1029 E. Twiggs St.
Tampa, Fl 33602

Community Charter Middle School of Excellence
11604 N. 15th Street
Tampa, Fl 33612

Community Charter School of Excellence
11604 N. 15th Street
Tampa, Fl 33612

Florida Autism Charter School of Excellence
6400 East Chelsea Street
Tampa, Fl 33610

Focus Academy
304 Druid Hills Road
Temple Terrace, Fl 33617

Henderson Hammock
10322 Henderson Rd.
Tampa, Fl 33625

Hillsborough Academy of Math and Science
9659 W. Waters Ave.
Tampa, Fl 33635

Kid's Community College
10030 Mathog Road
Riverview, Fl 33578

Kid's Community College Middle Charter School
10030 Mathog Road
Riverview, Fl 33578

Kid's Community College Charter School Southeast
11519 McMullen Road
Riverview, Fl 33569

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

King's Kids Academy of Health Sciences
1924 E. Comanche Avenue
Tampa, Fl 33610

Learning Gate Community School
16215 Hanna Road
Lutz, Fl 33549

Legacy Preparatory Academy (formerly Mount
Pleasant Standard-Based Middle School)
1906 N. Rome Avenue
Tampa, Fl 33607

Literacy/Leadership/Technology Academy MS
6771 Madison Avenue
Tampa, Fl 33619

Lutz Preparatory School
17951 North U.S. Hwy 41
Lutz, Fl 33549

New Springs Elementary School
2410 E. Busch Blvd.
Tampa, Fl 33612

New Springs Middle School
2410 E. Busch Blvd.
Tampa, Fl 33612

Pepin Academies
3916 E. Hillsborough Ave.
Tampa, Fl 33610

Pepin Transitional School
3916 E. Hillsborough Ave.
Tampa, Fl 33610

Pivot Charter School
3020 Falkenburg Road
Riverview, Fl 33578

Richardson Montessori Academy
9390 N. Florida Avenue
Tampa, Fl 33612

Seminole Heights Charter High School
4006 North Florida Avenue
Tampa, FL 33603

Shiloh Elementary Charter School
905 West Terrace Drive
Plant City, Fl 33563

Shiloh Middle Charter School
905 West Terrace Drive
Plant City, Fl 33563

Tampa Charter School
5429 Beaumont Center #800
Tampa, Fl 33634

Terrace Community Middle School
11734 Jefferson Road
Thonotosassa, Fl 33592

Trinity School for Children
2402 W. Osborne Ave.
Tampa, Fl 33603

Valrico Lake Advantage Academy
13306 Boyette Road
Riverview, Fl 33569

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Village of Excellence Charter School
8718 North 46th St.
Temple Terrace, Fl 33617

Walton Academy of the Performing Arts
4817 N. Florida Ave.
Tampa, Fl 33603

W. E. Phillips Learning Academy
2506 S. Parsons Ave.
Seffner, Fl 33584

West University Charter High School
11602 N. 15th St.
Tampa, Fl 33612

Winthrop Charter School
6204 Scholars Hill Lane
Riverview, Fl 33578

Woodmont Charter School
10402 N. 56th St.
Temple Terrace, Fl 33617

C. Basis of Presentation

The basic financial statements include the government-wide financial statements and fund financial statements.

Government-wide Financial Statements – Government-wide financial statements include a statement of net position and a statement of activities that display information about the District and its component units. The governmental activities column incorporates data from governmental funds and internal service 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. Eliminations have been made to minimize the double-counting of internal activities. The effect of interfund activities has been eliminated in the Statement of Activities.

The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the District functions. The expense of individual functions is compared to the revenues generated by the function (for instance, through user charges or intergovernmental grants). Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Because the focus of the governmental fund financial statements differs

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

from the focus of the government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other funds and to employees for workers compensation and insurance. Operating expenses for the internal service funds include the cost of services and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs 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).
- Debt Service – Other Fund – to account for various debt proceeds and principal and interest payments, including the certificates of participation.
- Debt Service – ARRA Economic Stimulus Fund – to account for proceeds and principal payments for the Qualified School Construction Bond.
- Capital Projects – Local Capital Improvement Fund – to account for and report on the revenues generated from the local capital outlay property tax to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.
- Capital Projects – Other Fund – to account for and report other miscellaneous capital outlay funds from various sources.
- Capital Projects – ARRA Economic Stimulus Fund – to account for and report on expenditures of the Qualified School Construction Bond proceeds.

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

- Internal Service Funds – to account for the District's workers' compensation, general and automobile liability self-insurance programs and the employee health insurance program.
- Pension Trust Fund – to account for resources used to finance the early retirement program.
- Agency Funds – to account for resources held by the District as custodian for others, primarily for the benefit of various schools and their activity funds.

**HILLSBOROUGH COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

D. Measurement Focus and 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 (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Statements – The government-wide financial statements are prepared using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows have taken place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available if the revenues are collected within 60 days after fiscal year-end. Grant funds are considered available if collection is expected in the upcoming fiscal year. Property taxes, sales taxes, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred and, there are both restricted and unrestricted assets available to finance the program, it is the District's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities. 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.

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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E. Budgetary Basis of Accounting

The Board follows procedures established by State statutes and State Board of Education rules in establishing final budget balances reported in the financial statements:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules. Original budgets are submitted to the State Commissioner of Education for approval.
- The budget is prepared by fund, function, object and department. Management may make transfers of appropriations between departments and object. The functional level is the legal level of budgetary control and may only be amended by resolution of the Board at any Board meeting prior to the due date for the Superintendent's Annual Financial Report (State Report). Budgetary disclosure in the accompanying financial statements reflects the original and final budget including all amendments approved for the fiscal year through September 9, 2014.
- Budgets are prepared using the modified accrual basis as is used to account for actual transactions in the 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.

All budget amounts presented in the basic statements and the accompanying supplementary information reflect the original budget and the final amended budget (which has been adjusted for legally authorized revisions of the annual budget during the fiscal year).

At the governmental fund level, outstanding encumbrances are re-appropriated in the subsequent year. Encumbrances outstanding at fiscal year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls.

F. Assets, Liabilities, Deferred Outflows of Resources, and Net Position/Fund Balance

1. Cash

Cash consists of petty cash funds and deposits held by banks qualified as public depositories under Florida law. All deposits are fully insured by Federal depository insurance and a multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The statement of cash flows for the Proprietary Funds considers cash as those accounts used as demand deposit accounts.

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, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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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. Investments of the early retirement program are reported at fair value.

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

Investments made locally consist of a money market account, certificates of deposit, investments in United States Government Treasury Securities and obligations of United States instrumentalities, and a guaranteed investment contract, and are reported at fair value. Types and amounts of investments held at year-end are further described in note III.B on investments.

3. Inventories

Inventories consist of expendable supplies and equipment held for consumption in the course of District operations. Inventories at the central warehouse, maintenance, textbook depository and the bus garage are stated at cost based on a moving average. Food service inventories are stated at cost based on the first-in, first-out basis, except that 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. All other inventories are stated at cost on the last invoice price method, which approximates the first-in, first-out basis. The cost of inventories is 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 purchased after July 1, 2004, are defined as those costing more than \$1,000 and having a useful life of more than one year; those purchased before July 1, 2004, are defined as those costing more than \$750 and having a useful life of more than one year. Donated assets are recorded at fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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	10 - 25 years
Buildings and Systems	15 - 50 years
Furniture, Fixtures, and Equipment	5 - 20 years
Motor Vehicles	4 - 10 years
Audio Visual Materials	3 years
Computer Software	3 - 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 in the government-wide statement of net position. Debt premiums, discounts and losses on refunding issuances, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Debt payables are reported net of the applicable debt premium or discount. Losses on refunding issuances are reported as deferred outflows of resources.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums, discounts and losses on refunding issuances as well as bond issuance costs, during the current period. The face amount of debt issued, as well as any related premium is reported as an other financing source while discounts on debt issuances and losses on refunding issuances are reported as an other financing use. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Changes in long-term debt for the current year are reported in note III.J.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

6. Deferred Outflows of Resources

In the government-wide financial statements, the District records deferred outflows of resources which represent the consumption of net position by the District that is applicable to a future reporting period. At June 30, 2014, deferred outflows of resources represent activity associated with various swap agreements, as discussed in note III.G, and the deferred charges on debt refundings.

7. 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.

8. 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.

9. 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 may include 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 balances at June 30, 2014.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by resolution authorized the finance director to assign fund balance. The Board may also assign fund balance as it

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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.

The District has adopted Board policy No. 6210 which requires that a contingency fund balance be maintained in its operating fund of no less than 5 percent of the annual revenues.

G. Revenues and Expenditures/Expenses

1. State Revenue Sources

Revenues from State sources for current operations are primarily from the Florida Education Finance Program (FEFP) administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of 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 of or additions to revenues in the year when the adjustments are made.

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided. The money not expended or encumbered as of the close of the fiscal year is usually carried forward into the following year to be expended for the same programs. The Department requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted for the balance of categorical educational program resources.

2. 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 taxes are assessed by the Hillsborough County Property Appraiser and are collected by the Hillsborough County Tax Collector.

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

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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. These procedures result in the collection of essentially all taxes prior to June 30 of the year following the assessment.

Property tax revenues are recognized in the government-wide financial statements in the fiscal year for which the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when the taxes are received by the District, except that revenue is accrued for taxes collected by the Hillsborough County Tax Collector at fiscal year-end which have not yet been remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued.

Millages and taxes levied for the current year are presented in note III.M.2.

3. Federal Revenue Sources

The District receives Federal financial assistance for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For Federal financial assistance 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.

4. Use of Estimates

The preparation of the financial statements requires management of the District to make a number of assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

II. ACCOUNTING CHANGES

Governmental Accounting Standards Board Statement No. 65. The District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the 2013-14 fiscal year. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items previously reported as assets and liabilities, respectively. As such, the District decreased the beginning net position by \$8,430,672.72 to \$1,716,734,869.57 in the governmental activities statement of activities for debt issuance deferred charges of previously issued debt, which were previously reported as an asset. Also due to the implementation of GASB Statement No. 65, the carrying amount of the amortized charges on debt refunding has been reclassified from long term debt to deferred outflows of resources on the Statement of Net Position. The charter schools also implemented GASB Statement No. 65 for fiscal year ended June 30, 2014. As a result, the District decreased beginning net position of component units' column in the governmental activities statement of activities by \$404,399 to \$13,982,246.

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These reporting changes affect the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

GASB Statement No. 67. The District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. This Statement requires enhanced note disclosures and schedules of required supplementary information for the District's Early Retirement Plan.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. At June 30, 2014, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes. Under this Chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss.

B. Investments

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

Investment	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	40 Days	\$ 446,434,033.98
Pool B	2.86 Years	1,643,784.06
Debt Service Account	40 Days	1,576,336.59
United States Treasury Securities	10/31/2014 - 05/31/2020	7,524,762.22
United States Instrumentalities	08/27/2014 - 05/15/2020	10,092,659.95
Certificates of Deposit	07/18/2014 - 05/11/2015	40,429,684.40
Federated Prime Obligation Fund	N/A	237,206.70
Guaranteed Investment Contract	11/06/2015	8,082,080.88
Total Investments		<u>\$ 516,020,548.78</u>

Investments are reflected in the financial statements as follows:

Governmental Funds	\$ 343,342,377.51
Internal Service Funds	122,416,405.70
Fiduciary Funds:	
Pension Trust	12,970,940.55
Agency	37,290,825.02
Total	<u>\$ 516,020,548.78</u>

➤ 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 has a formal investment policy that the investment objectives are safety of capital, liquidity of funds, and investment income, in that order.

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The performance measurement objective shall be to exceed the State Board of Administration's Florida PRIME yield. The policy limits the type of investments and the length of investments of idle funds. The weighted average duration of the investment portfolio shall not exceed five years.

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

➤ **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 the types of investments that the District can use. The District's investment policy authorizes the following investments:

- The State Board of Administration (SBA) Investment Pool, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes;
- Direct obligations of the United States Treasury;
- Obligations of Federal agencies, government sponsored enterprises, and instrumentalities;
- Securities of, or other interest in, any open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1;
- Short-term obligations commonly referred to as "money market instruments" including but not limited to commercial paper, provided such obligations carry the highest credit rating from a nationally recognized rating agency; and
- Asset-backed securities when either a) the underlying asset is guaranteed by the issuer or b) the security carries the highest quality rating by a nationally recognized rating agency.

The securities listed in the third and fourth bullets shall be invested to provide sufficient liquidity to pay obligations as they come due.

The District's investments in the SBA consist of Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B).

Florida PRIME is an external investment pool that is not registered with the SEC, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows funds to use amortized cost to maintain a constant net asset value (NAV) of \$1.00 per share. Accordingly, the District's investment in Florida PRIME is reported at the account balance which is considered fair value. Florida PRIME is rated AAAM by Standard & Poor's.

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The Fund B is accounted for as a fluctuating NAV pool. With a fluctuating NAV pool the fair value approximates market value. The SBA provides a fair value factor to use on the Fund B account balance to determine market value or fair value. As of June 30, 2014 the fair value factor was 1.84438408. Fund B is not rated by any recognized rating agency. Currently participants are unable to withdraw funds from Fund B. Rather as cash becomes available in Fund B from interest receipts, maturities, or sales, it is distributed to participant accounts in Florida PRIME according to each participant's pro rata share of Fund B. All such distributions from Fund B to Florida PRIME will be 100 percent available for withdrawal upon transfer.

The District's investments in United States instrumentalities and United States Treasury securities for the Pension Trust Fund were rated either AAA by Standard and Poor's or Aaa by Moody's Investors Service. The others were rated either AA+ by Standard and Poor's or Aaa/P-1 by Moody's Investors Service.

The District's investments in certificates of deposits were in qualified public depositories.

Investments in the SBA Debt Service accounts, totaling \$1,576,336.59, are to provide for debt service payments on bonded debt issued by the SBA for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less and are reported at fair value. The District has no formal policy for managing interest rate risk or credit risk for this account, but relies on policies developed by the SBA.

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the District's interest in the security; 2) if in book-entry form, the investment must be held for the credit of the District by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in Florida, as defined in Section 658.12, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in Florida, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy addresses custodial credit risk in that all securities are held with a third-party custodian; and all securities purchased by the District should be properly designated as an asset of the District.

Of the District's investments, \$7,524,762.22 in United States Treasury securities, and \$10,092,659.95 in United States instrumentalities are not registered in the name of the District, are held by the counterparty's trust department or agent, and are not insured.

➤ **Concentration of Credit Risk**

The District places no limit on the amount it may invest in any one issuer. The District had no investment excluding amounts held with the SBA that made up more than 5 percent of total investments.

➤ **Foreign Currency Risk**

The District has no investments which are exposed to foreign currency risk as of June 30, 2014. The District does not have a formal investment policy that limits its investment in foreign currency.

**HILLSBOROUGH COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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C. Due from Other Agencies

Amounts due from other governmental agencies as of June 30, 2014 are shown below:

	<u>Federal Government</u>	<u>State Government</u>		<u>Local Government</u>		
	<u>Miscellaneous</u>	<u>Food Reimbursement</u>	<u>Miscellaneous</u>	<u>Hillsborough County Board of County Commissioners</u>	<u>Miscellaneous</u>	<u>Total</u>
General Fund	\$ 423,452.54	\$ 0	\$ 3,439,665.69	\$ 3,922,017.30	\$ 852,035.37	\$ 8,637,170.90
Special Revenue: Other Federal Programs Fund	6,838,361.23		484,851.81	10,555,109.53	154,100.18	18,032,422.75
Federal Economic Stimulus Fund	226,474.10					226,474.10
Debt Service: Other Fund				4,037,251.86		4,037,251.86
Capital Projects: Local Capital Improvement Fund				919,581.66		919,581.66
Other Fund				5,662,309.48	3,822.69	5,666,132.17
Nonmajor Funds		976,785.82				976,785.82
Proprietary Funds			585,416.01			585,416.01
Total	<u>\$ 7,488,287.87</u>	<u>\$ 976,785.82</u>	<u>\$ 4,509,933.51</u>	<u>\$ 25,096,269.83</u>	<u>\$ 1,009,958.24</u>	<u>\$ 39,081,235.27</u>

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DISTRICT SCHOOL BOARD
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D. 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	\$ 154,608,011.30	\$ 5,895,665.31	\$ 62,456.76	\$ 160,441,219.85
Land Improvements - Non Depreciable	90,066,705.30	189,452.89		90,256,158.19
Construction in Progress	16,452,467.37	45,638,244.82	28,885,638.63	33,205,073.56
Total Capital Assets Not Being Depreciated	261,127,183.97	51,723,363.02	28,948,095.39	283,902,451.60
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	206,522,019.95	5,252,074.25	1,202,771.10	210,571,323.10
Buildings and Systems	2,646,501,632.08	23,490,824.07	6,794,402.44	2,663,198,053.71
Furniture, Fixtures, and Equipment	167,674,682.84	8,177,561.90	15,870,307.82	159,981,936.92
Motor Vehicles	97,341,923.72	281,665.19	965,280.64	96,658,308.27
Audio Visual Materials	40,170.42	2,020.58	6,886.78	35,304.22
Computer Software	25,640,286.54	573,649.12	2,452,738.03	23,761,197.63
Total Capital Assets Being Depreciated	3,143,720,715.55	37,777,795.11	27,292,386.81	3,154,206,123.85
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	122,698,471.37	6,831,497.31	1,171,086.84	128,358,881.84
Buildings and Systems	680,485,470.31	73,420,077.61	6,585,043.78	747,320,504.14
Furniture, Fixtures, and Equipment	131,685,531.80	11,519,951.21	15,238,719.49	127,966,763.52
Motor Vehicles	83,404,869.89	4,272,090.76	965,280.64	86,711,680.01
Audio Visual Materials	40,170.42	280.64	6,886.78	33,564.28
Computer Software	22,926,721.18	1,116,042.79	1,732,583.62	22,310,180.35
Total Accumulated Depreciation	1,041,241,234.97	97,159,940.32	25,699,601.15	1,112,701,574.14
Total Capital Assets Being Depreciated, Net	2,102,479,480.58	(59,382,145.21)	1,592,785.66	2,041,504,549.71
Governmental Activities Capital Assets, Net	\$ 2,363,606,664.55	\$ (7,658,782.19)	\$ 30,540,881.05	\$ 2,325,407,001.31

**HILLSBOROUGH COUNTY
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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 5,797,656.07
Student Personnel Services	77,062.54
Instructional Media Services	108,570.22
Instruction and Curriculum Development	243,849.19
Instructional Staff Training	53,286.85
Instruction Related Technology	1,706,555.93
General Administration	13,077.52
School Administration	226,496.16
Facilities Acquisition and Construction	86,577,684.82
Fiscal Services	38,987.87
Food Services	495,666.54
Central Services	119,049.81
Student Transportation Services	783,416.65
Operation of Plant	168,231.37
Maintenance of Plant	428,724.84
Administrative Technology Service	178.57
Community Services	24,120.83
Unallocated Depreciation	297,324.54
Total Depreciation Expense - Governmental Activities	\$ 97,159,940.32

E. Revolving Line of Credit

Pursuant to the provisions of Section 1011.13, Florida Statutes, on May 21, 2013, the Board authorized the Superintendent to establish a line-of-credit tax anticipation note for 2013-14 fiscal year, in the amount of \$80,000,000 with Wells Fargo Bank of Florida. The outstanding principal amount of the note shall bear interest at the one month London Interbank Offered Rate (LIBOR) plus 80 basis points adjusted monthly. This line-of-credit allows the Board to borrow funds if established revenues (cash) are lagging behind expenditures such as weekly payrolls and weekly vendor payments. The note is secured by a pledge of anticipated ad valorem tax proceeds. This note would be repaid in full in ninety days from the first draw. The note shall not exceed \$80,000,000 at any time. For the fiscal year ended June 30, 2014, no funds had been borrowed or utilized under this line-of-credit and, therefore, no amounts are outstanding at June 30, 2014.

On April 20, 2014 the Board authorized the Superintendent to establish a line-of-credit tax anticipation note for fiscal year 2015, with the same terms as described above.

F. Certificates of Participation

The District entered into various financing arrangements each of which was characterized as a lease-purchase agreement, with the Hillsborough School Board Leasing Corporation (Corporation),

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

whereby the District secured financing of various educational facilities 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 arrangement, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of \$10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements to the Trustee for the benefit of the securers of the certificates to the end of the ground lease term.

Certificates of Participation that are still part of the District's debt obligation are as follows:

Certificates	Date of Certificates	Original Amount of Certificates	Ground Lease Term Expiration
Series 1998 Project	March 1, 1998	\$ 336,930,000	June 30, 2017
Series 2001 QZAB Project	November 6, 2001	9,600,000	November 6, 2015
Series 2004A Project	February 19, 2004	27,305,000	June 30, 2017
Series 2004B Project	February 19, 2004	56,715,000	June 30, 2026
Servies 2004 QZAB Project	June 8, 2004	6,131,000	June 30, 2020
Series 2004C Project	November 4, 2004	89,750,000	June 30, 2030
Series 2005A Project	February 25, 2005	48,915,000	June 30, 2026
Series 2005 QZAB Project	December 20, 2005	3,002,000	December 20, 2020
Series 2006A Project	January 31, 2006	86,435,000	June 30, 2031
Series 2006B Project	January 26, 2007	77,900,000	June 30, 2026
Series 2007 Project	April 24, 2007	84,685,000	June 30, 2031
Series 2008A Projects	July 1, 2008	109,830,000	June 23, 2023
Series 2010A Projects	April 15, 2010	97,545,000	June 30, 2025
Series 2010 QSCB Projects	December 21, 2010	37,935,000	December 1, 2028
Series 2012A Projects	April 3, 2012	124,565,000	June 30, 2029
Series 2014A Projects	April 2, 2014	39,550,000	June 30, 2026

The Series 1998 Certificates of Participation were also issued, in part, in order to provide the funds necessary to advance refund the Series 1994 and the Series 1995 Certificates of Participation and refinance the Series 1994 and Series 1995 facilities which the District has acquired, constructed and installed from the proceeds of the Series 1994 and Series 1995. The Series 2004A Certificates of Participation were issued in order to provide funds necessary to advance refund the Series 1996 Certificates of Participation and refinance the Series 1996 facilities that the District has acquired, constructed and installed from the proceeds of the Series 1996. The Series 2005A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 2000 Certificates of Participation and refinance the Series 2000 facilities that the District has acquired, constructed and installed from the proceeds of the Series 2000. The Series 2006B Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 1998B and 2001B Certificates of Participation and refinance the Series 1998B and 2001B facilities that the District acquired, constructed and installed from the proceeds of the Series 1998B and 2001B. On May 23, 2008 the District remarketed the Series 2004C Certificates of Participation in

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order to change the auction interest rate to a daily adjustable rate. The Series 2008A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 1998A Certificates of Participation and refinance the Series 1998A facilities that the District has acquired, constructed and installed from the proceeds of the Series 1998A. The Series 2010A Certificates of Participation were issued in order to provide the funds necessary to partially refund the Series 2001A Certificates of Participation and refinance the Series 2001A facilities that the District has acquired, constructed and installed from the proceeds of the Series 2001A. The Series 2012A Certificates of Participation were issued in order to provide funds necessary to partially advance refund the Series 2002 Certificates of Participation and fully refund the Series 2003B Certificates of Participation and refinance the Series 2002 and Series 2003B facilities that the District has acquired, constructed and installed from the proceeds of the Series 2002 and Series 2003B. The Series 2014A Certificates of Participation were issued in order to provide funds necessary to fully advance refund the Series 2002 Certificates of Participation and partially advance refund the Series 2004B Certificates of Participation and refinance the Series 2002 and Series 2004B facilities that the District has acquired, constructed and installed from the proceeds of the Series 2002 and Series 2004B Certificates of Participation. See note III.I.

Due to the economic substance of the issuances of the certificates of participation as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to certificate holders. During the year ended June 30, 2014, \$137,425.84 was expended for capital outlay in the certificates of participation funds reported in the Capital Projects - Other Fund.

The lease payments for the Series 1998, Series 2004A, Series 2004B, Series 2005A, Series 2006A, Series 2006B, Series 2007, Series 2010A, Series 2012A and Series 2014A Certificates are payable by the District, semi-annually, on July 1 and January 1 at interest rates of 3.6 to 5.5 percent, 5.25 percent, 2 percent to 5.09 percent, 2.375 to 5 percent, 3.5 to 5 percent, 3.5 to 5 percent, 3.75 to 5 percent, 3 to 5 percent, 4 to 5 and 2.56 percent, respectively. The lease payments for the Series 2004C and the Series 2008A Certificates are payable by the District semi-annually on July 1 and January 1. The interest is paid monthly based on a daily rate set by the remarketing agent that is expected to approximate the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index over the life of the certificates. The lease payments for the Series 2001-Qualified Zone Academy Bonds (QZAB), 2004-QZAB, 2005-QZAB and 2010-Qualified School Construction Bonds (QSCB) Certificates are due November 6, 2015, June 30, 2020, December 20, 2020 and December 1, 2028, respectively. There is no interest to be paid on the QZAB or QSCB, as the certificate holders receive Federal tax credits in lieu of interest payments. The District is required to reserve a portion of the lease payments each year.

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The following is a schedule by years of future minimum lease payments under the lease agreements as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 63,562,176.31	\$ 29,645,000.00	\$ 33,917,176.31
2016	73,799,199.92	41,020,000.00	32,779,199.92
2017	64,276,031.92	32,990,000.00	31,286,031.92
2018	64,624,076.67	34,855,000.00	29,769,076.67
2019	64,659,361.78	36,525,000.00	28,134,361.78
2020-2024	329,356,710.44	218,138,000.00	111,218,710.44
2025-2029	353,106,566.71	292,220,000.00	60,886,566.71
2030-2032	148,854,174.99	142,115,000.00	6,739,174.99
Total Minimum Lease Payments	<u>\$ 1,162,238,298.74</u>	<u>\$ 827,508,000.00</u>	<u>\$ 334,730,298.74</u>

G. Interest Rate Swap

<u>Item</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fair Value</u>	<u>Cash Flow</u>
A	Pay fixed interest rate swap	Hedge in changes in cash flows on Series 2004C COPS	\$ 29,750,000	12/7/2004	12/7/2014	\$ (486,447)	\$ (1,093,354)

The terms of this pay fixed interest rate swap provide for paying a fixed rate of 3.736 percent and receiving a variable rate of the bond market association municipal swap index (BMA Index).

<u>Item</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fair Value</u>	<u>Cash Flow</u>
B	Pay fixed interest rate swap	Hedge in changes in cash flows on Series 2008A COPS	\$ 109,830,000	7/1/2008	7/1/2023	\$ (26,531,550)	\$ (5,386,315)

As it relates to Derivative B the District entered into a swaption contract on February 19, 2003 that provided the District an upfront payment of \$5,006,500. This payment was reduced by \$1,800,000 at which time the swaption was amended on April 19, 2005 to reduce the original notional amount from \$177,195,000 to \$109,830,000. The swaption was exercised on July 1, 2008 commencing a pay-fixed, interest rate swap that provided for payment of a fixed rate of 4.97 percent and receiving a variable rate of municipal swap index (defined as the Bond Market Association Municipal Swap Index). Prior to the exercise date, the swaption was considered an investment derivative instrument. Accordingly, the negative fair value at the exercise date in the amount of \$13,102,591 is being amortized as an increase to the deferred outflows of resources balance and a decrease to interest expense over the remaining life of the related hedgeable item (long term debt). Such amortization amounted to \$873,506 for the fiscal year ended June 30, 2014.

The fair values of the interest rate swaps are estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due

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on the date of each future net settlement on the swaps. The fair value of the derivative instruments was recorded as derivative instrument – liability in the Statement of Net Position at June 30, 2014.

During the year ended June 30, 2014, the change in the fair value of the derivative instruments, which were recorded as decreases to deferred outflows of resources in the Statement of Net Position, were as follows:

- Derivative Instrument A - \$1,021,076
- Derivative Instrument B - \$1,624,646

Risks.

Credit risk. Credit risk is the risk that a counterparty will not fulfill its obligation. Both of the District's derivative instruments are held with different counterparties. The credit rating for the counterparty of Derivative A is AA- by Standard and Poor's and for the counterparty of Derivative B is A by Standard and Poor's.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's financial instruments or the District's cash flow. The District is exposed to interest rate risk on its pay fixed, receive variable interest rate swaps. As the municipal swap index decreases, the District's net payment on the swap increases.

Termination risk. Termination risk is the risk that a hedging derivative investment's unscheduled end will affect the District's asset and liability strategy or will present the District with potentially significant unscheduled termination payments to the counterparty. The District or the counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract.

H. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	\$ 50,000.00	5.0	2015
Series 2005Q	17,555,000.00	5.0	2020
Series 2006A	2,655,000.00	5.5	2026
Series 2008A	4,445,000.00	3.25 - 5.0	2028
Series 2009A	2,410,000.00	4.0 - 5.0	2029
Series 2010A	3,470,000.00	3.5 - 5.0	2030
Series 2011A	1,570,000.00	3.0 - 5.0	2023
Series 2014A	2,486,000.00	2.0 - 5.0	2025
District Revenue Bonds:			
Series 1998 Capital Improvement			
Racetrack Revenue Refunding	1,279,860.50	3.5 - 5.35	2028
Series 2005 Sales Tax	109,610,000.00	2.25 - 5.0	2023
Series 2006 Sales Tax	40,065,000.00	4.0 - 4.25	2026
Series 2007 Sales Tax	47,515,000.00	3.5 - 5.0	2026
Total Bonds Payable	<u>\$ 233,110,860.50</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 State Board of Education (SBE) on behalf of the District. The bonds mature serially and are secured by a pledge of part of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ District Revenue Bonds

Capital Improvement and Racetrack Revenue Refunding Bonds of 1998. These bonds are authorized by Chapter 71-680, Laws of Florida, which authorized the Board to pledge all of the portion of the racetrack funds accruing annually to Hillsborough County, under the provisions of Chapters 550 and 551, Florida Statutes, as allocated to the Board pursuant to law, and Chapter 132, Florida Statutes, which authorized the refunding of the District Revenue Bonds of 1985. As required by the bond resolution the Board established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

Sales Tax Revenue Bonds, Series 2005, 2006 and 2007. These bonds are authorized by the Constitution and Laws of the State of Florida, including, particularly Chapter 1010, Florida Statutes, Chapter 212, Part I, Florida Statutes and other applicable provisions of law. The bonds are secured by a pledge of the proceeds received pursuant to the Interlocal Agreement from the levy and collection by the County of the one-half cent local infrastructure sales surtax.

The District has pledged a combined total of \$1,279,860.50 of Racetrack Commission revenues in connection with the 1998 District Revenue Bond. During the 2013-14 fiscal year, the District recognized Racetrack Commission revenue totaling \$446,500 and expended \$163,731.60 (36.7 percent) of this revenue for debt service directly collateralized by this revenue. The pledged Racetrack Commission revenues are committed until final maturity of the debt on August 1, 2028. Approximately 62.7 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

The School Board issued Sales Tax Revenue Bonds, Series 2005, Series 2006, and Series 2007, in the amount of \$127,975,000 on February 8, 2005, \$54,860,000 on March 8, 2006, and \$47,515,000 on March 15, 2007 respectively. These bonds are authorized by a pledge of proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes. Proceeds of the bonds were used to refinance prior sales tax bonds and to finance construction of new school facilities and renovations of existing school facilities.

The District pledged a total of \$197,190,000 of discretionary surtax sales revenues (sales tax revenues) in connection with these sales tax revenue bonds described above. During the 2013-14 fiscal year, the District recognized sales tax revenues totaling \$21,879,851.17 and expended \$10,815,000 (49.4 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt, or October 1, 2026. Assuming a nominal growth rate in the collection of sales tax revenues, which are levied through December 31, 2026, approximately 56.7 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2015	\$ 6,908,788.68	\$ 5,254,000.00	\$ 1,654,788.68
2016	6,915,771.25	5,503,000.00	1,412,771.25
2017	6,923,737.50	5,781,000.00	1,142,737.50
2018	6,949,847.50	6,093,000.00	856,847.50
2019	2,141,472.50	1,588,000.00	553,472.50
2020 - 2024	8,296,956.25	6,530,000.00	1,766,956.25
2025 - 2029	4,158,866.25	3,707,000.00	451,866.25
2030	192,400.00	185,000.00	7,400.00
Total State School Bonds	42,487,839.93	34,641,000.00	7,846,839.93
District Revenue Bonds:			
2015	20,332,551.88	11,409,306.80	8,923,245.08
2016	20,329,973.75	11,915,278.00	8,414,695.75
2017	20,293,587.50	12,424,750.90	7,868,836.60
2018	20,180,966.05	12,962,293.20	7,218,672.85
2019	20,169,204.57	13,573,323.60	6,595,880.97
2020 - 2024	100,653,883.05	77,962,112.00	22,691,771.05
2025 - 2029	62,808,341.80	58,222,796.00	4,585,545.80
Total District Revenue Bonds	264,768,508.60	198,469,860.50	66,298,648.10
Total	\$ 307,256,348.53	\$ 233,110,860.50	\$ 74,145,488.03

I. Defeased Debt

On April 2, 2014, the District issued \$39,950,000 Certificates of Participation, Series 2014A with an interest rate of 2.56 percent. The proceeds were used to fully refund \$2,195,000 principal amount of the District's Series 2002 Certificates of Participation and to refund \$37,235,000 principal amount of the District's then outstanding \$39,505,000 of the Series 2004B Certificates of Participation. \$40,262,012 of the net proceeds (after payment of \$113,718 of issuance costs) were placed in an irrevocable trust to provide for future debt service payment of the refunded amount of the Series 2002 and 2004B Certificates of Participation.

As a result \$2,195,000 of the Series 2002 and \$37,235,000 of the Series 2004B are considered defeased and the liability for these certificates have been removed from long term debt. Accordingly the trust account assets and liability for that portion of the Series 2002 and 2004B are not included in the District's financial statements.

As a result of the refunding, the District reduced its debt service requirements by \$4,271,207 which resulted in an economic gain (difference between the present value of debt service payment on the old and new debt) of \$3,841,087.

On May 22, 2014 the State Board of Education issued Series 2014A SBE Refunding Bonds in the amount of \$2,486,000 at a premium, with interest rates ranging from 2 percent to 5 percent, on behalf of the District. The proceeds were used to fully refund \$2,105,000 of the Series 2004A SBE bonds and advance refund \$695,000 principal amount of the then outstanding \$745,000 Series 2005A SBE bonds. The net

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proceeds (after payment of \$17,083 in underwriter's fees and other issuance costs) were placed in a trust account to refund the 2005A bonds that mature on or after January 1, 2016, and are scheduled to be called on January 1, 2015.

J. Changes in Long Term Debt

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	\$ 16,124,280.00	\$ 11,499,914.81	\$ 10,399,948.81	\$ 17,224,246.00	\$ 8,420,749.65
Bonds Payable	249,408,592.10	2,486,000.00	18,783,731.60	233,110,860.50	16,663,306.80
Certificates of Participation Payable	855,283,000.00	39,950,000.00	67,725,000.00	827,508,000.00	29,645,000.00
Compensated Absences Payable	130,288,302.72	24,992,131.21	19,686,157.22	135,594,276.71	14,133,049.98
Other Postemployment Benefits Payable	75,132,459.00	24,534,131.00	4,217,776.00	95,448,814.00	
Total Governmental Activities	<u>\$ 1,326,236,633.82</u>	<u>\$ 103,462,177.02</u>	<u>\$ 120,812,613.63</u>	<u>1,308,886,197.21</u>	<u>\$ 68,862,106.43</u>
Plus unamortized net premiums:					
Bonds Payable				5,114,942.03	
Certificates of Participation				<u>23,076,266.12</u>	
Total Long-Term Liabilities				<u>\$ 1,337,077,405.36</u>	

Internal service funds predominately serve the governmental funds and, accordingly, long-term liabilities of those funds are included in the governmental activities. For the governmental activities, compensated absences are generally liquidated with resources of the General Fund and postemployment healthcare benefits are generally liquidated with resources of the General and special revenue funds. The estimated insurance claims are generally liquidated with resources of the proprietary funds, as discussed in note III.Q.

K. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB No. 54). The intention of GASB No. 54 is to provide more structured classification of fund balance reporting. The reporting standards established a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or are legally or contractually required to remain intact. Examples of this classification are prepaid item, inventories, and principal of an endowment fund. The District has inventories that are considered nonspendable. The District does not have any other nonspendable fund balances.

GASB 54 provides a hierarchy of spendable fund balances, based on spending constraints:

➤ Restricted

Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

➤ Committed

Fund balance that contain self-imposed constraints of the government from its highest level of decision making authority.

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➤ Assigned

Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The District has a policy No. 6100 approved by the board that designates administrative staff (the Superintendent and Chief Business Officer) to determine the assignments.

➤ Unassigned

Fund balance of the General Fund that is not constrained for a particular purpose.

The District has classified its fund balances based on the GASB No. 54 hierarchy as follows:

➤ Nonspendable

The District has inventories totaling \$5,925,097.68 that are classified as nonspendable.

➤ Spendable

The District has classified the spendable fund balances as restricted, assigned and unassigned. The District currently has no funds classified as committed.

- Restricted for Federal, State and Local Programs, Debt Service and Capital Projects – Federal Laws, Florida Statutes and local constraints require that certain revenues be specifically used for certain expenditures. These funds have been included in the restricted category of fund balances. The restricted fund balances total is \$343,447,124.19, and represent \$34,863,582.53 for Federal programs, \$21,827,990.94 for State programs, \$9,053,741.28 for local programs, \$109,414,334.55 for debt service, and \$168,287,474.89 for capital projects.
- Assigned for District Operations – The District has set aside certain spendable fund balances for school operations in the amount of \$97,684,423.85. They consist of:
 - School Operations \$54,263,589.85
 - Self-Insurance retention \$10,000,000.00
 - Transportation Department \$12,470,238.00
 - OPEB set aside \$20,950,596.00
- Unassigned – The District has a policy that requires it to maintain a contingency fund balance in its operating fund of no less than 5 percent of the annual revenues. The District has \$95,796,572.78 in unassigned fund balance. At the end of the fiscal year, the unassigned fund balance in the General Fund is 6.36 percent of total General Fund revenues.

The District first applies resources for expenditures to restricted, then assigned, and then unassigned fund balances, when expenditures are incurred which could use any of the fund balance classifications.

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L. 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	\$ 12,781,816.24	\$ 563,574.73
Special Revenue:		
Other Federal Programs	136,996.07	11,634,003.94
Federal Economic Stimulus		121,663.16
Debt Service:		
Other	3,917,209.66	
Capital Projects:		
Local Capital Improvement	497,212.58	4,363,035.44
Other		361,691.14
Nonmajor Governmental	254,237.22	543,503.36
Total	<u>\$ 17,587,471.77</u>	<u>\$ 17,587,471.77</u>

The majority of interfund receivables and payables are established during the closing period. The receivable in the General Fund is for payback of direct/indirect charges for June and temporary loans to special revenue funds for contracted services for cost reimbursement grants. The amounts in local capital improvement, other capital projects fund and non-major funds are mostly due to the movement of expenditures between capital project funds.

M. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's state revenue for the 2014 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 696,123,514.00
Categorical Educational Program - Class Size Reduction	263,615,238.38
Workforce Development Program	28,707,841.00
Capital Outlay and Debt Service	7,621,183.00
Charter School Capital Outlay	5,756,614.00
Food Service Supplement	1,418,419.00
Mobile Home License Tax	609,164.56
Pari-Mutuel Tax	446,500.00
State Board of Education Bond Interest	36,817.65
Miscellaneous	3,426,518.84
Total	<u>\$ 1,007,761,810.43</u>

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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 in the 2013 tax roll for the 2013-14 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.442	\$ 389,573,045.96
Basic Discretionary Local Effort	0.748	53,546,607.56
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	107,379,560.62
Total	<u>7.690</u>	<u>\$ 550,499,214.14</u>

N. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 13,853,430.97	\$ 26,980.28
Special Revenue:		
Other Federal Programs	26,980.28	
Debt Service:		
Other Debt Service	66,395,150.28	75,045.96
Debt Service Economic Stimulus	2,264,657.66	
Capital Projects:		
Local Capital Improvement		65,206,725.49
Other		9,134,650.49
Nonmajor Governmental	855,437.94	
Internal Service		8,952,254.91
Total	<u>\$ 83,395,657.13</u>	<u>\$ 83,395,657.13</u>

The largest amount of interfund transfers is to move money to the debt service funds for debt principal and interest payments.

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O. Pension Obligations

1. 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, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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. There were 3,287 District participants in the Investment Plan as of June 30, 2014.

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
FRS, Special Risk Regular	3.00	19.06
FRS, Teachers' Retirement System, Plan E	6.25	11.44
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$74,238,216, \$79,328,141, and \$107,938,639, representing a percentage of covered payroll of 7.58 percent for fiscal year 2012, 7.94 percent for fiscal year 2013, and 10.14 percent for fiscal year 2014. These amounts are equal to the required contributions for each fiscal year. Effective July 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

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

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
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2. Early Retirement Plan

Plan Description and Provisions. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (Plan), effective August 1, 1984. The Plan is a single-employer defined benefit plan. The purpose of the Plan is to provide eligible District employees, who elect to retire under the early retirement provisions of the Florida Retirement System (FRS), described in note III.O.1, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62. The Board administers the Plan assets in a Pension Trust Fund and is responsible for their investment. The Board acts as the administrative agent for the Plan. The Board entered into an agreement with Wells Fargo Bank, N.A., designating the Bank as the Investment Manager and Custodian (Trustee) for the Plan assets. The Agreement also provides that monthly benefits be paid by the Trustee. Based on an actuarial report as of July 1, 2013, employee membership data related to the Plan was as follows:

RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS 571

ACTIVE PLAN PARTICIPANTS: There are no longer any active plan participants.

A summary of Eligibility and Benefits follows:

- **Eligibility.** A member of the Plan was eligible upon attainment of age 55 to 59, completion of 25 but not more than 28 years of creditable service, at least 5 consecutive and uninterrupted years of service immediately preceding early retirement, and having applied for retirement under the FRS. The Board approved to close the Plan to new participants on June 30, 2008. However, certain employees were eligible to enter the plan before July 1, 2010. As of July 1, 2010, the plan was closed to any new participants.
- **Benefits.** The amount of the monthly benefit will be equal to the reduction imposed on the retirement benefit by the FRS due to early retirement. The benefit amount will be based on the initial benefit amount determined by the FRS prior to any cost of living adjustments and, once established, will remain unchanged, unless a specific increase is authorized by the Board.

Contributions and Reserves. The District's Early Retirement Program was established by the Board on August 1, 1984 and may be subsequently amended by Board action. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. The District's annual contribution to the pension trust is determined through the budgetary process and with reference to actuarial determined contributions. As of July 1, 2013, the most recent actuarial study shows a deficit of Unfunded Actuarial Accrued Liability of \$13,016,998 on a GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, funding basis. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The contribution is designed to accumulate sufficient assets to pay benefits when due.

Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

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Total contributions to the Plan in fiscal years 2011-12, 2012-13 and 2013-14 amounted to \$879,714, \$1,383,258 and \$1,401,167, respectively. The net pension asset (obligation) to the Plan in fiscal years 2011-12, 2012-13 and 2013-14 was \$(611), \$(1,977) and \$(30), respectively. The actuarially determined contributions for fiscal years 2011-12, 2012-13, and 2013-14 were \$1,341,630, \$1,381,913 and \$1,402,918 respectively which were determined through actuarial valuations performed at July 1, 2011, July 1, 2012, and July 1, 2013, respectively. The total annual pension costs for the 2011-12, 2012-13, and 2013-14 fiscal years were \$1,325,989, \$1,381,924 and \$1,402,944, respectively. The percentage of pension cost contributed for the 2011-12, 2012-13, and 2013-14 fiscal years was 66.34 percent, 100.1 percent, and 99.88 percent, respectively.

The District's annual pension cost and net pension asset (obligation) for the Early Retirement Program for the current fiscal year were as follows:

Annual Required Contribution (ARC)	\$ 1,402,918
Interest on Net Pension Obligation (NPO)	(69)
Adjustment to the Annual Required Contribution	95
Annual Pension Cost (APC)	<u>1,402,944</u>
Contribution made with interest	<u>1,401,167</u>
Decrease in Net Pension Obligation	1,777
Net Pension Asset Beginning of Year	<u>(1,807)</u>
Net Pension Asset (Obligation) End of Year	<u><u>\$ (30)</u></u>

As the net pension obligation is immaterial to the District as a whole, no such amounts have been recorded in the District wide statement of net position at June 30, 2014.

As of July 1, 2013 the actuarial accrued liability for benefits was \$26,618,963 and actuarial value of the plan assets was \$13,601,965, resulting in a funded ratio of 51 percent. There is no longer a covered payroll due to the fact that the Plan is closed to any new participants effective July 1, 2010.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and the plan members in the future.

The computation of the annual required contributions for the 2013-14 fiscal year was based on the same (a) benefit provisions, (b) actuarial funding method, and (c) other significant factors as used to determine annual required contributions in the previous fiscal year.

Summary of Significant Accounting Policies. The Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a "capital maintenance" measurement focus and the accrual basis of accounting. Employer contributions are recognized in the period in which contributions are due. Benefits and refunds are recognized when due

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and payable in accordance with terms of the Plan. Plan assets are valued at fair value, based on quoted market prices, for financial statement purposes.

Separate statements are not issued for the Plan.

Actuarial Information.

Significant assumptions and other inputs used to measure the annual required contribution are:

Valuation Date	7-1-2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll-Closed
Amortization Period	30 Years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	3.5%
Projected Salary Increases	0%
Rate of Inflation Adjustment	None

Mortality rates were based on the RP-2000 IRS PPA Generational Annuitant Table for Males and Females.

Investments.

Investment Policy. The District oversees the management of the District's Early Retirement Plan. The superintendent has established procedures to ensure that idle funds are invested as authorized by Florida Statute, to earn the maximum interest. Investments are reported at fair value. The primary objectives, in priority order, in investment activities shall be safety, liquidity, and yield.

The Plan's investments at June 30, 2014, consisted of the following:

	Balance 30-Jun-14	Percentage of Plan Net Position
United States Treasury Securities	\$ 6,954,844.50	53.6%
United States Instrumentalities	5,778,889.35	44.6%
Federated Prime Obligations Mutual Fund	237,206.70	1.8%
Total	<u>\$ 12,970,940.55</u>	<u>100.0%</u>

Rate of Return. The long-term expected rate of return on pension plan investment was confirmed appropriate using Aon's (The District's actuary) e-tool model assuming general inflation of 2.5 percent, which is a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2013 are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	90%-95%	1.70%
Cash	5%-10%	1.40%

For the year ended June 30, 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables.

The pension plan does not have receivables from long-term contracts with the District contribution.

Allocated Insurance Contracts.

The pension plan has no allocated insurance contracts that are excluded from pension plan assets.

Reserves.

The pension plan has no reserves that are required to be disclosed under paragraph 30e of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*.

Deferred Retirement Option Program (DROP).

The District does not offer DROP.

Net Pension Liability.

The components of the net pension liability of the District at June 30, 2014, were as follows:

Total Pension Liability	\$ 26,618,963
Plan Fiduciary Net Position	(13,002,397)
District's Net Pension Liability	<u>\$ 13,616,566</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.8%
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Discount Rate.

The discount rate used to measure the total pension liability was 3.50 percent. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long term expected rate of

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return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net position liability of the District, calculated using the discount rate of 3.5 percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5 percent) and 1 percentage point higher (4.5 percent) than the current rate.

	1% Decrease 2.5%	Current Discount	1% Increase 4.5%
Total Pension Liability	\$ 29,270,312	\$ 26,618,963	\$ 24,356,823
Plan Fiduciary Net Position	(13,002,397)	(13,002,397)	(13,002,397)
District's Net Pension Liability	<u>\$ 16,267,915</u>	<u>\$ 13,616,566</u>	<u>\$ 11,354,426</u>

P. 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, and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical, and prescription drug coverage. Based on the valuation as of July 1, 2013, the District had 26,462 active employees and 1,242 retirees and eligible dependents in the plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. Separate financial statements for the OPEB Plan are not issued.

Funding Policy. The District via the Board can establish and amend funding requirements. The District has assigned \$20,950,596 of fund balance in the general fund for a portion of the net Other Postemployment Benefits (OPEB) obligation, but has not advance-funded the OPEB costs or the net OPEB obligation. For the 2013-14 fiscal year, 1,242 retirees and eligible dependents received postemployment healthcare benefits, which are funded by the District on a pay-as-you-go-basis. The District required provided contributions of \$4,217,776 toward annual OPEB costs, comprised of benefit payments made on behalf of the retirees for claims expense (net of reinsurance), administrative expense, and reinsurance premiums and net of retiree contributions totaling \$9,196,314, which is approximately 1 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for*

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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:

Description	Amount
Normal Cost (service cost for one year)	\$ 16,461,158
Amortization of Unfunded Actuarial Accrued Liability	7,296,067
Interest on Normal Cost and Amortization	831,503
Annual Required Contribution	24,588,728
Interest on Net OPEB Obligation	2,629,636
Adjustment to Annual Required Contribution	(2,684,233)
Annual OPEB Cost (Expense)	24,534,131
Contribution Toward the OPEB Cost	(4,217,776)
Increase in Net OPEB Obligation	20,316,355
Net OPEB Obligation, Beginning of Year	75,132,459
Net OPEB Obligation, End of Year	<u>\$ 95,448,814</u>

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

Fiscal Year	Annual OPEB Cost	Annual Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 18,635,570	\$ 3,921,558	21.0%	\$ 54,733,090
2012-13	23,903,947	3,504,578	14.7%	75,132,459
2013-14	24,534,131	4,217,776	17.2%	95,448,814

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$191,669,324, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was \$1,064,282,519, for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18 percent. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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Actuarial Methods and Assumptions. Actuarial methods and assumptions used for the OPEB calculations are as follows:

- Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that, actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.
- Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
- Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.
- The actuarial methods and significant assumptions used in calculating the annual required contribution for the current year and the funded status of the plan are from the actuarial valuation as of July 1, 2013 are:
 - Entry age actuarial cost method;
 - Actuarial value of assets are fair value;
 - Discount rate is 3.5 percent;
 - Salary scale is 4 percent;
 - Healthcare cost trend rate is 7.75 percent for fiscal year ended June 30, 2014, grading to 5 percent for fiscal year ending June 30, 2021; and
 - Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 3 percent per year.

Q. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. Prior to July 18, 2007, the District entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. Effective July 18, 2007, the District chose not to purchase excess coverage, but chose to set aside \$500,000 per year to accumulate to a total of \$5,000,000 to cover excess claims. As of June 30, 2014, \$3,500,000 has been set aside. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage for the past three fiscal years.

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A liability in the amount of \$17,224,246 was actuarially determined using a discount rate of 2 percent to cover reported and unreported insurance claims payable at June 30, 2014. It is estimated that \$8,420,749.65 of the liability is current and due within one year. The remaining \$8,803,496.35 will be due in future years.

The following schedule represents the changes in workers' compensation, automobile, and general claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012-13	\$ 15,992,106.00	\$ 7,899,185.00	\$ (7,767,011.00)	\$ 16,124,280.00
2013-14	16,124,280.00	11,499,914.81	(10,399,948.81)	17,224,246.00

Claims and judgments are generally liquidated by the internal service funds that are funded by the General Fund and special revenue funds.

R. Construction and 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, 2014:

	Major Funds					Total Governmental Funds
	General	Special Revenue - Other Federal Programs	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	
	<u>\$ 16,109,954</u>	<u>\$ 3,181,496</u>	<u>\$ 911,781</u>	<u>\$ 44,915,094</u>	<u>\$ 11,257,661</u>	<u>\$ 83,773,637</u>

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

Construction Contracts. The following is a summary of major construction contract commitments remaining at June 30, 2014:

Description	Project Authorization	Completed to Date	Balance Committed
Additions	\$ 6,892,840.04	\$ 828,893.90	\$ 6,063,946.14
Elementary	32,765,238.98	10,999,432.80	21,765,806.18
Middle	26,459,665.18	211,943.64	26,247,721.54
Other	984,976.58	627,333.51	357,643.07
Renovations	50,436,289.94	19,492,931.22	30,943,358.72
Improvements	2,027,692.46	1,044,538.49	983,153.97
Total	<u>\$ 119,566,703.18</u>	<u>\$ 33,205,073.56</u>	<u>\$ 86,361,629.62</u>

IV. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2013-14 fiscal year:

	Total	Worker's Compensation Insurance	General Liability Insurance	Group Health Insurance
Total Assets	<u>\$ 127,843,996.40</u>	<u>\$ 98,069,807.33</u>	<u>\$ 7,535,390.05</u>	<u>\$ 22,238,799.02</u>
Liabilities and Net Position:				
Accounts Payable	\$ 13,331,886.92	\$ 46,259.49	\$ 18,874.19	\$ 13,266,753.24
Advanced Revenue	8,972,045.78			8,972,045.78
Estimated Insurance Claims Payable	17,224,246.00	13,487,357.00	3,736,889.00	
Net Position:				
Unrestricted Net Position	<u>88,315,817.70</u>	<u>84,536,190.84</u>	<u>3,779,626.86</u>	
Total Liabilities and Net Position	<u>\$ 127,843,996.40</u>	<u>\$ 98,069,807.33</u>	<u>\$ 7,535,390.05</u>	<u>\$ 22,238,799.02</u>
Revenues:				
Premium Contributions	\$ 157,215,585.86	\$	\$	\$ 157,215,585.86
Interest Income	338,721.79	328,833.62	9,888.17	
Other	<u>1,470,290.00</u>	<u>1,396,367.78</u>	<u>73,922.22</u>	
Total Revenues	159,024,597.65	1,725,201.40	83,810.39	157,215,585.86
Total Expenses	(169,632,990.63)	(9,391,289.24)	(3,026,115.53)	(157,215,585.86)
Transfers Out	<u>(8,952,254.91)</u>	<u>(8,952,254.91)</u>		
Change in Net Position	<u>\$ (19,560,647.89)</u>	<u>\$ (16,618,342.75)</u>	<u>\$ (2,942,305.14)</u>	<u>\$ 0.00</u>

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

V. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

A. Litigation

The District is involved in several pending and threatened legal actions. In the opinion of District management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District.

B. Grants and Contracts

The District participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the District.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH 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) (3)	Funded Ratio (2)	Covered Payroll	UAAL as a Percentage of Covered Payroll [(B-A)/C]
	(A)	(B)	(B-A)	(A/B)	(C)	
June 30, 2009	\$ 0	\$ 139,930,959	\$ 139,930,959	0.0%	\$ 990,757,415 (4)	14.1%
June 30, 2010	0	122,763,693	122,763,693	0.0%	964,984,023 (5)	12.7%
June 30, 2011	0	144,887,062	144,887,062	0.0%	991,177,970 (6)	14.6%
June 30, 2012	0	156,271,280	156,271,280	0.0%	979,901,112 (7)	15.9%
June 30, 2013	0	194,788,495	194,788,495	0.0%	998,616,019 (8)	19.5%
June 30, 2014	0	191,669,324	191,669,324	0.0%	1,064,282,519 (9)	18.0%

Notes: (1) The entry age actuarial cost method is used to determine the Plan's funding requirements.
 (2) The percentage funded is derived by dividing the actuarial value of plan assets by the actuarial accrued liability.
 (3) The unfunded actuarial accrued liability is the actuarial accrued liability minus the actuarial value of plan assets.
 (4) Based on data from an actuarial valuation report as of July 1, 2008, dated August 17, 2009.
 (5) Based on data from an actuarial valuation report as of July 1, 2009, dated August 12, 2010.
 (6) Based on data from an actuarial valuation report as of July 1, 2010, dated August 18, 2011.
 (7) Based on data from an actuarial valuation report as of July 2, 2011, dated June 1, 2012.
 (8) Based on data from an actuarial valuation report as of July 1, 2012, dated July 26, 2013.
 (9) Based on data from an actuarial valuation report as of July 1, 2013, dated August 11, 2014.

Isolated analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan.

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
EARLY RETIREMENT PLAN
For the Fiscal Year Ended June 30, 2014**

	<u>2014</u>
Total Pension Liability:	
Interest	\$ 968,355
Differences Between Expected and Actual Experience	(96,760)
Benefit Payments, Including Refunds of Member Contributions	<u>(2,023,059)</u>
Net Change in Total Pension Liability	(1,151,464)
 Total Pension Liability, Beginning	 <u>27,770,427</u>
Total Pension Liability, Ending (A)	<u><u>\$ 26,618,963</u></u>
 Plan Fiduciary Net Position:	
Employer Contributions	\$ 1,355,705
Net Investment Income	80,327
Benefit Payments, Including Refunds of Member Contributions	(2,023,059)
Administrative Expense	<u>(12,540)</u>
Net Change in Plan Fiduciary Net Position	(599,567)
 Plan Fiduciary Net Position, Beginning	 <u>13,601,965</u>
Plan Fiduciary Net Position, Ending (B)	<u><u>\$ 13,002,398</u></u>
 Net Pension Liability, Ending (A)-(B)	 <u><u>\$ 13,616,565</u></u>
 Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	 48.85%
 Covered Employee Payroll	 N/A - (A)
 Net Pension Liability As a Percentage of Covered Employee Payroll	 N/A - (A)

Notes to Schedule:

Benefit Changes:

As of July 1, 2010, the Supplemental Early Retirement Pension Plan was closed to any new participants. As of FYE 6/30/11, all participants were retired and members of the Early Retirement Program.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS -
EARLY RETIREMENT PLAN
FOR THE LAST TEN FISCAL YEARS

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Contribution	\$ 1,402,918	\$ 1,381,913	\$ 1,341,630	\$ 1,317,182	\$ 2,251,844	\$ 2,063,437	\$ 3,690,335	\$ 3,640,027	\$ 2,283,533	\$ 1,990,860
Contributions in Relation to the Actuarially Determined Contribution	1,401,167	1,383,258	879,714	1,764,068	2,450,808	1,801,801	3,756,041	3,843,945	1,988,593	1,932,629
Contributions Deficiency (Excess)	<u>\$ 1,751</u>	<u>\$ (1,345)</u>	<u>\$ 461,916</u>	<u>\$ (446,886)</u>	<u>\$ (198,964)</u>	<u>\$ 261,636</u>	<u>\$ (65,706)</u>	<u>\$ (203,918)</u>	<u>\$ 294,940</u>	<u>\$ 58,231</u>
Covered-Employee Payroll	N/A	N/A	N/A	N/A	\$ 22,676,884	\$ 31,812,283	\$ 40,602,385	\$ 187,094,809	\$ 186,742,083	\$ 177,745,494
Contributions as a Percentage of Covered-Employee Payroll	N/A (A)	N/A (A)	N/A (A)	N/A (A)	10.81%	5.66%	9.25%	2.05%	1.06%	1.09%

Notes to Schedule:

(A) As of July 1, 2010, the Supplemental Early Retirement Pension Plan was closed to any new participants. As of June 30, 2011, all participants were retired and members of the Early Retirement Program.

Valuation Date:

Actuarially determined contribution rates are calculated as of July 1, the first day of the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Method	30 Years
Asset Valuation Method	Fair Value - FMV on the actuarial valuation date.
Inflation	None
Salary Increases	0.0%, Average, Including Inflation (The Plan was closed on July 1, 2010, and all participants are retired and salaries fixed at retirement).
Investment Rate of Return	3.5%, Net of Pension Plan Investment Expense, Including Inflation
Retirement Age	As of July 1, 2010 the Supplemental Early Retirement Pension Plan was closed to any new participants.
Mortality	In the 2006 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Other Information:

Final compensation equals the participants' 5 highest years of compensation divided by 5.

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF INVESTMENT RETURNS -
EARLY RETIREMENT PLAN
FOR THE LAST TWO FISCAL YEARS**

	<u>2014</u>	<u>2013</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	N/A	3.50%

Notes:

N/A - Not Available

The annual money-weighted rate of return was not available for June 30, 2014, because it was not provided to the District by the actuary.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

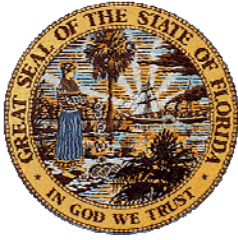
**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	13002	\$ 19,939,149.24	\$
National School Lunch Program	10.555 (2)	13001, 13003	59,389,094.92	
Summer Food Service Program for Children	10.559	323, 325, 13006, 13007	1,730,988.60	
Total Child Nutrition Cluster			81,059,232.76	
Florida Department of Agriculture and Consumer Services:				
Specialty Crop Block Grant Program - Farm Bill	10.170	019792	1,241.37	
Total United States Department of Agriculture			81,060,474.13	
Department of Commerce National Institute of Standards and Technology:				
Direct:				
Measurement and Engineering Research and Standards	11.609	N/A	3,724.36	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	321,806.26	
Disability Employment Policy Development	17.720	HS/HT 12-17	21,884.51	
Total United States Department of Labor			343,690.77	
United States Department of Education:				
Direct:				
Student Financial Aid Cluster:				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	N/A	43,089.00	
Federal Work-Study Program (FWS)	84.033	N/A	39,277.28	
Federal Pell Grant Program (PELL)	84.063	N/A	3,162,787.72	
Total Student Financial Aid Cluster			3,245,154.00	
Impact Aid	84.041	N/A	444,379.81	
Indian Education - Grants to Local Educational Agencies	84.060	N/A	16,544.00	
Magnet School Assistance	84.165	N/A	3,243,080.33	
Fund for the Improvement of Education	84.215	N/A	188,344.76	
Transition to Teaching	84.350	N/A	759,239.35	
Voluntary Public School Choice	84.361	N/A	513,706.94	
Teacher Incentive Fund	84.374	N/A	7,983,928.67	
Total Direct			16,394,377.86	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	46,968,449.22	
Special Education - Preschool Grants	84.173	266, 267	777,445.65	
Total Special Education Cluster			47,745,894.87	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	2,999,875.43	
ARRA - School Improvement Grants, Recovery Act	84.388	126	65,879.52	
Total School Improvement Grants Cluster			3,065,754.95	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	2,255,598.73	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	53,147,851.54	
Migrant Education - State Grant Program	84.011	217	3,773,868.16	
Career and Technical Education - Basic Grants to States	84.048	161	2,223,244.60	
Education for Homeless Children and Youth	84.196	127	135,255.43	
Charter Schools	84.282	298	1,273,036.49	1,273,036.49
English Language Acquisition State Grants	84.365	102	3,667,329.08	
Improving Teacher Quality State Grants	84.367 (3)	224	6,539,146.85	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act		RA211, RG311, RG411 RL111, RS611	9,651,051.87	
New Teacher Center:				
Improving Teacher Quality State Grants	84.367 (3)	79002	3,739,223.06	
University of Tampa:				
Improving Teacher Quality State Grants	84.367 (3)	None	1,000.00	
Total Indirect			137,218,255.63	1,273,036.49
Total United States Department of Education			153,612,633.49	1,273,036.49

**HILLSBOROUGH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Affordable Care Act (ACA) Grants for School-Based Health Capital Expenditures	93.501	N/A	\$ 277,573.29	\$
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	LK163, LK170, LK179	1,896,512.51	
Refugee and Entrant Assistance - Discretionary Grants	93.576	LK163, LK179	261,297.96	
University of South Florida:				
Mental Health Research Grants	93.242	5830-1421-00-A	3,910.08	
Hillsborough County School Readiness Coalition:				
Temporary Assistance for Needy Families	93.558 (4)	SR 01-14	11,466,175.12	
Social Services Block Grant	93.667	SR 01-14	35,208.32	
Tampa Bay Workforce Alliance:				
Temporary Assistance for Needy Families	93.558 (4)	None	1,131,874.73	
Hillsborough County:				
Head Start	93.600 (5)	04CH3035/47, 04CH3035/48	10,772,305.29	
Child Care Cluster:				
Florida Department of Children and Families:				
Child Care and Development Block Grant	93.575 (6)	LC914	148,304.77	
Hillsborough County School Readiness Coalition:				
Child Care and Development Block Grant	93.575 (6)	SR 01-14	14,411,937.61	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	SR 01-14, LCCF 01-13	14,911,124.24	
Total Child Care Cluster			29,471,366.62	
Total United States Department of Health and Human Services			55,316,223.92	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	435,385.11	
Army Junior Reserve Officers Training Corps	None	N/A	821,022.03	
Marine Corps Junior Reserve Officers Training Corps	None	N/A	61,873.99	
Navy Junior Reserve Officers Training Corps	None	N/A	751,095.77	
Total United States Department of Defense			2,069,376.90	
Total Expenditures of Federal Awards			\$ 292,406,123.57	\$ 1,273,036.49

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance - National School Lunch Program. Includes \$5,491,559.45 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (3) Improving Teacher Quality State Grants. Total CFDA No. 84.367 expenditures: \$10,279,369.91
- (4) Temporary Assistance for Needy Families. Total CFDA No. 93.558 expenditures: \$12,598,049.85
- (5) Head Start. Expenditures include \$ 2,742,190.84 for grant number/program year BOCC-04CH3035/47 for the 2012-13 grant year and \$8,030,114.45 for grant number/program year BOCC-04CH3035/48 for the 2013-14 grant year.
- (6) Child Care and Development Block Grant. Total CFDA No. 93.575 expenditures: \$14,560,242.38



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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hillsborough County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 26, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

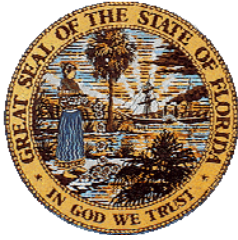
Purpose of this Report

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 26, 2015



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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-001. Our opinion on each major Federal program is not modified with respect to this matter.

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.

Management's Response

Management's response to the finding identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 26, 2015

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.027 and 84.173	Special Education Cluster
84.048	Career and Technical Education – Basic Grants to States
84.361	Voluntary Public School Choice
84.367	Improving Teacher Quality State Grants
93.558	Temporary Assistance for Needy Families
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Direct-Support Organization – Cash Payments

Pursuant to Section 1001.453, Florida Statutes, the Board is authorized to permit a direct-support organization (DSO) to use District property, facilities, and personal services. For the 2011-12, 2012-13, and 2013-14 fiscal years, the District made payments of \$114,489, \$200,000, and \$230,000, respectively, or a total of \$544,489 to the Hillsborough Education Foundation (HEF), a District DSO, for reimbursement towards the salaries of the HEF President and Executive Assistant. District personnel indicated that the amounts paid to the HEF were for personnel services; however, such payments were not authorized by Section 1001.453, Florida Statutes, and we are not aware of any other legal authority for the District to pay for expenditures incurred by a DSO.

Recommendation: The District should enhance procedures to ensure compliance with Section 1001.453, Florida Statutes. Also, in the absence of specific statutory authority, the District should discontinue the practice of making payments to its DSO and seek reimbursement of \$544,489 from the HEF.

Finding No. 2: Insurance Bids

Pursuant to Section 112.08(2)(a), Florida Statutes, before entering into any contract for health, accident, or hospitalization insurance for District officers and employees, the District must advertise for competitive bids and the contract must be let upon the basis of such bids. The District is authorized to undertake simultaneous negotiations with qualified bidders during the selection process. During the 2013-14 fiscal year, the District's premiums for health and life insurance totaled \$150.1 million and \$1.7 million, respectively.

District personnel indicated that the District had not competitively bid health insurance since calendar year 2001 or life insurance since calendar year 2003, but used the services of an insurance broker to negotiate insurance renewal rates with existing providers. While District health and life insurance needs and related costs have varied since the 2001 and 2003 calendar years, respectively, District personnel stated that direct negotiations with the current health insurance provider, using the services of their insurance broker, yielded the best value and that such negotiations have consistently produced some of the lowest per employee costs compared to other large districts in the State. District personnel provided us with several analyses comparing District costs to other Florida school districts. However, our review disclosed that a number of these comparisons related to prior fiscal years, and generally did not indicate the source of the data used, thus limiting the usefulness of these comparisons.

Periodically competitively selecting insurance services as required by Section 112.08(2)(a), Florida Statutes, coupled with the permitted simultaneous negotiations, would comply with applicable law and also provide the District additional assurance that insurance coverage is obtained at the lowest cost consistent with acceptable quality.

Recommendation: The District should use the competitive bidding procedures for health and life insurance as required by Section 112.08(2)(a), Florida Statutes.

Finding No. 3: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the District requires employees evaluating responses to requests for proposals (RFPs) and respondents to RFPs disclose conflicts of interest, Board-adopted policies require employees to disclose potential conflicts when identified, and employees may report such conflicts online directly to the Procurement Department.

During the 2013-14 fiscal year, the Superintendent, Board members, Chief Business Officer, and District purchasing agents were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While statements of financial interests were filed as required, the statements were not provided to the Procurement Department for review. Providing for a routine review of required statements of financial interest by the Procurement Department would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interests by its Procurement Department for consideration in making procurement decisions.

Finding No. 4: Board and Insurance Committee Meetings

Section 286.011, Florida Statutes (commonly referred to as the Sunshine Law), provides that meetings of any board or commission at which official acts are to be taken are declared to be public meetings open to the public at all times. Section 286.011(2), Florida Statutes, requires the District to promptly record the minutes of all Board meetings for public inspection. In addition, Section 1001.42(1), Florida Statutes, requires the Board to review and approve minutes for each Board meeting at the next regular meeting, and to keep minutes as a public record in a permanent location to set forth clearly all Board actions and proceedings. Further, the Florida Attorney General's publication *Government-in-the-Sunshine-Manual* (Manual), 2014 Edition, provides that advisory boards and committees created by public agencies that have been delegated decision-making authority are subject to the Sunshine Law. The Manual also provides that when a committee possesses or exercises not only the authority to conduct fact finding but also to make recommendations to a governing body, the committee is participating in the decision-making process and is subject to the Sunshine Law.

During the 2013-14 fiscal year, the Board did not approve minutes of 4 of 20 regular Board meetings until 14 to 28 days, or an average of 17.5 days, after the next regular meeting. Also, the Board did not approve the minutes of 13 of 20 workshop and special meetings until 14 to 49 days, or an average of 28 days, after the next regular meeting. District personnel indicated that the delayed approvals occurred primarily because Board meetings were so frequent that minutes were not always prepared in time for Board approval.

Further, Board policy allows for the establishment of procurement sub-committees when large or complex procurements are made. As such the District created an insurance committee that makes recommendations to the Board and, therefore, the committee is subject to maintaining documentation of meetings consistent with the Sunshine Law. However, District personnel indicated that no minutes were kept or approved by the committee for the only meeting held during the 2013-14 fiscal year, and District records did not evidence that the insurance

committee meetings were publicly advertised, contrary to Section 286.011(1), Florida Statutes. District personnel indicated that they were unaware minutes of the insurance committee meetings were required to be maintained and approved or the meetings were required to be advertised.

Without timely advertisement of meetings, and preparation and approval of minutes, public access to official actions taken at such meetings may be limited. Similar findings were noted in our report Nos. 2009-191 and 2012-172.

Recommendation: The Board should continue its efforts to ensure that its minutes are timely approved. In addition, the Board should ensure that insurance committee meetings are timely advertised, and minutes thereof promptly kept and approved.

Finding No. 5: Virtual Instruction Program - Policies and Procedures

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

For the 2013-14 fiscal year, 1,161 full-time and 1,724 part-time students enrolled in the District's VIP. The District's pupil progression plans, code of student conduct, and other records identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment and withdrawal information. For example, VIP brochures and enrollment applications and packets identified certain enrollment criteria, attendance, and other procedures related to the VIP. However, the District did not have comprehensive, written VIP policies and procedures to document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

District personnel indicated that they believed the policies and procedures noted above were sufficient. However, comprehensive, written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in Finding Nos. 6 through 8. A similar finding was noted in our report No. 2013-094.

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

Finding No. 6: Virtual Instruction Program - Options

Section 1002.45(1)(b), Florida Statutes, requires school districts, under certain conditions, to provide students the option of participating in a VIP. For example students may choose VIP services provided by the school district, the

Florida Virtual School, another approved provider, another school district, or a virtual charter school. Pursuant to Section 1002.45(1)(b), Florida Statutes, school districts that are not considered to be in sparsely-populated counties, as discussed in Section 1011.62(7), Florida Statutes, must provide students with at least three options to participate in virtual instruction. As the District is not in a sparsely-populated county, the District must offer at least three VIP types for all grade levels within the District's VIP.

Although full-time and part-time options were provided for grades kindergarten through 12, only two virtual school options were offered for these grades. Therefore, the District did not provide all students at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and limited student access to the different virtual instruction types. A similar finding was noted in our report No. 2013-094.

Recommendation: **The District should ensure that it offers at least the minimum number of VIP options to all grades as required by law.**

Finding No. 7: Virtual Instruction Program - Provider Contracts

The District entered into a contract with a FDOE-approved VIP provider for the 2013-14 fiscal year. Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. Our review of the contract with the VIP provider disclosed that the contract lacked some statutorily required or necessary provisions, as follows:

- The contract did not provide for the District to monitor the provider's compliance with contract terms. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the provider protected the confidentiality of student records and supplied students with necessary instructional materials. A similar finding was noted in our report No. 2013-094.
- The contract did not include agreed upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)8.e., Florida Statutes, which requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes. Without establishing such ratios in the contract, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.

Recommendation: **The District should ensure that the above-noted provisions are included in VIP provider contracts.**

Finding No. 8: Virtual Instruction Program - Written Parental Notification

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

For the 2013-14 fiscal year, District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. Such communication included choice guide information published and distributed to students, various community information night presentations advertised through the parental notification system, and the District's Web site. While these methods indicate efforts by District personnel to communicate with parents and students about the VIP for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents of students. Without such direct

notifications, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types. A similar finding was noted in our report No. 2013-094.

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

Finding No. 9: Information Technology - Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility.

Our review of selected access privileges to the District's Enterprise Resource Planning applications disclosed that six computer operators and one computer operations supervisor could use three user accounts to, among other things, add or update payroll adjustments, set-up direct deposits, and add or update journal entries. Although these seven employees used the three accounts to generate finance, payroll, and human resources reports, the update privileges assigned to these user accounts should generally be limited to finance, payroll, and human resource department employees.

Although the District had certain controls (e.g., supervisory monitoring of employee activities and expenditure monitoring) that compensated, in part, for the above deficiencies, the existence of unnecessary access privileges increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to our inquiry, District management indicated that a job scheduling system is currently being implemented to allow for the three accounts to be defined to the scheduling system rather than used by the computer operations staff. Similar findings were noted in our report Nos. 2008-183 and 2012-172.

Recommendation: The District should continue its efforts to restrict computer operations staff's update access privileges from production data.

Finding No. 10: Information Technology - Security Controls - User Authentication and Data Loss Prevention

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

Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. In response to our inquiry, District management made corrections to the security controls related to user authentication and recently established new positions within the Division of Information Technology to address information security and standards including data loss prevention. Similar findings related to user authentication were communicated to District management in connection with our report Nos. 2008-183 and 2012-172 and a similar finding related to data loss prevention was communicated to District management in connection with our report No. 2012-172.

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

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:

Federal Agency: United States Department of Education

Award Number: U361A070017

Program: Voluntary Public School Choice (CFDA No. 84.361)

Federal Agency: United States Department of Education; United States Department of Health and Human Services

Pass-Through Entity: Florida Department of Education; Hillsborough County School Readiness Coalition; Tampa Bay Workforce Alliance

Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173); Improving Teacher Quality State Grants (CFDA No. 84.367); Career and Technical Education – Basic Grants to States (CFDA No. 84.048); Temporary Assistance for Needy Families (CFDA No. 93.558)

Finding Type: Noncompliance

Questioned Costs: None

Allowable Costs/Cost Principles – Transfer of Insurance Program Assets. Attachments A and B of United States Office of Management and Budget (OMB) Circular A-87 establish cost principles to be applied and guidance for determining allowable costs and applicable credits to Federal awards. Section 22.d.5. of Attachment B provides that whenever funds are transferred from a self-insurance reserve to other accounts (e.g., General Fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer. Section C of Attachment A specifies that, to be allowable costs under a grant program, the costs must be net of all applicable credits, and defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, including insurance refunds or rebates.

The District provides workers' compensation coverage for its employees on a self-insured basis and accounts for the activities of this program within an internal service fund. The costs of claims and other expenses incurred are allocated to the various District funds (Federal and non-Federal) based on the number of employees being funded by each fund. During the 2013-14 fiscal year, most District payroll expenditures were paid for from the General Fund and special revenue funds, and the District transferred \$8.9 million and \$3.1 million from the Workers' Compensation Fund to the General Fund and General Liability Self-Insurance Fund, respectively, to cover these expenditures. District personnel made a determination of the portion attributable to Federal programs for program costs previously charged to Federal programs related to amounts transferred to the General Fund, and credited a total of \$1,452,255 back to the applicable Federal programs. However, no such determination was made for amounts transferred to the General Liability Self-Insurance Fund. Without such a determination, District records did not evidence that all applicable refunds were made to the Federal Government for its share of the funds transferred as required by OMB Circular A-87.

Subsequent to our inquiry, District personnel determined for amounts transferred to the General Liability Self-Insurance Fund, \$294,448 was attributable to the District's food service program and \$205,436 was attributable to other Federal programs, and these amounts were credited to the applicable Federal programs.

Recommendation: The District should continue its efforts to ensure that all applicable refunds to are properly credited to Federal programs.

District Contact Person: Gretchen Saunders, Chief Business Officer

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2007-08 Fiscal Year Audit Report and Finding Numbers
4	NA	NA	Audit Report No. 2012-172, Finding No. 8	Audit Report No. 2009-191, Finding No. 1
5	NA	Audit Report No. 2013-094, Finding No. 3 (Statewide VIP audit)	NA	NA
6	NA	Audit Report No. 2013-094, Finding No. 5 (Statewide VIP audit)	NA	NA
7	NA	Audit Report No. 2013-094, Finding No. 4 (Statewide VIP audit)	NA	NA
8	NA	Audit Report No. 2013-094, Finding No. 6 (Statewide VIP audit)	NA	NA
9	NA	NA	Audit Report No. 2012-172, Finding No. 10	Audit Report No. 2008-183, Finding No. 2
10	NA	NA	Audit Report No. 2012-172, Finding No. 11	NA

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
KPMG, LLP		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

School Board
Susan L. Valdes, Chair
Doretha W. Edgecomb, Vice Chair
April Griffin
Sally A. Harris
Carol W. Kurdell
Melissa Snively
Cindy Stuart



Superintendent of Schools
MaryEllen Elia

Acting Superintendent
Jeff Eakins

Chief Business Officer
Gretchen Saunders

March 19, 2015

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

RE: Response to the preliminary and tentative audit findings and recommendations report on the Operational Program Audit, as reported by the Hillsborough County District School Board for the fiscal year ended June 30, 2014

Dear Mr. Martin:

We are in receipt of the above referenced report.

After thoroughly reviewing the preliminary and tentative audit findings and recommendations, please find attached our explanations for the following:

Finding No. 1: The district provided cash resources to its direct-support organization without specific legal authority.

Finding No. 2: The district had not competitively selected insurance providers, contrary to Section 112.08(2)(a), Florida Statutes.

Finding No. 3: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 4: The district did not advertise or keep minutes for insurance committee meetings, contrary to the Sunshine Law, and Board meetings were not always timely approved.

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written MIP policies and procedures.

Finding No. 6: The district could enhance its procedures to ensure that the required number of VIP options is offered.

Finding No. 7: VIP provider contracts did not include all statutorily required and necessary provisions.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David W. Martin, CPA Auditor General
March 19, 2015
Page 2

Finding No. 8: The district could enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 9: Certain unnecessary information technology (IT) access privileges existed.

Finding No. 10: District IT security controls related to user authentication and data loss prevention needed improvements.

Federal Awards Finding No. 2014-001: The district transferred funds totaling \$3.1 million from the workers' compensation internal service fund to the General Liability internal service fund, and no determination was made of the portion that should be credited to Federal programs.

As always, we appreciate the opportunity for review of our operational program procedures regarding our school district. We reserve the right to appeal the final audit report, as we deem appropriate.

We wish to thank Anna McCormick and Eric Davis of the Auditor General's staff for their professional and courteous manner in which they conducted the Operational Program audit.

If additional questions arise, please feel free to contact me or our staff as needed.

Sincerely,



Jeff Eakins
Acting Superintendent

/sr

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Hillsborough County District School Board

Response to Audit Findings

Finding No. 1: The District provided cash resources to its direct-support organization without specific legal authority.

Response:

The Hillsborough Education Foundation is a direct-support organization that is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public kindergarten through 12th grade education and adult career and community education programs in this state.

We will no longer direct-pay to the foundation for personnel services provided by foundation employees.

Finding No. 2: The District had not competitively selected insurance providers, contrary to Section 112.08(2)(a), Florida Statutes.

Response:

Each year, the District's consultant for Employee Benefits, Aon Consulting, Inc. (Aon), determines what they expected the health renewal amount will be, based on their actuaries' analysis of annual medical trend and HCPS's medical claims from the prior year. Then the District, Aon, and the carrier enter into negotiations. If the negotiations are unable to produce a renewal amount at or lower than Aon's actuarial predictions, the health insurance would be bid. However, HCPS's negotiations have consistently produced per employee per year (PEPY) rates that were not only lower than the Aon actuaries' expectations, but also lower than those of other districts who bid their health insurance.

It should be noted that unlike many items that can be purchased from among dozens or even hundreds of suppliers, there are only three or four health insurance providers that have the resources to be able to bid on HCPS's health insurance program. That being said, competitive bidding for the district's health insurance program will be considered in the future in conjunction with renewal negotiations.

Finding No. 3: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Response:

The Procurement department employs a number of activities to reduce the risk of conflicts of interest as discussed in this finding.

However, for consideration to these procedures the Procurement department may begin requesting and reviewing statements of financial interest.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Hillsborough County District School Board

Response to Audit Findings

Finding No. 4: The District did not advertise or keep minutes for insurance committee meetings, contrary to the Sunshine Law, and Board meetings were not always timely approved.

Response:

Our District strives to ensure that board meeting minutes are timely approved however because of various issues which arise (such as holidays, staff absences, competing priorities, and duration of time between meetings) there are times in which such minutes are not timely approved.

Additionally it should be noted that the finding indicated the number of actual day's late and not business days late which would be lower. However, we will continue to strive to ensure that all minutes are timely approved.

In relation to Insurance committee meetings: Human Resources/Employee Benefits employees will now ensure that health insurance committee meetings are publicly advertised and have the minutes recorded.

Attachment I - list of board meetings, workshops, athletic appeals, termination hearings, etc.

Attachment II - 2013-2014 calendar indicating meetings and holiday or closures

Auditor Numbers	Meeting Date	Type of meeting	Approved	Next Regular Meeting	Approved by next board meeting	HCPS column shows working days late *includes date approved by Board	
						Auditor	HCPS
5.	8/27/13	Regular	9/24/13	9/10/13	No	14	10
7.	9/10/13	Regular a.m.	10/8/13	9/24/13	No	14	10
24.	12/2/13	Workshop	1/21/14	12/10/13	No	42	20
32.	2/25/14	Regular	4/1/14	3/18/14	No	14	10
39.	4/29/14	Regular	6/10/14	5/13/14	No	28	19

Above referenced items can be found on the District's website: www.sdhc.k12.fl.us

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Hillsborough County District School Board

Response to Audit Findings

Divisions/Business/Accounting)

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written MIP policies and procedures.

Response:

The District does utilize and has developed a number of documents to assist with protocols and support procedures which include the following:

Elementary Registration Forms – Provided to every elementary school parent in person at the time of student registration in VIP

Secondary Registration Forms – Provided to every secondary school parent in person at the time of student registration in VIP

Middle School Math Accelerated Program documents including:

- Accelerated Math Parent Letter - Provided to the school for distribution
- Accelerated Math Timeline - Timeline provided to the school administration and guidance counselors to follow for implementation
- Math 2 accel class pace chart - Provided to this specific group of students and parents

Course selection sheet (used by Hillsborough Virtual School (HVS) staff and the brick and mortar sites) – Available at all Middle and High Schools for potential students and provided to every current HVS Middle and High School student.

Elementary and Secondary Brochures

Elementary Acceleration Co-Enrollment Checklist - This was developed and is used internally to insure all procedures are followed for elementary acceleration.

Denial Letter - This is sent to every parent and student who has applied and has not been accepted in the Hillsborough Virtual Full-Time program.

HVS Procedures for grades and extensions – Written procedures issued to teachers

New Student Orientation - Procedural information for Parents and students

Pre-planning Overview Agenda documents - Procedural information for teachers

Progress Alerts - provided regularly to parents and students

While the District has utilized these items we acknowledge that the development of a single comprehensive written VIP policy and procedures manual could enhance the effectiveness of the program. District VIP staff will work to integrate the above items into such a manual. Above referenced items can be found on the District's website: www.sdhc.k12.fl.us

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Hillsborough County District School Board

Response to Audit Findings

Divisions/Business/Accounting)

Finding No. 6: The District could enhance its procedures to ensure that the required number of VIP options is offered.

Response:

The District provides a number of additional options which while may not meet the definition of Section 1002.45(1)(b), Florida Statutes, still represent additional options to students. These include:

- District virtual courses offered per Section 1003.498(2), F.S. (defined as school site 7006) are offered and use a different curriculum and instructional delivery method. There are students who take the course during the school day in a blended learning environment. Therefore, teachers rotate into the class on a regular schedule for face to face time.

These include elementary, middle and high school students. Middle and high school students access Edgenuity curriculum and the elementary curriculum is built individually to create a specific learning path for each student, using the district scope and sequence, district resources (Nat Geo, Odyssey, Renzulli, VoiceThread, MyOn, McGraw-Hill, Go Math) and additional supplemental virtual curriculum (First In Math, Aha! Science, Science4Us, Read Works).

- Additionally certain charter school with virtual classes were available from Pivot Charter School (for grades 6th - 12th) and Seminole Heights Charter School (for grades 9th - 12th).

Also the District's choice department has multiple interdistrict agreements that are blanket agreements to allow Hillsborough County students access to enrollment outside of our district. A complete list can be requested through the Choice department.

While the above options were also available the District will strive to ensure that all options required by Section 1002.45(1)(b), Florida Statutes, are also offered.

Finding No. 7: VIP provider contracts did not include all statutorily required and necessary provisions.

Response:

The district created and processed all student enrollments and teacher assignments in our student information system which allowed us the ability to monitor the student-teacher ratios during the year. Additionally the District received reports that included student-teacher ratio information from the cited VIP provider.

Based on this information as of June 4, 2014, the total enrollment with the VIP provider was 105 students kindergarten through 12th grade. The largest student to teacher ratio was 2nd grade

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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Response to Audit Findings

language arts at 17 students to one teacher. The District's student-teacher ratio mandated by legislation was 18 to 1 for brick and mortar 2nd grade classrooms.

While the District did not experience any issues with student-teacher ratios with the VIP provider during the 2013-14 year we do acknowledge that such a provision would prove useful should student participation increase. Therefore the District will ensure that the noted provisions included within your finding are included in VIP provider contracts in the future.

Finding No. 8: The District could enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Response:

While the District does not provide written notification through the US post office to all parents within the District (this method is cost prohibitive) there were a number of methods employed by the District to provide notification to parents. They included a combination of text messages; emails; Choice brochures (US mail and school district mail); postcards; press releases; internal brochures for distribution as well as Parentlink phone calls.

Our enrollment and program information is also published in the School District Choice Brochure and updated annually. This comprehensive brochure is sent through US mail to current Kindergarten, 5th and 8th graders (approximately 50,000 families). Also, information is sent home to all students through their school site.

Additionally we have a Choice Options Expo held at the Florida State Fair Grounds Expo Hall. This is a school district event sponsored and coordinated through the school district Choice department. Our Hillsborough Virtual School (HVS) is a participant at this event and welcomed approximately 2,600 families this year. By participating in this event we were able to expose many more families to our program and options we can offer.

We also participate in the "Parent University" events as well as other Magnet and Choice get-togethers.

In response to your finding the District will explore additional avenues, as well as confer with the Florida Department of Education, to determine cost-effective methods to ensure that all parents are provided timely, written notifications about student opportunities to participate in the District's VIP and related open enrollment periods.

Finding No. 9: Certain unnecessary information technology (IT) access privileges existed.

Response:

The shared accounts identified for the computer operators are being addressed by reducing the privileges and converting to system accounts managed through a job scheduling system. The job scheduling system has been acquired and is currently being implemented.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Hillsborough County District School Board

Response to Audit Findings

Finding No. 10: District IT security controls related to user authentication and data loss prevention needed improvements.

Response:

Hillsborough County District School Board recognizes IT security controls as a dynamic and encompassing classification. User authentication recommendations have been addressed that were associated with our Lawson financial and human resources system. Peripheral systems will be identified and updated. Our IT team are updating our procedures and processes to ensure the identified standards are followed and maintained. The district will continue to enhance Data Loss Prevention (DLP). Our staff will address the two specific DLP issues identified in the above audit finding.

Federal Awards Finding No. 2014-001: The District transferred funds totaling \$3.1 million from the workers' compensation internal service fund to the General Liability internal service fund, and no determination was made of the portion that should be credited to Federal programs.

Response:

As required by the Office of Management and Budget (OMB) Circular A-87, Section 22.d.5, the district will refund federal funds and their applicable credits on any future transfers that meet the criteria. In addition, credits will be applied immediately upon the transfer.

The District has credited back to federal funds their portion. Subsequent to inquiry, \$294,448 was transferred to the Student Nutrition Program and \$205,436 was transferred to the other Federal programs.

In the future any money transferred from workers' compensation will include the proportionate share to the federal programs in a timelier manner.