

STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2018-126
March 2018

HENDRY COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2016-17 fiscal year, Paul K. Puletti served as Superintendent of the Hendry County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Dwayne E. Brown, Vice Chair from 11-22-16	1
Dr. Sally Berg, Chair through 11-21-16	2
Amanda Nelson from 11-22-16	3
John Benkert through 11-21-16	3
Stephanie Busin	4
Jon Baquin, Chair from 11-22-16, Vice Chair through 11-21-16	5

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 was supervised by Deirdre F. Waigand, CPA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Manager, by e-mail at micahrodgers@aud.state.fl.us or by telephone at (850) 412-2905.

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Hendry County District School Board (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.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on the Child Nutrition Cluster. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2017-001: The District overpaid for food service management company (FSMC) services because District personnel did not reconcile FSMC billings to the FSMC contract and other District records, resulting in questioned costs totaling \$30,216.

Federal Awards Finding No. 2017-002: The District did not credit two nonmajor Federal programs a total of \$84,804 for the prorated portions of a health insurance refund that the District received from the District commercial insurance carrier.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the 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 the District's major Federal program; and
- 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 program.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards, as of and for the fiscal year ended June 30, 2017. 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, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

AUDIT METHODOLOGY

We conducted our audit in accordance with 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.



Sherrill F. Norman, CPA
Auditor General

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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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2017, 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 84 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the Hendry Public Schools Foundation, Inc. (Foundation), which represent 1 percent of the assets, 0 percent of the liabilities, 2 percent of the revenues, and 1 percent of the expenses/expenditures of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the Foundation, is 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 from 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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**, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying **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 accompanying **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 dated March 8, 2018, 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hendry County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2017. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-17 fiscal year are as follows:

- As of June 30, 2017, the assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources by \$34.3 million.
- In total, net position decreased \$1.3 million, which represents a 3.6 percent decrease from the 2015-16 fiscal year.
- General revenues total \$65.1 million, or 92.3 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$5.4 million, or 7.7 percent of all revenues.
- Expenses total \$71.8 million. Only \$5.4 million of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$10.6 million, which is \$0.5 million more than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$10 million, or 18 percent of total General Fund revenues.
- Total long-term liabilities increased by \$10.5 million, or 28.2 percent, mainly because the District's net pension liability increased.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Blended component units – The District presents two separate legal entities in this report, which are the Hendry Public Schools Foundation, Inc. (Foundation) and the Hendry County School Board Leasing Corporation (Leasing Corporation). The Foundation is a not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment for the District. Based on generally accepted accounting principles, as discussed in the notes to financial statements, these two entities have been included as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

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

Proprietary Fund: Proprietary funds may be established to account for activities in which a fee is charged for services. The internal service fund is used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service fund to account for self-insurance activity for dental employee benefits. Since these services predominantly benefit governmental functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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

The District uses a private-purpose trust fund to account for the activities of the Foundation, which is a separate not-for-profit corporation organized to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public prekindergarten through postsecondary education.

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2017, compared to net position as of June 30, 2016:

Net Position, End of Year

	Governmental Activities	
	6-30-17	6-30-16
Current and Other Assets	\$ 18,979,144	\$ 19,280,874
Capital Assets	50,770,987	50,700,806
Total Assets	69,750,131	69,981,680
Deferred Outflows of Resources	14,222,463	6,773,876
Long-Term Liabilities	47,746,095	37,256,195
Other Liabilities	645,971	700,941
Total Liabilities	48,392,066	37,957,136
Deferred Inflows of Resources	1,238,869	3,162,514
Net Position:		
Net Investment in Capital Assets	46,056,169	47,433,827
Restricted	7,143,704	7,865,140
Unrestricted (Deficit)	(18,858,214)	(19,663,061)
Total Net Position	\$ 34,341,659	\$ 35,635,906

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

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$5.4 million in compensated absences payable, \$3.2 million in other postemployment benefit obligations, and \$34.6 million in net pension liability.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2017, and June 30, 2016, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-17	6-30-16
Program Revenues:		
Charges for Services	\$ 246,639	\$ 275,237
Operating Grants and Contributions	4,609,827	4,150,258
Capital Grants and Contributions	564,746	463,977
General Revenues:		
Property Taxes, Levied for Operational Purposes	10,062,128	10,480,934
Property Taxes, Levied for Capital Projects	2,639,192	2,764,034
Grants and Contributions Not Restricted to Specific Programs	50,616,377	48,589,841
Unrestricted Investment Earnings	196,759	106,471
Miscellaneous	1,554,735	521,409
Total Revenues	70,490,403	67,352,161
Functions/Program Expenses:		
Instruction	38,556,906	37,543,129
Student Support Services	2,672,685	2,662,400
Instructional Media Services	681,278	851,255
Instruction and Curriculum Development Services	1,475,568	1,602,820
Instructional Staff Training Services	894,498	945,030
Instruction-Related Technology	696,333	531,623
Board	717,008	666,914
General Administration	1,378,813	1,397,246
School Administration	4,219,292	4,041,794
Facilities Acquisition and Construction	2,189,350	1,834,567
Fiscal Services	627,759	669,461
Food Services	4,241,883	4,360,555
Central Services	378,554	356,352
Student Transportation Services	2,952,257	2,776,973
Operation of Plant	4,255,038	4,275,891
Maintenance of Plant	1,645,605	1,621,377
Administrative Technology Services	1,322,431	1,250,034
Unallocated Interest on Long-Term Debt	52,464	97,588
Unallocated Depreciation Expense	2,801,556	2,777,300
Loss on Disposal of Capital Assets	25,372	47,085
Total Functions/Program Expenses	71,784,650	70,309,394
Change in Net Position	(1,294,247)	(2,957,233)
Net Position - Beginning	35,635,906	38,593,139
Net Position - Ending	\$ 34,341,659	\$ 35,635,906

The largest revenue source is the State of Florida (62.1 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula which is accounted for as grants and contributions not restricted.

The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Operating Grants and Contributions increased by \$0.5 million, or 11.1 percent due to the first year of participation in the community eligibility provision for food service.

Grants and contributions not restricted increased by \$2 million, or 4.2 percent from an increase in State funding per student and an increase in enrollment.

Miscellaneous revenue increased \$1 million, or 198.2 percent, primarily due to a refund of excess premiums over claims expense from the previous healthcare provider.

Instruction expenses represent 53.7 percent of total governmental expenses in the 2016-17 fiscal year. Instruction expenses increased by \$1 million, or 2.7 percent from the previous year due mainly to the increase in expenses related to pensions. Facilities Acquisition and Construction expense increased by \$0.4 million, or 19.3 percent primarily due to the purchase of a large number of chrome notebooks.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$0.2 million during the fiscal year to \$17.2 million at June 30, 2017. Approximately 56.3 percent of this amount is unassigned fund balance (\$9.7 million), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is: (1) not in spendable form (\$0.2 million), (2) restricted for particular purposes (\$7.1 million), or (3) assigned for particular purposes (\$0.2 million).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, assigned fund balance is \$0.2 million and unassigned fund balance is \$9.7 million, while the total fund balance is \$10.6 million. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately 18 percent of the total General Fund revenues, while total fund balance represents approximately 19.2 percent of total General Fund revenues.

Total fund balance increased by \$0.5 million, or 5.2 percent, from the previous fiscal year due mainly to an increase in State FEFP funding.

The Special Revenue – Food Service Fund revenues exceeded expenditures by \$0.4 million. This may be compared to last fiscal year's results in which the Special Revenue – Food Service Fund expenditures exceeded revenues by \$0.2 million. The funding was mainly used for food and supplies.

The Special Revenue – Other Fund has total revenues and expenditures of \$7.1 million each, respectively. The funding was mainly used for instruction. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Activity in the Special Revenue – Other Fund was substantially unchanged.

The Debt Service – Other Fund has total fund balance of \$2 million. This fund is restricted for the accumulation of resources for, and the payment of, debt principal, interest, and related costs on the District's Qualified Zone Academy Bonds. The fund balance increased primarily due to scheduled sinking fund deposits.

Proprietary Fund

The District's proprietary fund financial statements provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the Internal Service Fund decreased by less than \$0.1 million during the 2016-17 fiscal year to \$1.1 million at June 30, 2017. This decrease occurred primarily because of increases in dental claims.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2016-17 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$2.2 million, or 4.2 percent. At the same time, final appropriations are only more than the original budgeted amounts by \$0.3 million. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$2 million, or 4 percent, less than final budgeted amounts. The variance in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2.2 million.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2017, is \$50.8 million (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software.

Long-Term Debt

At June 30, 2017, the District has total long-term debt outstanding of \$4.6 million, composed of \$1.5 million of bonds payable and \$3.1 million of certificates of participation payable. The retirement of debt was \$0.2 million.

State school bonds outstanding at June 30, 2017, totaling less than \$0.1 million, are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Revenue bonds of \$1.4 million are secured by pari-mutuel tax proceeds. The District's certificates of participation are not secured by specified revenue sources.

OTHER MATTERS OF SIGNIFICANCE

Employer contributions to the Florida Retirement System increased for regular employees from 7.52 percent to 7.92 percent of payroll for the 2017-18 fiscal year.

Housing prices are expected to increase the taxable assessed property value for the 2017-18 fiscal year resulting in increased property tax revenues.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent, Hendry County District School Board, 25 East Hickpoochee Avenue, LaBelle, Florida 33935.

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BASIC FINANCIAL STATEMENTS

Hendry County District School Board Statement of Net Position June 30, 2017

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 15,992,611
Investments	1,767
Accounts Receivable	6,565
Due from Other Agencies	798,830
Inventories	146,416
Restricted Cash and Cash Equivalents	30,019
Restricted Investments	2,002,936
Capital Assets:	
Nondepreciable Capital Assets	1,457,629
Depreciable Capital Assets, Net	49,313,358
TOTAL ASSETS	69,750,131
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	14,222,463
LIABILITIES	
Accounts Payable	457,553
Construction Contracts Payable	116,316
Due to Other Agencies	47
Estimated Liability for Self-Insurance Program	72,055
Long-Term Liabilities:	
Portion Due Within One Year	1,075,013
Portion Due After One Year	46,671,082
TOTAL LIABILITIES	48,392,066
DEFERRED INFLOWS OF RESOURCES	
Pensions	1,238,869
NET POSITION	
Net Investment in Capital Assets	46,056,169
Restricted for:	
Federal Programs	4,337
State Required Carryover Programs	505,343
Debt Service	2,199,232
Capital Projects	2,133,416
Food Service	2,301,376
Unrestricted (Deficit)	(18,858,214)
TOTAL NET POSITION	\$ 34,341,659

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

**Hendry County District School Board
Statement of Activities
For the Fiscal Year Ended June 30, 2017**

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 38,556,906	\$ -	\$ 98,388
Student Support Services	2,672,685	-	-
Instructional Media Services	681,278	-	-
Instruction and Curriculum Development Services	1,475,568	-	-
Instructional Staff Training Services	894,498	-	-
Instruction-Related Technology	696,333	-	-
Board	717,008	-	-
General Administration	1,378,813	-	-
School Administration	4,219,292	-	-
Facilities Acquisition and Construction	2,189,350	-	-
Fiscal Services	627,759	-	-
Food Services	4,241,883	143,997	4,511,439
Central Services	378,554	-	-
Student Transportation Services	2,952,257	102,642	-
Operation of Plant	4,255,038	-	-
Maintenance of Plant	1,645,605	-	-
Administrative Technology Services	1,322,431	-	-
Unallocated Interest on Long-Term Debt	52,464	-	-
Unallocated Depreciation Expense	2,801,556	-	-
Loss on Disposal of Capital Assets	25,372	-	-
Total Governmental Activities	\$ 71,784,650	\$ 246,639	\$ 4,609,827

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

		Net (Expense) Revenue and Changes in Net Position	
Capital Grants and Contributions		Governmental Activities	
\$	-	\$	(38,458,518)
	-		(2,672,685)
	-		(681,278)
	-		(1,475,568)
	-		(894,498)
	-		(696,333)
	-		(717,008)
	-		(1,378,813)
	-		(4,219,292)
	450,612		(1,738,738)
	-		(627,759)
	-		413,553
	-		(378,554)
	-		(2,849,615)
	-		(4,255,038)
	-		(1,645,605)
	-		(1,322,431)
	114,134		61,670
	-		(2,801,556)
	-		(25,372)
\$	564,746		(66,363,438)

10,062,128
2,639,192
50,616,377
196,759
1,554,735
65,069,191
(1,294,247)
35,635,906
\$ 34,341,659

**Hendry County District School Board
Balance Sheet – Governmental Funds
June 30, 2017**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
ASSETS			
Cash and Cash Equivalents	\$ 10,523,625	\$ 1,871,370	\$ 4,895
Investments	-	-	-
Accounts Receivable	4,703	1,862	-
Due from Other Funds	192,892	409,649	686
Due from Other Agencies	89,478	102,134	604,686
Inventories	146,416	-	-
Restricted Cash and Cash Equivalents	-	-	-
Restricted Investments	-	-	-
TOTAL ASSETS	\$ 10,957,114	\$ 2,385,015	\$ 610,267
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 350,977	\$ 82,210	\$ 4,771
Construction Contracts Payable	-	-	-
Due to Other Funds	686	1,429	601,112
Due to Other Agencies	-	-	47
Total Liabilities	351,663	83,639	605,930
Fund Balances:			
Nonspendable:			
Inventories	146,416	-	-
Restricted for:			
Federal Programs	-	-	4,337
State Required Carryover Programs	505,343	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Food Service	-	2,301,376	-
Total Restricted Fund Balance	505,343	2,301,376	4,337
Assigned for:			
Purchases on Order	245,126	-	-
Unassigned Fund Balance	9,708,566	-	-
Total Fund Balances	10,605,451	2,301,376	4,337
TOTAL LIABILITIES AND FUND BALANCE	\$ 10,957,114	\$ 2,385,015	\$ 610,267

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

Debt Service - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,431,305	\$ 14,831,195
-	1,767	1,767
-	-	6,565
-	-	603,227
-	2,532	798,830
-	-	146,416
30,019	-	30,019
2,002,936	-	2,002,936
<u>\$ 2,032,955</u>	<u>\$ 2,435,604</u>	<u>\$ 18,420,955</u>
\$ -	\$ 19,595	\$ 457,553
-	116,316	116,316
-	-	603,227
-	-	47
<u>-</u>	<u>135,911</u>	<u>1,177,143</u>
-	-	146,416
-	-	4,337
-	-	505,343
2,032,955	166,277	2,199,232
-	2,133,416	2,133,416
-	-	2,301,376
<u>2,032,955</u>	<u>2,299,693</u>	<u>7,143,704</u>
-	-	245,126
-	-	9,708,566
<u>2,032,955</u>	<u>2,299,693</u>	<u>17,243,812</u>
<u>\$ 2,032,955</u>	<u>\$ 2,435,604</u>	<u>\$ 18,420,955</u>

**Hendry County District School Board
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017**

Total Fund Balances - Governmental Funds \$ 17,243,812

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. 50,770,987

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. 1,089,361

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 year end consist of:

Certificates of Participation Payable	\$	(3,068,200)	
Bonds Payable		(1,530,302)	
Other Postemployment Benefits Payable		(3,160,602)	
Compensated Absences Payable		(5,433,938)	
Net Pension Liability		<u>(34,553,053)</u>	(47,746,095)

The deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions	\$	14,222,463	
Deferred Inflows Related to Pensions		<u>(1,238,869)</u>	<u>12,983,594</u>

Net Position - Governmental Activities **\$ 34,341,659**

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

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**Hendry County District School Board
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Through State and Local	\$ 318,316	\$ 4,482,822	\$ 7,088,989
State	43,040,772	53,617	-
Local:			
Property Taxes	10,062,128	-	-
Charges for Services - Food Service	-	143,997	-
Miscellaneous	1,793,082	50,546	-
Total Local Revenues	11,855,210	194,543	-
Total Revenues	55,214,298	4,730,982	7,088,989
Expenditures			
Current - Education:			
Instruction	33,093,742	-	4,654,725
Student Support Services	2,111,271	-	500,360
Instructional Media Services	665,750	-	-
Instruction and Curriculum Development Services	599,042	-	837,527
Instructional Staff Training Services	100,179	-	773,008
Instruction-Related Technology	696,333	-	-
Board	712,280	-	-
General Administration	1,162,286	-	192,831
School Administration	4,118,263	-	-
Facilities Acquisition and Construction	52,447	-	-
Fiscal Services	614,474	-	-
Food Services	-	4,238,860	-
Central Services	368,083	-	3,251
Student Transportation Services	2,844,483	-	53,676
Operation of Plant	4,217,646	-	-
Maintenance of Plant	1,616,843	-	-
Administrative Technology Services	1,303,299	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	-	-	-
Other Capital Outlay	462,675	124,363	73,611
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	54,739,096	4,363,223	7,088,989
Excess (Deficiency) of Revenues Over Expenditures	475,202	367,759	-
Other Financing Sources (Uses)			
Transfers In	-	-	-
Loss Recoveries	47,497	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	47,497	-	-
Net Change in Fund Balances	522,699	367,759	-
Fund Balances, Beginning	10,082,752	1,933,617	4,337
Fund Balances, Ending	\$ 10,605,451	\$ 2,301,376	\$ 4,337

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

Debt Service - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 11,890,127
-	708,046	43,802,435
-	2,639,192	12,701,320
-	-	143,997
48,503	12,896	1,905,027
48,503	2,652,088	14,750,344
48,503	3,360,134	70,442,906
-	-	37,748,467
-	-	2,611,631
-	-	665,750
-	-	1,436,569
-	-	873,187
-	-	696,333
-	-	712,280
-	-	1,355,117
-	-	4,118,263
-	1,997,234	2,049,681
-	-	614,474
-	-	4,238,860
-	-	371,334
-	-	2,898,159
-	-	4,217,646
-	-	1,616,843
-	-	1,303,299
-	1,659,309	1,659,309
-	577,150	1,237,799
-	162,550	162,550
3,098	54,090	57,188
3,098	4,450,333	70,644,739
45,405	(1,090,199)	(201,833)
161,231	-	161,231
-	-	47,497
-	(161,231)	(161,231)
161,231	(161,231)	47,497
206,636	(1,251,430)	(154,336)
1,826,319	3,551,123	17,398,148
\$ 2,032,955	\$ 2,299,693	\$ 17,243,812

**Hendry 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, 2017**

Net Change in Fund Balances - Governmental Funds **\$ (154,336)**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 95,553

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (25,372)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments and amortization of premiums in the current fiscal year. 168,477

The prior year governmental funds reported deferred inflows of resources related to unavailable capital outlay and debt service revenue. This amount was accrued and reported as revenue on the prior year statement of activities. (1,865)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 751,951

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (351,981)

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

FRS Pension Contribution	\$	2,174,644	
HIS Pension Contribution		579,854	
FRS Pension Expense		(3,359,495)	
HIS Pension Expense		<u>(1,081,118)</u>	(1,686,115)

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. (90,559)

Change in Net Position - Governmental Activities **\$ (1,294,247)**

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

**Hendry County District School Board
Statement of Net Position – Proprietary Fund
June 30, 2017**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,161,416
LIABILITIES	
Current Liabilities:	
Estimated Liability for Self-Insurance Program	72,055
NET POSITION	
Unrestricted	\$ 1,089,361

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

**Hendry County District School Board
Statement of Revenues, Expenses, and Changes in Fund
Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2017**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenue from Board and Participants' Funds	\$ 513,766
OPERATING EXPENSES	
Insurance Claims	537,217
Other	68,729
Total Operating Expenses	605,946
Operating Loss	(92,180)
NONOPERATING REVENUES	
Interest	1,621
Change in Net Position	(90,559)
Total Net Position - Beginning	1,179,920
Total Net Position - Ending	\$ 1,089,361

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

**Hendry County District School Board
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2017**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board and Participants' Funds	\$ 513,766
Cash Payments for Insurance Claims	(537,217)
Cash Payments for Purchased Services and Other	(68,729)
Net Cash Used by Operating Activities	<u>(92,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>1,621</u>
Net Decrease in Cash and Cash Equivalents	(90,559)
Cash and Cash Equivalents, Beginning	<u>1,251,975</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 1,161,416</u></u>

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

Operating Loss	\$ (92,180)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	<u>-</u>
Net Cash Used by Operating Activities	<u><u>\$ (92,180)</u></u>

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

**Hendry County District School Board
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2017**

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 52,925	\$ 907,060
Investments	-	156,924
TOTAL ASSETS	<u>\$ 52,925</u>	<u>\$ 1,063,984</u>
LIABILITIES		
Internal Accounts Payable	<u>\$ -</u>	<u>\$ 1,063,984</u>
NET POSITION		
Held in Trust for Scholarships and Other Purposes	<u>\$ 52,925</u>	

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

**Hendry County District School Board
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
For the Fiscal Year Ended June 30, 2017**

	Private-Purpose Trust Fund
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 75,662
Investment Income:	
Interest, Dividends, and Other	147
Total Additions	<u>75,809</u>
DEDUCTIONS	
Program Services - Mini-Grants for School Programs	22,693
Program Services - Other	7,614
Administrative Expenses	<u>1,983</u>
Total Deductions	<u>32,290</u>
Change in Net Position	43,519
Net Position - Beginning	<u>9,406</u>
Net Position - Ending	<u><u>\$ 52,925</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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 statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Hendry 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 is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Hendry 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 (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hendry County.

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

- The Hendry County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note II.H. 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.
- The Hendry Public Schools Foundation, Inc. (Foundation) is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of public prekindergarten through postsecondary education in the State in the form of money and other forms of property and services to the Board. Since the Foundation's governing body is

substantively the same as the Board, the financial activities of the Foundation are included in the accompanying basic financial statements. An annual audit of the Foundation's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office at 25 E. Hickpoochee Avenue, LaBelle, Florida 33935.

C. Basis of Presentation: Government-Wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

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 – Food Service Fund – to account for food service revenues and expenditures.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Debt Service - Other Fund – to account for accumulation of resources for, and the payment of, debt principal, interest, and related costs on the District's Qualified Zone Academy Bonds (QZAB).

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

- Internal Service Fund – to account for the District's employee dental benefit program.
- Private-Purpose Trust Fund – to account for resources of the Foundation.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between funds are eliminated in the preparation of the government-wide financial statements.

E. 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 or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds include a trust fund and agency funds. The trust fund uses the economic resources measurement focus and accrual basis of accounting. Agency funds are unlike all other types of funds and report only assets and liabilities. The agency funds do not have a measurement focus, but do use an accrual basis of accounting to recognize assets and liabilities.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, liquid investments with original maturities of 3 months or less from the date of acquisition. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME.

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

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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

Investments made locally consist of Federal National Mortgage Association (FNMA) discount note held by a trustee under a paying agent agreement in connection with the QZAB financing arrangement (see Note II.H.1.). Types and amounts of investments held at fiscal year end are described in a subsequent note.

3. Inventories

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing \$1,000 or more. Such assets are recorded at historical cost or estimated

historical cost if purchased or constructed. Donated assets are recorded at acquisition value at the date of donation.

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

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	10 and 20 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	5 and 10 years
Motor Vehicles	4 and 10 years
Computer Software	3 years

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

5. Pensions

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are described in a subsequent note.

6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. Debt premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. The face amount of debt issued is reported as other financing sources.

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category. The item, deferred outflows of resources related to pensions, is discussed in a subsequent note.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. The item, deferred amount on pension, is reported only in the government-wide statement of net position. A deferred amount on pension results from the difference in the expected and actual amounts of experience, earnings, and contributions. This amount is deferred and amortized over the service life of all employees that are provided with pensions through the pension plan except earnings which are amortized over 5 years.

8. 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.

9. 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.

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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 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.

In addition, the District has adopted Board Policy 6220 which provides for a minimum fund balance of at least 7 percent of the General Fund's annual revenues.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE 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 FDOE. The FDOE 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 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE.

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

3. District Property Taxes

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

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

The Board adopted the 2016 tax levy on September 6, 2016. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

6. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are Board contributions for dental insurance premiums. Operating expenses include insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

B. Investments

As of June 30, 2017, the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	39 Day Average	\$ 9,125,530
Debt Service Accounts	6 Months	1,767
United States Government Instrumentality Obligations:		
FNMA Discount Note (2)	November 15, 2017	2,002,936
Total Investments		\$ 11,130,233

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

(2) This investment is held by a trustee under a paying agent agreement in connection with the QZAB financing arrangement (see Note II.H.1.).

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The SBA debt service accounts and the FNMA discount note are valued using Level 1 inputs.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME uses a weighted average days to maturity (WAM). 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.

For Florida PRIME, with regard to redemption gates, Section 218.409(8)(a), Florida Statutes, states "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

Credit Risk

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

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the debt service accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

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

The District's investment in United States Government instrumentality obligations is authorized under a forward delivery agreement with the QZAB paying agent. The investment must have a maturity date on or before November 15, 2017. The District's investment in the FNMA discount note was not rated.

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 governing body's interest in the security; (2) if in book-entry form, the investment must be held for the credit of the governing body 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 this State, 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 this State, 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, the investment must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.

United States Government instrumentality obligations are held by the trustee in the name of the District.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer.

More than 5 percent of the District's investments are in a FNMA discount note, a government sponsored enterprise of the United States Federal government. This investment is 18 percent of the District's total investments and 100 percent of the investments in the Debt Service – Other Fund. This investment is made pursuant to a forward delivery agreement related to the District's QZAB (see Note II.H.1.).

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,278,483	\$ -	\$ -	\$ 1,278,483
Construction in Progress	96,750	1,337,460	1,255,064	179,146
Total Capital Assets Not Being Depreciated	1,375,233	1,337,460	1,255,064	1,457,629
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,990,280	20,780	11,945	3,999,115
Buildings and Fixed Equipment	85,091,238	1,740,512	-	86,831,750
Furniture, Fixtures, and Equipment	8,586,831	538,032	589,804	8,535,059
Motor Vehicles	6,443,130	515,389	441,191	6,517,328
Computer Software	539,810	-	261,963	277,847
Total Capital Assets Being Depreciated	104,651,289	2,814,713	1,304,903	106,161,099
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,633,580	73,958	11,945	3,695,593
Buildings and Fixed Equipment	40,191,027	1,781,648	-	41,972,675
Furniture, Fixtures, and Equipment	5,947,234	557,748	564,432	5,940,550
Motor Vehicles	5,016,704	387,559	441,191	4,963,072
Computer Software	537,171	643	261,963	275,851
Total Accumulated Depreciation	55,325,716	2,801,556	1,279,531	56,847,741
Total Capital Assets Being Depreciated, Net	49,325,573	13,157	25,372	49,313,358
Governmental Activities Capital Assets, Net	\$ 50,700,806	\$ 1,350,617	\$ 1,280,436	\$ 50,770,987

The District's capital assets serve multiple functions; however, depreciation expense is not allocated to the various functions on the statement of activities, but is shown as unallocated depreciation expense.

D. Retirement Plans

1. FRS – Defined Benefit Pension Plans

General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered 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. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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 Web site (www.dms.myflorida.com).

The District's FRS and HIS pension expense totaled \$4,440,613 for the fiscal year ended June 30, 2017.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are:

- *Regular* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers* – Members who hold specified elective offices in local government.
- *Senior Management Service* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan 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 to eligible participants.

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 participating 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. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>Percent Value</u>
Regular members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Elected County Officers	3.00
Senior Management Service	2.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (1)
FRS, Regular	3.00	7.52
FRS, Elected County Officers	3.00	42.47
FRS, Senior Management Service	3.00	21.77
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The District's contributions to the Plan totaled \$2,174,644 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a liability of \$21,519,149 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.085224087 percent, which was a decrease of 0.006466176 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the Plan pension expense of \$3,359,495. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,647,672	\$ 200,358
Change of assumptions	1,301,844	-
Net difference between projected and actual earnings on FRS pension plan investments	5,562,438	-
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	743,073	768,509
District FRS contributions subsequent to the measurement date	2,174,644	-
Total	\$ 11,429,671	\$ 968,867

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$2,174,644, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	\$ 1,223,162
2019	1,223,162
2020	3,391,746
2021	2,202,142
2022	195,764
Thereafter	50,184
Total	\$ 8,286,160

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2016 valuation was updated from 7.65 percent to 7.6 percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.6 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.6 percent) or 1 percentage point higher (8.6 percent) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
District's proportionate share of the net pension liability (asset)	\$ 39,618,210	\$ 21,519,149	\$ 6,454,071

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Federal Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the

event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$579,854 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a net pension liability of \$13,033,904 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.111834983 percent, which was a decrease of 0.002414786 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the HIS Plan pension expense of \$1,081,118. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 29,686
Change of assumptions	2,045,351	-
Net difference between projected and actual earnings on HIS pension plan investments	6,590	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	-	-
	160,997	240,316
District contributions subsequent to the measurement date	579,854	-
Total	\$ 2,792,792	\$ 270,002

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$579,854, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 360,291
2019	360,291
2020	359,036
2021	358,434
2022	279,187
Thereafter	225,697
Total	\$ 1,942,936

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2016 valuation was updated from 3.8 percent to 2.85 percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
District's proportionate share of the net pension liability	\$ 14,952,849	\$ 13,033,904	\$ 11,441,284

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

2. FRS – Defined Contribution Pension Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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 the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan members accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Elected County Officers	11.34
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings, regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled \$549,909 for the fiscal year ended June 30, 2017.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plans as well as its self-insured dental 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 retiree healthcare costs are generally greater than active employee healthcare costs. In addition, the Board contributes \$40 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 44 retirees received other postemployment benefits. The District provided required contributions of \$340,772 toward the annual OPEB cost, net of retiree contributions totaling \$387,579, which represents 1.3 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for 1 year)	\$ 330,000
Amortization of Unfunded Actuarial Accrued Liability	512,546
Annual Required Contribution	842,546
Interest on Net OPEB Obligation	84,259
Adjustment to Annual Required Contribution	(234,052)
Annual OPEB Cost (Expense)	692,753
Contribution Toward the OPEB Cost	(340,772)
Increase in Net OPEB Obligation	351,981
Net OPEB Obligation, Beginning of Year	2,808,621
Net OPEB Obligation, End of Year	\$ 3,160,602

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, 2017, and the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 548,019	52.5%	\$ 2,345,561
2015-16	823,148	43.7%	2,808,621
2016-17	692,753	49.2%	3,160,602

Funded Status and Funding Progress. As of January 1, 2016, the most recent valuation date, revised for OPEB Plan changes, the actuarial accrued liability for benefits was \$5,883,805, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$5,883,805 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$30,647,770, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 19.2 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical

pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The District's OPEB actuarial valuation as of January 1, 2016, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2017, and to estimate the District's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, projected salary increases of 3.7 to 7.8 percent, and an annual healthcare cost trend rate of 9 percent beginning in January 2017, reduced to an ultimate rate of 4.63 percent in January 2040. The investment rate of return and projected salary increases include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 13-year period. The remaining amortization period at June 30, 2017, was 11 years.

F. Construction and Other Significant Commitments

Construction Contracts. The following is a schedule of major construction contract commitments at June 30, 2017:

Project	Contract Amount	Completed to Date	Balance Committed
Clewiston High School - New Vo-Tech Building	\$ 342,959	\$ 179,146	\$ 163,813

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 fiscal year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2017:

Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
General	Special Revenue - Food Service	Special Revenue - Other		
\$ 245,126	\$ 482	\$ 44,545	\$ 404,528	\$ 694,681

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; third party injuries and/or property damage and natural disasters. The District is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which seven district school boards have established a public entity risk sharing pool for property, general liability, automobile liability, workers'

compensation, governmental crime, and other coverage deemed necessary by the members of the SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. The SCERMP is self-sustaining through member contributions (premiums), and purchases insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

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

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except wind/hail/flood). The named wind/hail/hurricane deductible is 3 percent of replacement cost value with a minimum of \$100,000 per occurrence and a maximum of \$25 million per occurrence. The deductible for all other wind events is \$100,000. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents plus \$100,000 time element per occurrence. The flood deductible outside a special flood hazard area is \$100,000. The SCERMP's purchased excess property loss limit during the 2016-17 fiscal year was \$125 million.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2016-17 fiscal year was \$1 million. The SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employer's liability is included subject to \$2 million per occurrence.

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

The District provides dental coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2017.

The following schedule represents the changes in claims liability for the past 2 fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2015-16	\$ 72,055	\$ 463,709	\$ (463,709)	\$ 72,055
2016-17	72,055	537,217	(537,217)	72,055

Health and hospitalization coverage is being provided by purchased commercial insurance through a minimum premium plan. The minimum premiums to be earned for all types of coverage are set forth in the contract. Premiums are payable monthly based on the total number of eligible employees. When earned premiums are greater than the sum of the incurred claims and a specified retention, the loss shall be paid to the plan up to the maximum due as set forth in the contract. Life insurance is purchased by the District for eligible employees. These transactions are accounted for in the governmental funds rather than the internal service fund.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in the past 3 fiscal years.

H. Long-Term Liabilities

1. Certificates of Participation

On December 15, 2005, the District issued Certificates of Participation, Series 2005-QZAB, under a special program whereby the certificates will mature in full on December 15, 2021, for the original issue of \$3,068,200. There is no interest cost for borrowing moneys under this program. The financing proceeds were used to acquire improvements at several designated schools, which are leased by the District from the Leasing Corporation. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$158,133 for 16 consecutive years began December 16, 2006. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with the accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement in the event of cancellation or default.

The schools designated for technology-related equipment and improvements under the Series 2005-QZAB certificates include: Eastside Elementary School, Westside Elementary School, Central Elementary School, and LaBelle High School.

The following is a schedule by years of future minimum lease payments for the Series 2005-QZAB certificates with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2022	\$ 3,068,200	\$ 3,068,200	\$ 0

2. Bonds Payable

Bonds payable at June 30, 2017, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2014B, Refunding	\$ 73,000	2 - 5	2020
District Revenue Bonds:			
Series 2015	1,445,450	3.06	2025
Total Minimum Bond Payments	1,518,450		
Plus: Unamortized Premiums	11,852		
Total Bonds Payable	\$ 1,530,302		

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

State School Bonds

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

District Revenue Bonds

These bonds are authorized by Chapter 69-1094, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hendry County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of \$1,754,476, of pari-mutuel tax revenues in connection with the District Revenue Bonds of 2015, described above. During the 2016-17 fiscal year, the District recognized pari-mutuel tax revenues totaling \$143,300 and expended these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on November 2025. Assuming a normal growth rate of 0 percent in the collection of pari-mutuel tax funds, 72 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds. A balloon payment of \$955,075 is due on November 1, 2025.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2018	\$ 62,440	\$ 59,000	\$ 3,440
2019	7,490	7,000	490
2020	7,140	7,000	140
Total State School Bonds	77,070	73,000	4,070
District Revenue Bonds:			
2018	99,679	56,310	43,369
2019	99,745	58,127	41,618
2020	99,813	60,002	39,811
2021	99,883	61,938	37,945
2022	99,955	63,936	36,019
2023-2026	1,255,401	1,145,137	110,264
Total District Revenue Bonds	1,754,476	1,445,450	309,026
Total	\$ 1,831,546	\$ 1,518,450	\$ 313,096

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	\$ 3,068,200	\$ -	\$ -	\$ 3,068,200	\$ -
Bonds Payable	1,698,779	-	168,477	1,530,302	115,310
Other Postemployment Benefits Payable	2,808,621	692,753	340,772	3,160,602	-
Compensated Absences Payable	6,185,889	72,180	824,131	5,433,938	583,940
Net Pension Liability	23,494,706	26,162,761	15,104,414	34,553,053	375,763
Total Governmental Activities	\$ 37,256,195	\$ 26,927,694	\$ 16,437,794	\$ 47,746,095	\$ 1,075,013

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

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in Note I.F.10., fund balances may be classified as follows:

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

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

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 192,892	\$ 686
Special Revenue:		
Food Service	409,649	1,429
Other	686	601,112
Total	\$ 603,227	\$ 603,227

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

K. Revenues

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2016-17 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 34,078,179
Categorical Educational Program - Class Size Reduction	7,845,243
Voluntary Prekindergarten Program	376,155
Motor Vehicle License Tax (Capital Outlay and Debt Service)	285,061
Gross Receipts Tax (Public Education Capital Outlay)	283,891
Workforce Performance Initiative	204,363
School Recognition	126,691
Florida Best and Brightest Teacher Scholarship Program	122,704
Food Service Supplement	53,617
Mobile Home License Tax	35,685
Miscellaneous	390,846
Total	\$ 43,802,435

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2016 tax roll for the 2016-17 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
General Fund		
Nonvoted School Tax:		
Required Local Effort	4.673	\$ 9,053,135
Basic Discretionary Local Effort	0.748	1,449,122
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,905,993
Total	<u>6.921</u>	<u>\$ 13,408,250</u>

L. Interfund Transfers

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

	<u>Interfund</u>	
<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
Debt Service - Other Fund	\$ 161,231	\$ -
Nonmajor Governmental	-	161,231
Total	<u>\$ 161,231</u>	<u>\$ 161,231</u>

Capital outlay ad valorem tax moneys were transferred from the nonmajor Capital Projects – Local Capital Improvement Fund to the major Debt Service – Other Fund for debt service sinking fund deposits.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule General and Major Special Revenue Funds For the Fiscal Year Ended June 30, 2017

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Through State and Local	\$ 250,000	\$ 326,143	\$ 318,316	\$ (7,827)
State	42,073,615	43,035,971	43,040,772	4,801
Local:				
Property Taxes	10,187,746	10,062,128	10,062,128	-
Charges for Services - Food Service	-	-	-	-
Miscellaneous	479,575	1,793,082	1,793,082	-
Total Local Revenues	10,667,321	11,855,210	11,855,210	-
Total Revenues	52,990,936	55,217,324	55,214,298	(3,026)
Expenditures				
Current - Education:				
Instruction	35,165,707	34,084,623	33,093,742	990,881
Student Support Services	2,117,624	2,154,494	2,111,271	43,223
Instructional Media Services	537,212	667,028	665,750	1,278
Instruction and Curriculum Development Services	577,181	609,195	599,042	10,153
Instructional Staff Training Services	74,182	101,277	100,179	1,098
Instruction-Related Technology	763,680	699,458	696,333	3,125
Board	886,145	862,145	712,280	149,865
General Administration	1,153,865	1,270,022	1,162,286	107,736
School Administration	3,886,233	4,137,633	4,118,263	19,370
Facilities Acquisition and Construction	3,515	99,944	52,447	47,497
Fiscal Services	697,375	697,375	614,474	82,901
Food Services	-	-	-	-
Central Services	331,858	382,038	368,083	13,955
Student Transportation Services	2,756,846	3,048,332	2,844,483	203,849
Operation of Plant	4,476,671	4,520,434	4,217,646	302,788
Maintenance of Plant	1,676,877	1,704,945	1,616,843	88,102
Administrative Technology Services	1,472,020	1,411,165	1,303,299	107,866
Fixed Capital Outlay:				
Other Capital Outlay	-	462,675	462,675	-
Total Expenditures	56,576,991	56,912,783	54,739,096	2,173,687
Excess (Deficiency) of Revenues Over Expenditures	(3,586,055)	(1,695,459)	475,202	2,170,661
Other Financing Sources				
Loss Recoveries	-	47,497	47,497	-
Total Other Financing Sources	-	47,497	47,497	-
Net Change in Fund Balances	(3,586,055)	(1,647,962)	522,699	2,170,661
Fund Balances, Beginning	10,082,752	10,082,752	10,082,752	-
Fund Balances, Ending	\$ 6,496,697	\$ 8,434,790	\$ 10,605,451	\$ 2,170,661

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 4,209,000	\$ 4,234,000	\$ 4,482,822	\$ 248,822	\$ 7,231,471	\$ 7,927,129	\$ 7,088,989	\$ (838,140)
54,016	54,016	53,617	(399)	-	-	-	-
-	-	-	-	-	-	-	-
240,000	240,000	143,997	(96,003)	-	-	-	-
5,000	5,000	50,546	45,546	-	-	-	-
245,000	245,000	194,543	(50,457)	-	-	-	-
4,508,016	4,533,016	4,730,982	197,966	7,231,471	7,927,129	7,088,989	(838,140)
-	-	-	-	4,683,973	5,180,548	4,654,725	525,823
-	-	-	-	534,044	570,079	500,360	69,719
-	-	-	-	2,832	-	-	-
-	-	-	-	876,394	860,050	837,527	22,523
-	-	-	-	857,279	938,224	773,008	165,216
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	187,082	240,007	192,831	47,176
-	-	-	-	10,000	4,214	-	4,214
-	-	-	-	500	-	-	-
-	-	-	-	-	-	-	-
4,352,392	4,385,529	4,238,860	146,669	-	-	-	-
-	-	-	-	21,351	3,281	3,251	30
-	-	-	-	55,683	57,115	53,676	3,439
-	-	-	-	2,333	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	124,363	124,363	-	-	73,611	73,611	-
4,352,392	4,509,892	4,363,223	146,669	7,231,471	7,927,129	7,088,989	838,140
155,624	23,124	367,759	344,635	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
155,624	23,124	367,759	344,635	-	-	-	-
1,933,617	1,933,617	1,933,617	-	4,337	4,337	4,337	-
\$ 2,089,241	\$ 1,956,741	\$ 2,301,376	\$ 344,635	\$ 4,337	\$ 4,337	\$ 4,337	\$ 0

**Schedule of Funding Progress –
Other Postemployment Benefits Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/14	\$ -	\$ 4,715,203	\$ 4,715,203	0.0%	\$ 31,121,488	15.2%
01/01/16	-	6,828,808	6,828,808	0.0%	30,647,770	22.3%
01/01/16 revised	-	5,883,805	5,883,805	0.0%	30,647,770	19.2%

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

**Schedule of the District's Proportionate Share
of the Net Pension Liability –
Florida Retirement System Pension Plan (1)**

	2016	2015	2014	2013
District's proportion of the FRS net pension liability	0.085224087%	0.091690263%	0.091080451%	0.083559847%
District's proportionate share of the FRS net pension liability	\$ 21,519,149	\$ 11,843,027	\$ 5,557,247	\$ 14,384,369
District's covered payroll	\$ 34,525,827	\$ 34,662,040	\$ 34,152,530	\$ 34,430,669
District's proportionate share of the FRS net pension liability as a percentage of its covered payroll	62.33%	34.17%	16.27%	41.78%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –
Florida Retirement System Pension Plan (1)**

	2017	2016	2015	2014
Contractually required FRS contribution	\$ 2,174,644	\$ 2,078,325	\$ 2,235,486	\$ 1,995,048
FRS contributions in relation to the contractually required contribution	(2,174,644)	(2,078,325)	(2,235,486)	(1,995,048)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 34,923,905	\$ 34,525,827	\$ 34,662,040	\$ 34,152,530
FRS contributions as a percentage of covered payroll	6.23%	6.02%	6.45%	5.84%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of the District's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan (1)**

	2016	2015	2014	2013
District's proportion of the HIS net pension liability	0.111834983%	0.114249769%	0.114941864%	0.111771811%
District's proportionate share of the HIS net pension liability	\$ 13,033,904	\$ 11,651,679	\$ 10,747,345	\$ 9,731,206
District's covered payroll	\$ 34,525,827	\$ 34,662,040	\$ 34,152,530	\$ 32,430,669
District's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.75%	33.62%	31.47%	30.01%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –
Health Insurance Subsidy Pension Plan (1)**

	2017	2016	2015	2014
Contractually required HIS contribution	\$ 579,854	\$ 573,226	\$ 436,734	\$ 393,752
HIS contributions in relation to the contractually required contribution	(579,854)	(573,226)	(436,734)	(392,752)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 34,923,905	\$ 34,525,827	\$ 34,662,040	\$ 34,152,530
HIS contributions as a percentage of covered payroll	1.66%	1.66%	1.26%	1.15%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgetary Basis of Accounting

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

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

2. Schedule of Funding Progress – Other Postemployment Benefits Plan

The January 1, 2016, unfunded actuarial accrued liability of \$6,828,808 reported at June 30, 2016, was revised as of June 30, 2017, to \$5,883,805 as a result of the passage of time and plan changes made after June 30, 2016.

3. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.6 percent, and the active member mortality assumption was updated.

4. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal bond rate used to determine total pension liability was decreased from 3.8 percent to 2.85 percent.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Hendry County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Expenditures
Clustered			
Child Nutrition Cluster:			
United States Department of Agriculture:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	17002	\$ 787,356
National School Lunch Program	10.555	17001, 17003	3,527,948
Summer Food Service Program for Children	10.559	16006, 16007, 17006, 17007	142,518
Total Child Nutrition Cluster			4,457,822
Special Education Cluster:			
United States Department of Education:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,758,938
Special Education - Preschool Grants	84.173	266, 267	43,627
Total Special Education Cluster			1,802,565
Not Clustered			
United States Department of Agriculture:			
Florida Department of Agriculture and Consumer Services:			
State Administrative Expenses for Child Nutrition	10.560	None	25,000
United States Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program:			
Hendry County Board of County Commissioners	16.738	2016-JAGC-HEND-3-H3-190	24,835
United States Department of Education:			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	205,587
Title I Grants to Local Educational Agencies	84.010	212, 226	3,106,101
Migrant Education - State Grant Program	84.011	217	1,118,434
Career and Technical Education - Basic Grants to States	84.048	161	172,240
Education for Homeless Children and Youth	84.196	127	36,716
Rural Education	84.358	110	129,890
English Language Acquisition State Grants	84.365	102	151,555
Improving Teacher Quality State Grants	84.367	224	312,118
Florida Gulf Coast University:			
Special Education - State Personnel Development	84.323	None	28,948
Total United States Department of Education			5,261,589
Total Expenditures of Federal Awards			\$ 11,571,811

The accompanying notes are an integral part of this schedule.

- Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Hendry County District School Board under programs of the Federal Government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.
- (2) Summary of Significant Accounting Policies. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.
- (4) Noncash Assistance – National School Lunch Program. Includes \$253,395 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2017, 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 8, 2018, 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 Hendry Public Schools Foundation, Inc., 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Purpose of this Report

The purpose of this report 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 communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2018



Sherrill F. Norman, CPA
Auditor General

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for the Major Federal Program

We have audited the Hendry County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the fiscal year ended June 30, 2017. The District's major Federal program is identified in **SECTION I – SUMMARY OF AUDITOR'S RESULTS** of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major Federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the 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 its major Federal program for the fiscal year ended June 30, 2017.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding No. 2017-001. Our opinion on the major Federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is included as District Response in Federal Awards Finding No. 2017-001 and in the **CORRECTIVE ACTION PLAN**. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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 a 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 and, therefore, material

weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding No. 2017-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is included as District Response in Federal Awards Finding No. 2017-001 and in the **CORRECTIVE ACTION PLAN**. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	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 Federal program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major Federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major Federal program:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE

Finding Number	2017-001
CFDA Numbers	10.553, 10.555, and 10.559
Program Title	Major Federal Program: Child Nutrition Cluster
Compliance Requirement	Allowable Costs/Cost Principles
Pass-Through Entity	Florida Department of Agriculture and Consumer Services
Federal Grant/Contract Number and Grant Year	Contract #18156
Statistically Valid Sample	Not Applicable
Finding Type	Noncompliance and Significant Deficiency
Questioned Costs	\$30,216
Prior Year Finding	Not Applicable

Finding	The District overpaid for food service management company (FSMC) services because District personnel did not reconcile FSMC billings to the FSMC contract and other District records, resulting in questioned costs totaling \$30,216.
Criteria	Title 2, Section 200.403, Code of Federal Regulations (CFR), provides that, for an expenditure to be allowable under Federal awards, costs must be necessary and reasonable for the performance of the Federal award and must be adequately documented.
Condition	For the 2016-17 fiscal year, the District contracted with an FSMC to provide student meals, the FSMC billed the District monthly based on a fixed-meal price per student, and the District made 9 payments totaling \$3,652,109 to the FSMC. However, although we requested, District records were not provided to evidence the basis for the FSMC-billed amounts and related District payments. As part of our procedures, we examined District records supporting the 9 payments to the FSMC. We found that the District made incorrect monthly payments ranging from a \$63,995 underpayment to a \$66,263 overpayment, that resulted in a \$30,216 net overpayment for the 2016-17 fiscal year. Subsequent to our inquiries, in February 2018 District personnel confirmed our calculation of the net overpayment and were working with the FSMC to resolve the overpayment.
Cause	According to District records and discussions with District personnel, the FSMC billed the District using an incorrect fixed-meal price per student and District procedures did not provide for documented verifications to ensure that the FSMC billings were based on the FSMC contract fixed-meal price per student and number of meals served based on the District point-of-sale system.
Effect	Absent effective procedures that require, prior to payment, documented verification that FSMC billings are based on the contract fixed-meal price per student and number of meals served based on the District point-of-sale system, there is an increased risk that overpayments may occur. When Federal award expenditures for FSMC services exceed the related contract costs, the additional amount paid does not represent reasonable and necessary payments for the respective Federal program.

Recommendation The District should establish procedures for documenting, prior to payment for FSMC services, verifications that FSMC billings are based on the FSMC contract fixed-meal price per student and number of meals served based on the District point-of-sale system. In addition, the District should restore the overpayment totaling \$30,216 to the Child Nutrition Cluster and continue efforts to recover this amount from the FSMC.

District Response The District will establish procedures for documenting, prior to payment for FSMC services, verifications that FSMC billings are based on the FSMC contract fixed-meal price per student and number of meals served based on the District point-of-sale system. In addition, the District will restore the overpayment totaling \$30,216 to the Child Nutrition Cluster and continue efforts to recover this amount from the FSMC.

U.S. DEPARTMENT OF EDUCATION

Finding Number 2017-002
CFDA Number 84.010; and 84.027
Program Title Nonmajor Programs:
Title I Grants to Local Educational Agencies (Title I)
Special Education Cluster (SEC)
Compliance Requirement Allowable Costs/Cost Principles
Pass-Through Entities Florida Department of Education (FDOE)
Federal Grants/Contract FDOE/Title I: S010A160009 – 2017
Numbers and Grant Years FDOE/SEC: H027A160024 – 2017
Statistically Valid Sample Not Applicable
Finding Type Title I and SEC: Questioned Costs Greater Than \$25,000
Questioned Costs Title I: \$41,867
SEC: \$42,937
Prior Year Finding Not Applicable

Finding The District received a \$1 million refund from the District health insurance commercial carrier but did not allocate a portion of the refund to each applicable Federal program. As a result, the District did not credit two nonmajor Federal programs a total of \$84,804 for the prorated portions of the refund.

Criteria Title 2, Section 200.406, CFR, provides that applicable credits are those receipts or reduction-of-expenditures-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions include, for example, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

Condition For the 2016-17 fiscal year, the District provided employee health insurance as an employee fringe benefit and the Board authorized a District annual contribution of \$9,000 per employee, including employees in positions funded by Federal programs, toward the payment of premiums for insurance programs including health, disability, and hospital indemnity programs. This insurance is provided through a contract with a commercial insurance carrier that is for a 2-year period.

During the 2016-17 fiscal year, the District health insurance commercial carrier refunded \$1 million to the District for premium payments that exceeded claims expenses for the period January 2015 through December 2016. However, District personnel deposited this amount into the District General Fund without determining the portions that should be credited to Federal programs for employees in positions funded by Federal programs.

Subsequent to our inquiry, District personnel determined, and we confirmed, that \$42,937 of the \$1 million refund was attributable to Special Education Cluster and \$41,867 of the refund was attributable to the Title I Program.

Cause

According to District personnel, they were unaware of the Federal requirement that refunds be credited to applicable Federal awards either as a cost reduction or cash refund.

Effect

The District did not credit each applicable Federal program for the portion of the refund attributable to the Federal programs as required by the CFR.

Recommendation

The District should establish procedures to ensure that all applicable refunds are properly allocated and credited to Federal programs as required. In addition, the District should document to the FDOE the allowability of the questioned costs of \$84,804 or restore these moneys to the appropriate Federal programs.

District Response

The District will establish procedures to ensure that all applicable refunds are properly allocated and credited to Federal programs as required. In addition, the District will document to the FDOE the allowability of the questioned costs of \$84,804 or restore these moneys to the appropriate Federal programs.

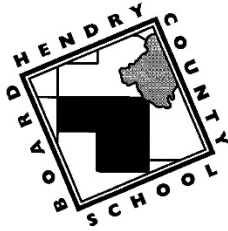
PRIOR AUDIT FOLLOW-UP

There were no prior financial statement or Federal awards findings requiring follow-up.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The District did not have prior audit findings required to be reported under 2 CFR 200.511.

CORRECTIVE ACTION PLAN



Hendry County School Board

Paul K. Puletti
Superintendent

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Hendry County District School Board Management's Corrective Action Plan For the Fiscal Year Ended June 30, 2017

Finding Number – 2017-001 (Major Federal Program: Child Nutrition Cluster)

Corrective Action Planned: The Sodexo General Manager will provide the Hendry County Food Service Director the final monthly invoice from Sodexo Corporate Office. The Food Service Manager will verify the total meals to be billed and the deductions that are part of the final invoice. If the invoice does not match the Food Service Manager calculations the amount of the difference will be reconciled at that time.

Anticipated Completion Date: January 1, 2018 (For the December 2017 monthly invoice)

Responsible Contact Person: SanJuanita Perez, Dennis Veal

Finding Number – 2017-002 (Title I Grants to Local Educational Agencies (Title I) Special Education Cluster (SEC))

Corrective Action Planned: Currently the District has an insurance provider cycle of every two years. In the event the District changes the medical insurance provider the appropriate insurance fund reimbursements will be distributed to the Federal Special Education Cluster and Title I Program.

Anticipated Completion Date: January 1, 2019

Responsible Contact Person: Dennis Veal