

# STATE OF FLORIDA AUDITOR GENERAL

## Financial and Federal Single Audit

Report No. 2018-163  
March 2018

### HIGHLANDS 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, Dr. Brenda Longshore served as Superintendent of the Highlands County Schools from 11-22-16, Wally Cox served as Superintendent before that date, and the following individuals served as School Board Members:

|                                                                 | <u>District No.</u> |
|-----------------------------------------------------------------|---------------------|
| Charlene Edwards                                                | 1                   |
| Donna Howerton, Chair through 11-21-16                          | 2                   |
| Jan Schoop, Chair from 11-22-16,<br>Vice Chair through 11-21-16 | 3                   |
| Bill Brantley                                                   | 4                   |
| Jill Compton Twist, Vice Chair from 11-22-16                    | 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 team leader was Mary W. Lynn, CPA, and the audit was supervised by Mark A. Arroyo, CPA.

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

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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Highlands 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

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, the significant deficiency is not considered to be a material weakness.

### Significant Deficiency

**Financial Statement Finding No. 2017-001:** District financial reporting procedures for pension activities and related account balances need improvement.

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 Title I program 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 Title I program.

## 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 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 statement of the school internal funds, which represents 19 percent of the assets and 44 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller

General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of 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 Fund**, **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 23, 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 23, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the Highlands County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 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:

- In total, net position decreased \$4,881,953 from the prior fiscal year. This was mainly due to an increase in the District's proportional share of net pension liabilities.
- General revenues totaled \$106,676,829, or 90.1 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$11,775,929, or 9.9 percent of all revenues.
- Expenses totaled \$123,834,711. Only \$11,775,929 of these expenses were offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totaled \$4,994,826. The fund balance increased by \$852,470 from the prior fiscal year. The fund balance included \$622,222 of nonspendable funds, \$608,452 of restricted funds, \$506,649 of assigned funds, and \$3,257,503 of unassigned funds.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### **Government-Wide Financial Statements**

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, deferred outflows of resources, liabilities, and deferred inflows 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.
- Business-type activities – The District charges fees and receives State grants to cover the cost of certain services it provides. These activities account for the financial resources of the Heartland Educational Consortium.
- Component units:
  - o The District presents Highlands County Education Foundation, Inc. as a discretely presented component unit. Although a separate legal entity, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.
  - o The Highlands County School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

### **Fund Financial Statements**

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District’s most significant funds. The District’s major fund

is the General 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 Fund to demonstrate compliance with the budget.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District has one enterprise fund, the Heartland Educational Consortium Fund. Conversely, the internal service funds are combined into a single, aggregated column in the proprietary funds financial statements.

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

The District uses private-purpose trust funds to account for scholarship funds provided by private donors, and 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 |                         | Business-Type Activities |                      | Total                   |                         |
|----------------------------------|-------------------------|-------------------------|--------------------------|----------------------|-------------------------|-------------------------|
|                                  | 6-30-17                 | 6-30-16                 | 6-30-17                  | 6-30-16              | 6-30-17                 | 6-30-16                 |
| Current and Other Assets         | \$ 20,411,290.29        | \$ 14,232,292.59        | \$ 619,330.34            | \$ 691,771.37        | \$ 21,030,620.63        | \$ 14,924,063.96        |
| Capital Assets                   | 112,223,674.45          | 116,377,137.80          | 371,615.67               | 380,030.19           | 112,595,290.12          | 116,757,167.99          |
| <b>Total Assets</b>              | <b>132,634,964.74</b>   | <b>130,609,430.39</b>   | <b>990,946.01</b>        | <b>1,071,801.56</b>  | <b>133,625,910.75</b>   | <b>131,681,231.95</b>   |
| Deferred Outflows of Resources   | 22,244,249.07           | 10,215,719.38           | 178,717.93               | 55,616.62            | 22,422,967.00           | 10,271,336.00           |
| Long-Term Liabilities            | 116,804,475.84          | 101,710,697.21          | 519,098.59               | 278,767.66           | 117,323,574.43          | 101,989,464.87          |
| Other Liabilities                | 9,110,914.71            | 2,340,015.90            | 22,691.70                | 113.73               | 9,133,606.41            | 2,340,129.63            |
| <b>Total Liabilities</b>         | <b>125,915,390.55</b>   | <b>104,050,713.11</b>   | <b>541,790.29</b>        | <b>278,881.39</b>    | <b>126,457,180.84</b>   | <b>104,329,594.50</b>   |
| Deferred Inflows of Resources    | 2,829,004.80            | 6,001,057.70            | 22,729.20                | -                    | 2,851,734.00            | 6,001,057.70            |
| Net Position:                    |                         |                         |                          |                      |                         |                         |
| Net Investment in Capital Assets | 63,872,674.45           | 65,752,137.80           | 371,615.67               | 380,030.19           | 64,244,290.12           | 66,132,167.99           |
| Restricted                       | 3,964,258.83            | 2,633,656.09            | -                        | -                    | 3,964,258.83            | 2,633,656.09            |
| Unrestricted (Deficit)           | (41,702,114.82)         | (37,612,414.93)         | 233,528.78               | 468,506.60           | (41,468,586.04)         | (37,143,908.33)         |
| <b>Total Net Position</b>        | <b>\$ 26,134,818.46</b> | <b>\$ 30,773,378.96</b> | <b>\$ 605,144.45</b>     | <b>\$ 848,536.79</b> | <b>\$ 26,739,962.91</b> | <b>\$ 31,621,915.75</b> |

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 \$6,387,853 in compensated absences payable, \$1,741,662 in other postemployment benefit obligations, \$2,500,000 in judgments payable, and \$58,343,059 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<br>Activities |                         | Business-Type<br>Activities |                      | Total                   |                         |
|--------------------------------------------------------------|----------------------------|-------------------------|-----------------------------|----------------------|-------------------------|-------------------------|
|                                                              | 6-30-17                    | 6-30-16                 | 6-30-17                     | 6-30-16              | 6-30-17                 | 6-30-16                 |
| Program Revenues:                                            |                            |                         |                             |                      |                         |                         |
| Charges for Services                                         | \$ 955,233.16              | \$ 1,052,942.23         | \$ 222,739.77               | \$ 260,580.38        | \$ 1,177,972.93         | \$ 1,313,522.61         |
| Operating Grants and Contributions                           | 9,677,095.90               | 10,111,092.54           | -                           | -                    | 9,677,095.90            | 10,111,092.54           |
| Capital Grants and Contributions                             | 920,860.12                 | 763,301.44              | -                           | -                    | 920,860.12              | 763,301.44              |
| General Revenues:                                            |                            |                         |                             |                      |                         |                         |
| Property Taxes, Levied for Operational Purposes              | 26,896,249.71              | 26,794,038.12           | -                           | -                    | 26,896,249.71           | 26,794,038.12           |
| Property Taxes, Levied for Capital Projects                  | 7,388,359.79               | 7,073,169.36            | -                           | -                    | 7,388,359.79            | 7,073,169.36            |
| Local Sales Taxes                                            | 2,260,294.70               | -                       | -                           | -                    | 2,260,294.70            | -                       |
| Grants and Contributions Not Restricted to Specific Programs | 67,498,211.44              | 66,285,881.01           | 247,781.14                  | 247,781.14           | 67,745,992.58           | 66,533,662.15           |
| Unrestricted Investment Earnings                             | 118,810.32                 | 131,840.45              | 6,852.57                    | 3,887.53             | 125,662.89              | 135,727.98              |
| Miscellaneous                                                | 2,260,269.49               | 3,646,431.41            | -                           | 211.32               | 2,260,269.49            | 3,646,642.73            |
| <b>Total Revenues</b>                                        | <b>117,975,384.63</b>      | <b>115,858,696.56</b>   | <b>477,373.48</b>           | <b>512,460.37</b>    | <b>118,452,758.11</b>   | <b>116,371,156.93</b>   |
| Functions/Program Expenses:                                  |                            |                         |                             |                      |                         |                         |
| Instruction                                                  | 63,786,836.32              | 60,844,225.28           | -                           | -                    | 63,786,836.32           | 60,844,225.28           |
| Student Support Services                                     | 5,821,887.90               | 5,412,382.37            | -                           | -                    | 5,821,887.90            | 5,412,382.37            |
| Instructional Media Services                                 | 962,298.14                 | 910,720.10              | -                           | -                    | 962,298.14              | 910,720.10              |
| Instruction and Curriculum Development Services              | 2,802,807.50               | 2,924,222.53            | -                           | -                    | 2,802,807.50            | 2,924,222.53            |
| Instructional Staff Training Services                        | 2,938,214.35               | 2,625,176.96            | -                           | -                    | 2,938,214.35            | 2,625,176.96            |
| Instruction-Related Technology                               | 1,652,779.80               | 1,562,149.37            | -                           | -                    | 1,652,779.80            | 1,562,149.37            |
| Board                                                        | 524,676.43                 | 496,029.25              | -                           | -                    | 524,676.43              | 496,029.25              |
| General Administration                                       | 845,658.84                 | 726,744.19              | -                           | -                    | 845,658.84              | 726,744.19              |
| School Administration                                        | 6,520,935.98               | 6,240,275.42            | -                           | -                    | 6,520,935.98            | 6,240,275.42            |
| Facilities Acquisition and Construction                      | 1,465,385.89               | 1,215,410.21            | -                           | -                    | 1,465,385.89            | 1,215,410.21            |
| Fiscal Services                                              | 927,624.94                 | 875,561.41              | -                           | -                    | 927,624.94              | 875,561.41              |
| Food Services                                                | 8,158,257.30               | 7,985,225.55            | -                           | -                    | 8,158,257.30            | 7,985,225.55            |
| Central Services                                             | 1,459,927.88               | 1,406,042.29            | -                           | -                    | 1,459,927.88            | 1,406,042.29            |
| Student Transportation Services                              | 5,472,689.97               | 5,141,876.45            | -                           | -                    | 5,472,689.97            | 5,141,876.45            |
| Operation of Plant                                           | 8,064,816.14               | 8,066,614.53            | -                           | -                    | 8,064,816.14            | 8,066,614.53            |
| Maintenance of Plant                                         | 2,262,415.26               | 2,346,693.29            | -                           | -                    | 2,262,415.26            | 2,346,693.29            |
| Administrative Technology Services                           | 714,481.73                 | 487,172.65              | -                           | -                    | 714,481.73              | 487,172.65              |
| Community Services                                           | 627,645.20                 | 624,913.43              | -                           | -                    | 627,645.20              | 624,913.43              |
| Unallocated Interest on Long-Term Debt                       | 2,159,200.05               | 2,330,497.68            | -                           | -                    | 2,159,200.05            | 2,330,497.68            |
| Unallocated Depreciation Expense                             | 5,939,744.75               | 6,033,064.86            | -                           | -                    | 5,939,744.75            | 6,033,064.86            |
| Loss on Disposal of Capital Assets                           | 5,660.76                   | 1,384.50                | -                           | -                    | 5,660.76                | 1,384.50                |
| Heartland Educational Consortium                             | -                          | -                       | 720,765.82                  | 582,716.20           | 720,765.82              | 582,716.20              |
| <b>Total Functions/Program Expenses</b>                      | <b>123,113,945.13</b>      | <b>118,256,382.32</b>   | <b>720,765.82</b>           | <b>582,716.20</b>    | <b>123,834,710.95</b>   | <b>118,839,098.52</b>   |
| <b>Deficiency before special item</b>                        | <b>(5,138,560.50)</b>      | <b>(2,397,685.76)</b>   | <b>(243,392.34)</b>         | <b>(70,255.83)</b>   | <b>(5,381,952.84)</b>   | <b>(2,467,941.59)</b>   |
| Special Item                                                 | 500,000.00                 | (3,000,000.00)          | -                           | -                    | 500,000.00              | (3,000,000.00)          |
| <b>Change in Net Position</b>                                | <b>(4,638,560.50)</b>      | <b>(5,397,685.76)</b>   | <b>(243,392.34)</b>         | <b>(70,255.83)</b>   | <b>(4,881,952.84)</b>   | <b>(5,467,941.59)</b>   |
| Net Position - Beginning                                     | 30,773,378.96              | 36,171,064.72           | 848,536.79                  | 918,792.62           | 31,621,915.75           | 37,089,857.34           |
| <b>Net Position - Ending</b>                                 | <b>\$ 26,134,818.46</b>    | <b>\$ 30,773,378.96</b> | <b>\$ 605,144.45</b>        | <b>\$ 848,536.79</b> | <b>\$ 26,739,962.91</b> | <b>\$ 31,621,915.75</b> |

The largest revenue source is the State of Florida (50.6 percent). Total State revenues increased by \$828,091, or 1.4 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by \$1,212,330, or 1.8 percent, primarily due to an increase in FEFP funding.

Property tax revenues increased by \$417,402, or 1.2 percent, as a result of an increase in taxable assessed values.

Voters approved a half-cent sales tax referendum in 2016. In the 2016-17 fiscal year, the District collected \$2,260,295 for capital outlay spending.

Instruction expenses represent 51.8 percent of total governmental expenses in the 2016-17 fiscal year. Instruction expenses increased by \$2,942,611, or 4.8 percent, from the previous fiscal year due mainly from an increase in pension expense and a negotiated salary increase for teachers.

The District has a special item of \$500,000 due to a settlement agreement in July 2017 that reduced the 2015-16 fiscal year judgment payable totaling \$3,000,000 to \$2,500,000.

The decrease in net position for the business-type activities of \$243,392, or 28.7 percent, resulted primarily from an increase in pension expense.

## 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 increased by \$2,072,501 during the fiscal year to \$8,350,633 at June 30, 2017. Approximately 39 percent of this amount is unassigned fund balance (\$3,257,503), 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 (\$790,574), (2) restricted for particular purposes (\$3,795,907), or (3) assigned for particular purposes (\$506,649).

### **Major Governmental Funds**

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$3,257,503, while the total fund balance is \$4,994,826. 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 4.2 percent of the total General Fund revenues, while total fund balance represents 5.6 percent of total General Fund revenues.

Total fund balance increased by \$852,470 during the fiscal year primarily due to an increase in FEFP revenues from an increase in per student allocation.

### **Proprietary Funds**

The District's proprietary funds provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the Heartland Educational Consortium - Enterprise Fund decreased by \$243,392, during the 2016-17 fiscal year to \$605,144 at June 30, 2017. This decrease occurred primarily because of increases in pension expense.

The Internal Service funds account for the Health and Dental self-insurance program funds. The net position of these funds decreased by \$2,664,402. The decrease is primarily due to an increase in claims expense.

### GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2016-17 fiscal year, the Board revised the District budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the fiscal year to record new grants. The second category includes changes in State FEFP revenue estimates during the fiscal year. The final category includes the Board-approved transfers between expenditure functions and objects. Original budgets were subsequently amended to reflect increased FEFP funding. There were no significant variances noted between the final budget and actual revenues and expenditures.

### CAPITAL ASSETS AND LONG-TERM DEBT

#### **Capital Assets**

For the current fiscal year, capital assets decreased \$4,161,878 due to depreciation expense exceeding capital asset additions. Additional information on the District's capital assets can be found in the notes to financial statements.

#### **Long-Term Debt**

At June 30, 2017, the District has total long-term debt outstanding of \$48,351,000, composed of \$3,331,000 of bonds payable and \$45,020,000 of certificates of participation. During the current fiscal year, the debts decreased by \$2,274,000 due to the principal payments.

Additional information on the District's long-term debt can be found in Note II.H. to the financial statements.

### OTHER MATTERS OF SIGNIFICANCE

Approximately 66.1 percent of the total General Fund revenues are from the State of Florida. The primary source of revenue for the State is the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and especially in the State of Florida will impact the amount of revenue received by the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment have a significant impact on establishing the State budget as well as the District budget.

### 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's Office, Highlands County District School Board, 426 School Street, Sebring, Florida 33870.

# **BASIC FINANCIAL STATEMENTS**

## **Highlands County District School Board Statement of Net Position June 30, 2017**

|                                                | <b>Primary Government</b>          |                                     |                         | <b>Component<br/>Unit</b> |
|------------------------------------------------|------------------------------------|-------------------------------------|-------------------------|---------------------------|
|                                                | <b>Governmental<br/>Activities</b> | <b>Business Type<br/>Activities</b> | <b>Total</b>            |                           |
| <b>ASSETS</b>                                  |                                    |                                     |                         |                           |
| Cash and Cash Equivalents                      | \$ 16,772,602.31                   | \$ 619,330.34                       | \$ 17,391,932.65        | \$ 17,120.24              |
| Investments                                    | 1,766.52                           | -                                   | 1,766.52                | -                         |
| Accounts Receivable                            | 127,151.50                         | -                                   | 127,151.50              | -                         |
| Due from Other Agencies                        | 2,719,156.33                       | -                                   | 2,719,156.33            | -                         |
| Inventories                                    | 790,574.41                         | -                                   | 790,574.41              | -                         |
| Restricted Cash with Fiscal Agent              | 39.22                              | -                                   | 39.22                   | -                         |
| Capital Assets:                                |                                    |                                     |                         |                           |
| Nondepreciable Capital Assets                  | 5,759,410.50                       | 126,607.00                          | 5,886,017.50            | -                         |
| Depreciable Capital Assets, Net                | 106,464,263.95                     | 245,008.67                          | 106,709,272.62          | -                         |
| <b>TOTAL ASSETS</b>                            | <b>132,634,964.74</b>              | <b>990,946.01</b>                   | <b>133,625,910.75</b>   | <b>17,120.24</b>          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                                    |                                     |                         |                           |
| Pensions                                       | 22,244,249.07                      | 178,717.93                          | 22,422,967.00           | -                         |
| <b>LIABILITIES</b>                             |                                    |                                     |                         |                           |
| Accrued Salaries and Benefits                  | 5,801,420.70                       | 18,613.42                           | 5,820,034.12            | -                         |
| Payroll Deductions and Withholdings            | 83,732.42                          | 3,019.41                            | 86,751.83               | -                         |
| Accounts Payable                               | 1,788,827.73                       | 1,058.87                            | 1,789,886.60            | -                         |
| Estimated Liability for Self-Insurance Program | 1,386,013.00                       | -                                   | 1,386,013.00            | -                         |
| Unearned Revenue                               | 50,920.86                          | -                                   | 50,920.86               | -                         |
| Long-Term Liabilities:                         |                                    |                                     |                         |                           |
| Portion Due Within One Year                    | 5,845,967.57                       | 18,745.79                           | 5,864,713.36            | -                         |
| Portion Due After One Year                     | 110,958,508.27                     | 500,352.80                          | 111,458,861.07          | -                         |
| <b>TOTAL LIABILITIES</b>                       | <b>125,915,390.55</b>              | <b>541,790.29</b>                   | <b>126,457,180.84</b>   | <b>-</b>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                                    |                                     |                         |                           |
| Pensions                                       | 2,829,004.80                       | 22,729.20                           | 2,851,734.00            | -                         |
| <b>NET POSITION</b>                            |                                    |                                     |                         |                           |
| Net Investment in Capital Assets               | 63,872,674.45                      | 371,615.67                          | 64,244,290.12           | -                         |
| Restricted for:                                |                                    |                                     |                         |                           |
| State Required Carryover Programs              | 62,505.09                          | -                                   | 62,505.09               | -                         |
| Debt Service                                   | 199,644.22                         | -                                   | 199,644.22              | -                         |
| Capital Projects                               | 2,218,456.00                       | -                                   | 2,218,456.00            | -                         |
| Food Service                                   | 937,706.71                         | -                                   | 937,706.71              | -                         |
| Other Purposes                                 | 545,946.81                         | -                                   | 545,946.81              | -                         |
| Unrestricted (Deficit)                         | (41,702,114.82)                    | 233,528.78                          | (41,468,586.04)         | 17,120.24                 |
| <b>TOTAL NET POSITION</b>                      | <b>\$ 26,134,818.46</b>            | <b>\$ 605,144.45</b>                | <b>\$ 26,739,962.91</b> | <b>\$ 17,120.24</b>       |

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

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

| Functions/Programs                              | Expenses                 | Program Revenues           |                                          |                                        |
|-------------------------------------------------|--------------------------|----------------------------|------------------------------------------|----------------------------------------|
|                                                 |                          | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |
| <b>Primary Government</b>                       |                          |                            |                                          |                                        |
| <b>Governmental Activities:</b>                 |                          |                            |                                          |                                        |
| Instruction                                     | \$ 63,786,836.32         | \$ -                       | \$ -                                     | \$ -                                   |
| Student Support Services                        | 5,821,887.90             | -                          | -                                        | -                                      |
| Instructional Media Services                    | 962,298.14               | -                          | -                                        | -                                      |
| Instruction and Curriculum Development Services | 2,802,807.50             | -                          | -                                        | -                                      |
| Instructional Staff Training Services           | 2,938,214.35             | -                          | -                                        | -                                      |
| Instruction-Related Technology                  | 1,652,779.80             | -                          | -                                        | -                                      |
| Board                                           | 524,676.43               | -                          | -                                        | -                                      |
| General Administration                          | 845,658.84               | -                          | -                                        | -                                      |
| School Administration                           | 6,520,935.98             | -                          | -                                        | -                                      |
| Facilities Acquisition and Construction         | 1,465,385.89             | -                          | -                                        | 788,764.39                             |
| Fiscal Services                                 | 927,624.94               | -                          | -                                        | -                                      |
| Food Services                                   | 8,158,257.30             | 955,233.16                 | 7,184,093.90                             | -                                      |
| Central Services                                | 1,459,927.88             | -                          | -                                        | -                                      |
| Student Transportation Services                 | 5,472,689.97             | -                          | 2,493,002.00                             | -                                      |
| Operation of Plant                              | 8,064,816.14             | -                          | -                                        | -                                      |
| Maintenance of Plant                            | 2,262,415.26             | -                          | -                                        | -                                      |
| Administrative Technology Services              | 714,481.73               | -                          | -                                        | -                                      |
| Community Services                              | 627,645.20               | -                          | -                                        | -                                      |
| Unallocated Interest on Long-Term Debt          | 2,159,200.05             | -                          | -                                        | 132,095.73                             |
| Unallocated Depreciation Expense*               | 5,939,744.75             | -                          | -                                        | -                                      |
| Loss on Disposal of Capital Assets              | 5,660.76                 | -                          | -                                        | -                                      |
| <b>Total Governmental Activities</b>            | <b>123,113,945.13</b>    | <b>955,233.16</b>          | <b>9,677,095.90</b>                      | <b>920,860.12</b>                      |
| <b>Business-Type Activities:</b>                |                          |                            |                                          |                                        |
| Heartland Educational Consortium                | 720,765.82               | 222,739.77                 | -                                        | -                                      |
| <b>Total Primary Government</b>                 | <b>\$ 123,834,710.95</b> | <b>\$ 1,177,972.93</b>     | <b>\$ 9,677,095.90</b>                   | <b>\$ 920,860.12</b>                   |
| <b>Component Unit</b>                           |                          |                            |                                          |                                        |
| Highlands County Education Foundation, Inc.     | \$ 115,824.20            | \$ 0.00                    | \$ 125,491.48                            | \$ 0.00                                |

**General Revenues:**

**Taxes:**

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Special Item

**Total General Revenues and Special Item**

**Change in Net Position**

Net Position - Beginning

**Net Position - Ending**

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

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

| Net (Expense) Revenue and Changes in Net Position |                             |                    |                   |   |
|---------------------------------------------------|-----------------------------|--------------------|-------------------|---|
| Primary Government                                |                             |                    |                   |   |
| Governmental<br>Activities                        | Business-Type<br>Activities | Total              | Component<br>Unit |   |
| \$ (63,786,836.32)                                | \$ -                        | \$ (63,786,836.32) | \$ -              | - |
| (5,821,887.90)                                    | -                           | (5,821,887.90)     | -                 | - |
| (962,298.14)                                      | -                           | (962,298.14)       | -                 | - |
| (2,802,807.50)                                    | -                           | (2,802,807.50)     | -                 | - |
| (2,938,214.35)                                    | -                           | (2,938,214.35)     | -                 | - |
| (1,652,779.80)                                    | -                           | (1,652,779.80)     | -                 | - |
| (524,676.43)                                      | -                           | (524,676.43)       | -                 | - |
| (845,658.84)                                      | -                           | (845,658.84)       | -                 | - |
| (6,520,935.98)                                    | -                           | (6,520,935.98)     | -                 | - |
| (676,621.50)                                      | -                           | (676,621.50)       | -                 | - |
| (927,624.94)                                      | -                           | (927,624.94)       | -                 | - |
| (18,930.24)                                       | -                           | (18,930.24)        | -                 | - |
| (1,459,927.88)                                    | -                           | (1,459,927.88)     | -                 | - |
| (2,979,687.97)                                    | -                           | (2,979,687.97)     | -                 | - |
| (8,064,816.14)                                    | -                           | (8,064,816.14)     | -                 | - |
| (2,262,415.26)                                    | -                           | (2,262,415.26)     | -                 | - |
| (714,481.73)                                      | -                           | (714,481.73)       | -                 | - |
| (627,645.20)                                      | -                           | (627,645.20)       | -                 | - |
| (2,027,104.32)                                    | -                           | (2,027,104.32)     | -                 | - |
| (5,939,744.75)                                    | -                           | (5,939,744.75)     | -                 | - |
| (5,660.76)                                        | -                           | (5,660.76)         | -                 | - |
| (111,560,755.95)                                  | -                           | (111,560,755.95)   | -                 | - |
| -                                                 | (498,026.05)                | (498,026.05)       | -                 | - |
| (111,560,755.95)                                  | (498,026.05)                | (112,058,782.00)   | -                 | - |
| -                                                 | -                           | -                  | 9,667.28          | - |
| 26,896,249.71                                     | -                           | 26,896,249.71      | -                 | - |
| 7,388,359.79                                      | -                           | 7,388,359.79       | -                 | - |
| 2,260,294.70                                      | -                           | 2,260,294.70       | -                 | - |
| 67,498,211.44                                     | 247,781.14                  | 67,745,992.58      | -                 | - |
| 118,810.32                                        | 6,852.57                    | 125,662.89         | 60.01             | - |
| 2,260,269.49                                      | -                           | 2,260,269.49       | -                 | - |
| 500,000.00                                        | -                           | 500,000.00         | -                 | - |
| 106,922,195.45                                    | 254,633.71                  | 107,176,829.16     | 60.01             | - |
| (4,638,560.50)                                    | (243,392.34)                | (4,881,952.84)     | 9,727.29          | - |
| 30,773,378.96                                     | 848,536.79                  | 31,621,915.75      | 7,392.95          | - |
| \$ 26,134,818.46                                  | \$ 605,144.45               | \$ 26,739,962.91   | \$ 17,120.24      | - |

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

|                                            | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--------------------------------------------|-------------------------|-----------------------------------------|-----------------------------------------|
| <b>ASSETS</b>                              |                         |                                         |                                         |
| Cash and Cash Equivalents                  | \$ 9,863,111.45         | \$ 2,325,634.87                         | \$ 12,188,746.32                        |
| Investments                                | -                       | 1,766.52                                | 1,766.52                                |
| Accounts Receivable                        | 127,151.50              | -                                       | 127,151.50                              |
| Due from Other Agencies                    | 752,719.76              | 1,966,436.57                            | 2,719,156.33                            |
| Inventories                                | 622,222.26              | 168,352.15                              | 790,574.41                              |
| Restricted Cash with Fiscal Agent          | -                       | 39.22                                   | 39.22                                   |
| <b>TOTAL ASSETS</b>                        | <b>\$ 11,365,204.97</b> | <b>\$ 4,462,229.33</b>                  | <b>\$ 15,827,434.30</b>                 |
| <b>LIABILITIES AND FUND BALANCES</b>       |                         |                                         |                                         |
| Liabilities:                               |                         |                                         |                                         |
| Accrued Salaries and Benefits              | \$ 5,060,636.67         | \$ 740,784.03                           | \$ 5,801,420.70                         |
| Payroll Deductions and Withholdings        | 71,652.40               | 12,080.02                               | 83,732.42                               |
| Accounts Payable                           | 1,238,089.81            | 302,637.49                              | 1,540,727.30                            |
| Unearned Revenue                           | -                       | 50,920.86                               | 50,920.86                               |
| <b>Total Liabilities</b>                   | <b>6,370,378.88</b>     | <b>1,106,422.40</b>                     | <b>7,476,801.28</b>                     |
| Fund Balances:                             |                         |                                         |                                         |
| Nonspendable:                              |                         |                                         |                                         |
| Inventories                                | 622,222.26              | 168,352.15                              | 790,574.41                              |
| Restricted for:                            |                         |                                         |                                         |
| State Required Carryover Programs          | 62,505.09               | -                                       | 62,505.09                               |
| Fuel Tax                                   | 319,067.79              | -                                       | 319,067.79                              |
| State and Local Grants                     | 226,879.02              | -                                       | 226,879.02                              |
| Debt Service                               | -                       | 199,644.22                              | 199,644.22                              |
| Capital Projects                           | -                       | 2,218,456.00                            | 2,218,456.00                            |
| Food Service                               | -                       | 769,354.56                              | 769,354.56                              |
| Total Restricted Fund Balance              | 608,451.90              | 3,187,454.78                            | 3,795,906.68                            |
| Assigned for:                              |                         |                                         |                                         |
| Supplies, Equipment, and Books             | 82,846.25               | -                                       | 82,846.25                               |
| School Budgets and Donations               | 423,802.78              | -                                       | 423,802.78                              |
| Total Assigned Fund Balance                | 506,649.03              | -                                       | 506,649.03                              |
| Unassigned Fund Balance                    | 3,257,502.90            | -                                       | 3,257,502.90                            |
| <b>Total Fund Balances</b>                 | <b>4,994,826.09</b>     | <b>3,355,806.93</b>                     | <b>8,350,633.02</b>                     |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 11,365,204.97</b> | <b>\$ 4,462,229.33</b>                  | <b>\$ 15,827,434.30</b>                 |

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

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

|                                                 |           |                     |
|-------------------------------------------------|-----------|---------------------|
| <b>Total Fund Balances - Governmental Funds</b> | <b>\$</b> | <b>8,350,633.02</b> |
|-------------------------------------------------|-----------|---------------------|

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. |  | 112,223,674.45 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------------|

|                                                                                                                                                                                                                                                                     |  |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------|
| 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. |  | 2,949,742.56 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------|

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:

|                                       |                       |                  |
|---------------------------------------|-----------------------|------------------|
| Bonds Payable                         | \$ (3,331,000)        |                  |
| Certificates of Participation Payable | (45,020,000.00)       |                  |
| Compensated Absences Payable          | (6,333,766.93)        |                  |
| Net Pension Liability                 | (57,878,046.91)       |                  |
| Judgments Payable                     | (2,500,000.00)        |                  |
| Other Postemployment Benefits Payable | <u>(1,741,662.00)</u> | (116,804,475.84) |

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 | \$ 22,244,249.07      |                      |
| Deferred Inflows Related to Pensions  | <u>(2,829,004.80)</u> | <u>19,415,244.27</u> |

|                                               |           |                             |
|-----------------------------------------------|-----------|-----------------------------|
| <b>Net Position - Governmental Activities</b> | <b>\$</b> | <b><u>26,134,818.46</u></b> |
|-----------------------------------------------|-----------|-----------------------------|

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

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

|                                                          | General<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------------------------------------|-----------------|--------------------------------|--------------------------------|
| <b>Revenues</b>                                          |                 |                                |                                |
| Intergovernmental:                                       |                 |                                |                                |
| Federal Direct                                           | \$ 172,064.86   | \$ -                           | \$ 172,064.86                  |
| Federal Through State and Local                          | 685,230.20      | 17,362,094.26                  | 18,047,324.46                  |
| State                                                    | 58,614,191.67   | 1,262,586.47                   | 59,876,778.14                  |
| Local:                                                   |                 |                                |                                |
| Property Taxes                                           | 26,896,249.71   | 7,388,359.79                   | 34,284,609.50                  |
| Local Sales Taxes                                        | -               | 2,260,294.70                   | 2,260,294.70                   |
| Charges for Services - Food Service                      | -               | 955,233.16                     | 955,233.16                     |
| Miscellaneous                                            | 2,324,821.54    | 25,743.57                      | 2,350,565.11                   |
| Total Local Revenues                                     | 29,221,071.25   | 10,629,631.22                  | 39,850,702.47                  |
| <b>Total Revenues</b>                                    | 88,692,557.98   | 29,254,311.95                  | 117,946,869.93                 |
| <b>Expenditures</b>                                      |                 |                                |                                |
| Current - Education:                                     |                 |                                |                                |
| Instruction                                              | 56,536,866.29   | 4,047,552.40                   | 60,584,418.69                  |
| Student Support Services                                 | 4,582,924.64    | 950,947.15                     | 5,533,871.79                   |
| Instructional Media Services                             | 916,592.64      | -                              | 916,592.64                     |
| Instruction and Curriculum Development Services          | 924,740.56      | 1,740,915.58                   | 2,665,656.14                   |
| Instructional Staff Training Services                    | 716,536.57      | 2,081,453.48                   | 2,797,990.05                   |
| Instruction-Related Technology                           | 583,467.99      | 990,707.33                     | 1,574,175.32                   |
| Board                                                    | 503,224.41      | -                              | 503,224.41                     |
| General Administration                                   | 489,789.61      | 322,350.59                     | 812,140.20                     |
| School Administration                                    | 6,178,836.45    | -                              | 6,178,836.45                   |
| Facilities Acquisition and Construction                  | 49,511.68       | 1,415,874.21                   | 1,465,385.89                   |
| Fiscal Services                                          | 879,669.63      | -                              | 879,669.63                     |
| Food Services                                            | -               | 7,865,562.75                   | 7,865,562.75                   |
| Central Services                                         | 1,399,388.82    | -                              | 1,399,388.82                   |
| Student Transportation Services                          | 4,985,084.78    | 84,243.02                      | 5,069,327.80                   |
| Operation of Plant                                       | 7,818,965.82    | 2,053.22                       | 7,821,019.04                   |
| Maintenance of Plant                                     | 2,155,778.41    | -                              | 2,155,778.41                   |
| Administrative Technology Services                       | 679,193.62      | -                              | 679,193.62                     |
| Community Services                                       | 593,814.05      | -                              | 593,814.05                     |
| Fixed Capital Outlay:                                    |                 |                                |                                |
| Facilities Acquisition and Construction                  | 14,682.00       | 162,472.20                     | 177,154.20                     |
| Other Capital Outlay                                     | 558,020.15      | 1,209,949.07                   | 1,767,969.22                   |
| Debt Service:                                            |                 |                                |                                |
| Principal                                                | -               | 2,274,000.00                   | 2,274,000.00                   |
| Interest and Fiscal Charges                              | -               | 2,159,200.05                   | 2,159,200.05                   |
| <b>Total Expenditures</b>                                | 90,567,088.12   | 25,307,281.05                  | 115,874,369.17                 |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | (1,874,530.14)  | 3,947,030.90                   | 2,072,500.76                   |
| <b>Other Financing Sources (Uses)</b>                    |                 |                                |                                |
| Transfers In                                             | 2,727,000.00    | 4,077,340.46                   | 6,804,340.46                   |
| Transfers Out                                            | -               | (6,804,340.46)                 | (6,804,340.46)                 |
| <b>Total Other Financing Sources (Uses)</b>              | 2,727,000.00    | (2,727,000.00)                 | -                              |
| <b>Net Change in Fund Balances</b>                       | 852,469.86      | 1,220,030.90                   | 2,072,500.76                   |
| Fund Balances, Beginning                                 | 4,142,356.23    | 2,135,776.03                   | 6,278,132.26                   |
| <b>Fund Balances, Ending</b>                             | \$ 4,994,826.09 | \$ 3,355,806.93                | \$ 8,350,633.02                |

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

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

**Net Change in Fund Balances - Governmental Funds** **\$ 2,072,500.76**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation in excess of capital outlays in the current fiscal year. (4,176,317.29)

Donated capital assets are reported as revenues in the statement of activities but do not provide current financial resources and, therefore, are not reported in the governmental funds. 28,514.70

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. (5,660.76)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year. 2,274,000.00

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 earned in excess of the amount paid in the current fiscal year. (50,430.41)

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 decrease in the other postemployment benefits liability for the current fiscal year. 14,650.00

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 | \$ | 3,146,773.11   |                |
| HIS Pension Contribution |    | 910,580.31     |                |
| FRS Pension Expense      |    | (4,850,023.73) |                |
| HIS Pension Expense      |    | (1,838,745.32) |                |
|                          |    | (2,631,415.63) | (2,631,415.63) |

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. (2,664,401.87)

Judgments payable are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until due and payable with current financial resources. This is the decrease in judgments payable as a result of a settlement agreement. 500,000.00

**Change in Net Position - Governmental Activities** **\$ (4,638,560.50)**

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

**Highlands County District School Board  
Statement of Net Position – Proprietary Funds  
June 30, 2017**

|                                                | <b>Enterprise Fund</b>                          |                                   |
|------------------------------------------------|-------------------------------------------------|-----------------------------------|
|                                                | <b>Heartland<br/>Educational<br/>Consortium</b> | <b>Internal Service<br/>Funds</b> |
| <b>ASSETS</b>                                  |                                                 |                                   |
| Current Assets:                                |                                                 |                                   |
| Cash and Cash Equivalents                      | \$ 619,330.34                                   | \$ 4,583,855.99                   |
| Noncurrent Assets:                             |                                                 |                                   |
| Nondepreciable Capital Assets                  | 126,607.00                                      | -                                 |
| Depreciable Capital Assets, Net                | 245,008.67                                      | -                                 |
| <b>Total Noncurrent Assets</b>                 | 371,615.67                                      | -                                 |
| <b>TOTAL ASSETS</b>                            | 990,946.01                                      | 4,583,855.99                      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                                                 |                                   |
| Pensions                                       | 178,717.93                                      | -                                 |
| <b>LIABILITIES</b>                             |                                                 |                                   |
| Current Liabilities:                           |                                                 |                                   |
| Accrued Salaries and Benefits                  | 18,613.42                                       | -                                 |
| Payroll Deductions and Withholdings            | 3,019.41                                        | -                                 |
| Accounts Payable                               | 1,058.87                                        | 248,100.43                        |
| Estimated Liability for Self-Insurance Program | -                                               | 1,386,013.00                      |
| <b>Total Current Liabilities</b>               | 22,691.70                                       | 1,634,113.43                      |
| Noncurrent Liabilities:                        |                                                 |                                   |
| Portion Due within One Year                    | 18,745.79                                       | -                                 |
| Portion Due After One Year                     | 500,352.80                                      | -                                 |
| <b>Total Noncurrent Liabilities</b>            | 519,098.59                                      | -                                 |
| <b>TOTAL LIABILITIES</b>                       | 541,790.29                                      | 1,634,113.43                      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                                                 |                                   |
| Pensions                                       | 22,729.20                                       | -                                 |
| <b>NET POSITION</b>                            |                                                 |                                   |
| Investment in Capital Assets                   | 371,615.67                                      | -                                 |
| Unrestricted                                   | 233,528.78                                      | 2,949,742.56                      |
| <b>TOTAL NET POSITION</b>                      | \$ 605,144.45                                   | \$ 2,949,742.56                   |

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

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

|                                    | <b>Enterprise Fund<br/>Heartland<br/>Educational<br/>Consortium</b> | <b>Internal Service<br/>Funds</b> |
|------------------------------------|---------------------------------------------------------------------|-----------------------------------|
| <b>OPERATING REVENUES</b>          |                                                                     |                                   |
| Charges for Services               | \$ 222,739.77                                                       | \$ -                              |
| Premium Revenues                   | -                                                                   | 16,217,016.24                     |
| <b>Total Operating Revenues</b>    | <b>222,739.77</b>                                                   | <b>16,217,016.24</b>              |
| <b>OPERATING EXPENSES</b>          |                                                                     |                                   |
| Salaries                           | 360,048.57                                                          | -                                 |
| Employee Benefits                  | 231,355.69                                                          | -                                 |
| Purchased Services                 | 91,649.96                                                           | -                                 |
| Utilities                          | 10,015.77                                                           | -                                 |
| Materials and Supplies             | 3,695.64                                                            | -                                 |
| Insurance Claims                   | -                                                                   | 17,203,921.09                     |
| Other Expenses                     | 14,358.07                                                           | 2,016,837.69                      |
| Depreciation                       | 9,642.12                                                            | -                                 |
| <b>Total Operating Expenses</b>    | <b>720,765.82</b>                                                   | <b>19,220,758.78</b>              |
| <b>Operating Loss</b>              | <b>(498,026.05)</b>                                                 | <b>(3,003,742.54)</b>             |
| <b>NONOPERATING REVENUES</b>       |                                                                     |                                   |
| State Grants                       | 247,781.14                                                          | -                                 |
| Other Revenues                     | -                                                                   | 339,340.67                        |
| Interest                           | 6,852.57                                                            | -                                 |
| <b>Total Nonoperating Revenues</b> | <b>254,633.71</b>                                                   | <b>339,340.67</b>                 |
| <b>Change in Net Position</b>      | <b>(243,392.34)</b>                                                 | <b>(2,664,401.87)</b>             |
| Total Net Position - Beginning     | 848,536.79                                                          | 5,614,144.43                      |
| <b>Total Net Position - Ending</b> | <b>\$ 605,144.45</b>                                                | <b>\$ 2,949,742.56</b>            |

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

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

|                                                                                                       | <u>Enterprise Fund</u><br><u>Heartland</u><br><u>Educational</u><br><u>Consortium</u> | <u>Internal Service</u><br><u>Funds</u> |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                           |                                                                                       |                                         |
| Cash Received from Services                                                                           | \$ 222,739.77                                                                         | \$ -                                    |
| Cash Received from Premiums                                                                           | -                                                                                     | 16,217,016.24                           |
| Cash Payments to Suppliers for Goods and Services                                                     | (118,774.30)                                                                          | (1,771,114.07)                          |
| Cash Payments to Employees for Services                                                               | (429,812.81)                                                                          | -                                       |
| Cash Payments for Insurance Claims                                                                    | -                                                                                     | (16,786,012.47)                         |
| <b>Net Cash Used by Operating Activities</b>                                                          | <u>(325,847.34)</u>                                                                   | <u>(2,340,110.30)</u>                   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                                |                                                                                       |                                         |
| Cash Received from State Grants                                                                       | 247,781.14                                                                            | -                                       |
| Cash Received from Other Revenues                                                                     | -                                                                                     | 339,340.67                              |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                                           | <u>247,781.14</u>                                                                     | <u>339,340.67</u>                       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                       |                                                                                       |                                         |
| Acquisition of Capital Assets                                                                         | <u>(1,227.40)</u>                                                                     | <u>-</u>                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                           |                                                                                       |                                         |
| Interest Income                                                                                       | <u>6,852.57</u>                                                                       | <u>-</u>                                |
| <b>Net Decrease in Cash and Cash Equivalents</b>                                                      | (72,441.03)                                                                           | (2,000,769.63)                          |
| Cash and Cash Equivalents, Beginning                                                                  | 691,771.37                                                                            | 6,584,625.62                            |
| <b>Cash and Cash Equivalents, Ending</b>                                                              | <u>\$ 619,330.34</u>                                                                  | <u>\$ 4,583,855.99</u>                  |
| <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>                     |                                                                                       |                                         |
| Operating Loss                                                                                        | \$ (498,026.05)                                                                       | \$ (3,003,742.54)                       |
| Adjustments to Reconcile Operating Loss to Net Cash<br>Used by Operating Activities:                  |                                                                                       |                                         |
| Depreciation                                                                                          | 9,642.12                                                                              | -                                       |
| Changes in Assets, Liabilities, Deferred Outflows of Resources,<br>and Deferred Inflows of Resources: |                                                                                       |                                         |
| Deferred Outflows of Resources                                                                        | (123,101.31)                                                                          | -                                       |
| Accrued Salaries and Benefits                                                                         | 18,613.42                                                                             | (2,376.81)                              |
| Payroll Deductions and Withholdings                                                                   | 3,019.41                                                                              | -                                       |
| Accounts Payable                                                                                      | 945.14                                                                                | 248,100.43                              |
| Compensated Absences Payable                                                                          | 8,121.15                                                                              | -                                       |
| Estimated Liability for Self-Insurance Program                                                        | -                                                                                     | 417,908.62                              |
| Net Pension Liability                                                                                 | 232,209.78                                                                            | -                                       |
| Deferred Inflows of Resources                                                                         | 22,729.00                                                                             | -                                       |
| <b>Total Adjustments</b>                                                                              | <u>172,178.71</u>                                                                     | <u>663,632.24</u>                       |
| <b>Net Cash Used by Operating Activities</b>                                                          | <u>\$ (325,847.34)</u>                                                                | <u>\$ (2,340,110.30)</u>                |

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

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

|                                                      | <b>Private-Purpose<br/>Trust Funds</b> | <b>Agency<br/>Funds</b> |
|------------------------------------------------------|----------------------------------------|-------------------------|
| <b>ASSETS</b>                                        |                                        |                         |
| Cash and Cash Equivalents                            | \$ 125,923.95                          | \$ 2,161,111.00         |
| <b>LIABILITIES</b>                                   |                                        |                         |
| Internal Accounts Payable                            | \$ -                                   | \$ 2,161,111.00         |
| <b>NET POSITION</b>                                  |                                        |                         |
| Held in Trust for Scholarships<br>and Other Purposes | 125,923.95                             |                         |
| <b>TOTAL NET POSITION</b>                            | \$ 125,923.95                          |                         |

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

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

|                                         | <u>Private-Purpose<br/>Trust Funds</u> |
|-----------------------------------------|----------------------------------------|
| <b>ADDITIONS</b>                        |                                        |
| <b>Contributions:</b>                   |                                        |
| Gifts, Grants, Endowments, and Bequests | \$ 35,000.00                           |
| <b>Investment Income:</b>               |                                        |
| Interest on Investments                 | 445.67                                 |
| <b>Total Additions</b>                  | <u>35,445.67</u>                       |
| <b>DEDUCTIONS</b>                       |                                        |
| Scholarship Payments                    | <u>38,350.00</u>                       |
| <b>Change in Net Position</b>           | (2,904.33)                             |
| Net Position - Beginning                | <u>128,828.28</u>                      |
| <b>Net Position - Ending</b>            | <u>\$ 125,923.95</u>                   |

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Description of Government-Wide Financial Statements**

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Highlands County School District's (District) governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments are allocated to the student transportation services and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

### **B. Reporting Entity**

The Highlands County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (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 Highlands County.

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

**Blended Component Unit.** Blended component units are, in substance, part of the District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the District. The Highlands County School Board Leasing

Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note II.H.1. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

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

The Highlands County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the District, to promote education, and to encourage research, learning, and the dissemination of information. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2017. The audit report is filed in the District's administrative offices at 426 School Street, Sebring, Florida 33870.

### **C. Basis of Presentation: Government-Wide Financial Statements**

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

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

### **D. Basis of Presentation: Fund Financial Statements**

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

The District reports the following major governmental fund:

- 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.

The District reports the following major enterprise fund:

- Enterprise Fund – Heartland Educational Consortium – to account for the financing of Heartland Educational Consortium for which the District is fiscal agent.

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

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

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

## **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 as soon as they are both 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. For this purpose, 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 and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

## **F. Assets, Liabilities, 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 and amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes. 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.

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

### **3. Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost on the moving average basis, except

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

#### **4. Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. 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            | 13 years                      |
| Buildings and Fixed Equipment                | 50 years                      |
| Furniture, Fixtures, and Equipment           | 7 years                       |
| Motor Vehicles                               | 8 years                       |
| Audio Visual Materials and Computer Software | 5 years                       |

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

#### **5. 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.

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

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

## **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, pensions. The deferred outflows of resources related to pensions are 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 a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, pensions. The deferred inflows of resources related to pensions are discussed in a subsequent note.

## **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. The District reported no committed fund balances at June 30, 2017.

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

## **G. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

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

### **2. State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the 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 Highlands County Property Appraiser, and property taxes are collected by the Highlands 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 Highlands County Tax Collector at fiscal year end but not yet remitted to the District.

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

### **4. Capital Outlay Surtax**

In August 2016, the voters of Highlands County (County) approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2017, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

### **5. Educational Impact Fees**

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

establish revised collection rates for fees. For most new residential construction, the fee is collected by the County and each municipality within the County based on an interlocal agreement. The fee shall to be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development and are not to be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness necessitated by new residential development. The County approved the suspension of the fee for the 2009-10 fiscal year, and the Board of County Commissioners extended this suspension through the 2016-17 fiscal year.

## **6. 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.

## **7. 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.

## **8. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

# **II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

## **A. Cash Deposits with Financial Institutions**

**Custodial Credit Risk-Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to 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

The District's investments at June 30, 2017, are reported as follows:

| <u>Investments</u>                         | <u>Maturities</u> | <u>Fair Value</u>      |
|--------------------------------------------|-------------------|------------------------|
| SBA:                                       |                   |                        |
| Florida PRIME (1)                          | 39 Day Average    | \$ 4,683,464.13        |
| Debt Service Accounts                      | 6 Months          | 1,766.52               |
| <b>Total Investments, Reporting Entity</b> |                   | <b>\$ 4,685,230.65</b> |

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

### **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. The District's investments in SBA debt service accounts, totaling \$1,766.52, 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's investment policy limits investments to a maximum of 5 years, the investment of tax-exempt issues to 3 years, and the investment of current funds to 12 months.

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, 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. The District’s investment policy 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; United States Government securities; direct obligations of United States Government agency securities; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; open-end or closed-end funds registered under the Federal Investment Company Act of 1940; and other investments permitted by State statute that may be recommended by the Superintendent and approved in advance by the Board.

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.

## C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

|                                                 | <b>Beginning<br/>Balance</b> | <b>Additions</b>  | <b>Deletions</b> | <b>Ending<br/>Balance</b> |
|-------------------------------------------------|------------------------------|-------------------|------------------|---------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                  |                              |                   |                  |                           |
| Capital Assets Not Being Depreciated:           |                              |                   |                  |                           |
| Land                                            | \$ 5,759,410.50              | \$ -              | \$ -             | \$ 5,759,410.50           |
| Capital Assets Being Depreciated:               |                              |                   |                  |                           |
| Improvements Other Than Buildings               | 11,460,789.48                | 31,593.10         | -                | 11,492,382.58             |
| Buildings and Fixed Equipment                   | 181,576,941.86               | 145,560.80        | -                | 181,722,502.66            |
| Furniture, Fixtures, and Equipment              | 12,571,714.28                | 170,789.36        | 2,402,615.78     | 10,339,887.86             |
| Motor Vehicles                                  | 11,269,721.67                | 629,910.00        | -                | 11,899,631.67             |
| Audio Visual Materials and<br>Computer Software | 5,321,169.75                 | 995,784.86        | -                | 6,316,954.61              |
| Total Capital Assets Being Depreciated          | 222,200,337.04               | 1,973,638.12      | 2,402,615.78     | 221,771,359.38            |
| Less Accumulated Depreciation for:              |                              |                   |                  |                           |
| Improvements Other Than Buildings               | 10,503,486.42                | 227,581.16        | -                | 10,731,067.58             |
| Buildings and Fixed Equipment                   | 74,722,123.20                | 4,183,223.12      | -                | 78,905,346.32             |
| Furniture, Fixtures, and Equipment              | 11,197,834.28                | 610,792.30        | 2,396,955.02     | 9,411,671.56              |
| Motor Vehicles                                  | 11,241,916.37                | 181,695.96        | -                | 11,423,612.33             |
| Audio Visual Materials and<br>Computer Software | 3,917,249.47                 | 918,148.17        | -                | 4,835,397.64              |
| Total Accumulated Depreciation                  | 111,582,609.74               | 6,121,440.71      | 2,396,955.02     | 115,307,095.43            |
| Total Capital Assets Being Depreciated, Net     | 110,617,727.30               | (4,147,802.59)    | 5,660.76         | 106,464,263.95            |
| Governmental Activities Capital Assets, Net     | \$ 116,377,137.80            | \$ (4,147,802.59) | \$ 5,660.76      | \$ 112,223,674.45         |
| <b>BUSINESS-TYPE ACTIVITIES</b>                 |                              |                   |                  |                           |
| Capital Assets Not Being Depreciated:           |                              |                   |                  |                           |
| Land                                            | \$ 126,607.00                | \$ -              | \$ -             | \$ 126,607.00             |
| Capital Assets Being Depreciated:               |                              |                   |                  |                           |
| Buildings and Fixed Equipment                   | 379,822.00                   | -                 | -                | 379,822.00                |
| Furniture, Fixtures, and Equipment              | 63,926.77                    | 1,227.60          | -                | 65,154.37                 |
| Audio Visual Materials and<br>Computer Software | 999.50                       | -                 | -                | 999.50                    |
| Total Capital Assets Being Depreciated          | 444,748.27                   | 1,227.60          | -                | 445,975.87                |
| Less Accumulated Depreciation for:              |                              |                   |                  |                           |
| Buildings and Fixed Equipment                   | 129,139.48                   | 8,824.04          | -                | 137,963.52                |
| Furniture, Fixtures, and Equipment              | 61,186.10                    | 818.08            | -                | 62,004.18                 |
| Audio Visual Materials and<br>Computer Software | 999.50                       | -                 | -                | 999.50                    |
| Total Accumulated Depreciation                  | 191,325.08                   | 9,642.12          | -                | 200,967.20                |
| Total Capital Assets Being Depreciated, Net     | 253,423.19                   | (8,414.52)        | -                | 245,008.67                |
| Business-Type Activities Capital Assets, Net    | \$ 380,030.19                | \$ (8,414.52)     | \$ 0.00          | \$ 371,615.67             |

Depreciation expense was charged to functions as follows:

| <b>Function</b>                                      | <b>Amount</b>          |
|------------------------------------------------------|------------------------|
| GOVERNMENTAL ACTIVITIES                              |                        |
| Student Transportation Services                      | \$ 172,611.16          |
| Maintenance of Plant                                 | 9,084.80               |
| Unallocated                                          | 5,939,744.75           |
| Total Depreciation Expense - Governmental Activities | <u>\$ 6,121,440.71</u> |
| BUSINESS-TYPE ACTIVITIES                             |                        |
| Heartland Educational Consortium                     | <u>\$ 9,642.12</u>     |

## **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](http://www.dms.myflorida.com)).

The District's FRS and HIS pension expense totaled \$6,984,435 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 table shows the percentage value for each year of service credit earned:

| <b><u>Class, Initial Enrollment, and Retirement Age/Years of Service</u></b> | <b><u>Percent Value</u></b> |
|------------------------------------------------------------------------------|-----------------------------|
| <b>Regular members initially enrolled before July 1, 2011</b>                |                             |
| 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                        |
| <b>Regular members initially enrolled on or after July 1, 2011</b>           |                             |
| 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                        |
| <b>Elected County Officers</b>                                               | 3.00                        |
| <b>Senior Management Service</b>                                             | 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:

| <b><u>Class</u></b>                                           | <b><u>Percent of Gross Salary</u></b> |                            |
|---------------------------------------------------------------|---------------------------------------|----------------------------|
|                                                               | <b><u>Employee</u></b>                | <b><u>Employer (1)</u></b> |
| 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<br>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 \$3,285,871 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 \$35,078,349 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 0.138923724 percent, which was a decrease of 0.013358278 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 \$5,064,411. 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<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between expected and actual experience                                                                | \$ 2,685,868                              | \$ 326,603                               |
| Change of assumptions                                                                                             | 2,122,135                                 | -                                        |
| Net difference between projected and actual earnings on FRS pension plan investments                              | 9,067,326                                 | -                                        |
| Changes in proportion and differences between District FRS contributions and proportionate share of contributions | 368,423                                   | 2,025,939                                |
| District FRS contributions subsequent to the measurement date                                                     | 3,285,871                                 | -                                        |
| <b>Total</b>                                                                                                      | <b>\$ 17,529,623</b>                      | <b>\$ 2,352,542</b>                      |

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$3,285,871, 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                              | \$ 1,581,976         |
| 2019                              | 1,581,976            |
| 2020                              | 5,116,982            |
| 2021                              | 3,334,148            |
| 2022                              | 219,135              |
| Thereafter                        | 56,993               |
| <b>Total</b>                      | <b>\$ 11,891,210</b> |

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:

| <b>Asset Class</b>       | <b>Target Allocation<br/>(1)</b> | <b>Annual Arithmetic<br/>Return</b> | <b>Compound Annual<br/>(Geometric) Return</b> | <b>Standard Deviation</b> |
|--------------------------|----------------------------------|-------------------------------------|-----------------------------------------------|---------------------------|
| 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%                     |
| <b>Total</b>             | <b>100%</b>                      |                                     |                                               |                           |
| 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 7.6 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:

|                                                             | <b>1%<br/>Decrease<br/>(6.6%)</b> | <b>Current<br/>Discount Rate<br/>(7.6%)</b> | <b>1%<br/>Increase<br/>(8.6%)</b> |
|-------------------------------------------------------------|-----------------------------------|---------------------------------------------|-----------------------------------|
| District's proportionate share of the net pension liability | \$ 64,581,616                     | \$ 35,078,349                               | \$ 10,520,776                     |

**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, 2017, 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, 2017, 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 \$950,831 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 net pension liability of \$23,264,710 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 0.199618510 percent, which was a decrease of 0.002467442 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 \$1,920,024. 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<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between expected and actual experience                                                                    | \$ -                                      | \$ 52,988                                |
| Change of assumptions                                                                                                 | 3,650,825                                 | -                                        |
| Net difference between projected and actual earnings on HIS pension plan investments                                  | 11,763                                    | -                                        |
| Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions | 279,925                                   | 446,204                                  |
| District contributions subsequent to the measurement date                                                             | 950,831                                   | -                                        |
| <b>Total</b>                                                                                                          | <b>\$ 4,893,344</b>                       | <b>\$ 499,192</b>                        |

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$950,831 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                              | \$ 633,385          |
| 2019                              | 633,385             |
| 2020                              | 631,146             |
| 2021                              | 630,070             |
| 2022                              | 490,038             |
| Thereafter                        | 425,297             |
| <b>Total</b>                      | <b>\$ 3,443,321</b> |

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:

|                                                                | <b>1%<br/>Decrease<br/>(1.85%)</b> | <b>Current<br/>Discount Rate<br/>(2.85%)</b> | <b>1%<br/>Increase<br/>(3.85%)</b> |
|----------------------------------------------------------------|------------------------------------|----------------------------------------------|------------------------------------|
| District's proportionate share of<br>the net pension liability | \$ 26,689,908                      | \$ 23,264,710                                | \$ 20,421,983                      |

*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 member accounts during the 2016-17 fiscal year were as follows:

| <u>Class</u>                   | <u>Percent of<br/>Gross<br/>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 in which 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 \$328,929 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 plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. Additionally, employees electing to participate in the Retirement Incentive Program obtain \$20,000 in District-provided (explicitly subsidized) life insurance for 10 years after their retirement date. As of June 30, 2013, the Retirement Incentive Program was discontinued as new retirees were no longer eligible to participate in this program; however, benefits continue to be paid until the fiscal year ending June 30, 2023. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan

does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

**Funding Policy.** Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 61 retirees received other postemployment benefits. The District provided required contributions of \$352,092 toward the annual OPEB cost, net of retiree contributions totaling \$531,321, which represents 1.1 percent of covered payroll.

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

| <u>Description</u>                                      | <u>Amount</u>       |
|---------------------------------------------------------|---------------------|
| Normal Cost (service cost for 1 year)                   | \$ 162,572          |
| Amortization of Unfunded Actuarial<br>Accrued Liability | <u>262,723</u>      |
| Annual Required Contribution                            | 425,295             |
| Interest on Net OPEB Obligation                         | 63,227              |
| Adjustment to Annual Required Contribution              | <u>(151,080)</u>    |
| Annual OPEB Cost (Expense)                              | 337,442             |
| Contribution Toward the OPEB Cost                       | <u>(352,092)</u>    |
| Decrease in Net OPEB Obligation                         | (14,650)            |
| Net OPEB Obligation, Beginning of Year                  | <u>1,756,312</u>    |
| Net OPEB Obligation, End of Year                        | <u>\$ 1,741,662</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and the 2 preceding fiscal years, were as follows:

| <u>Fiscal Year</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage of<br/>Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|--------------------|-----------------------------|---------------------------------------------------------------|--------------------------------|
| 2014-15            | \$ 331,024                  | 82.9%                                                         | \$ 1,690,490                   |
| 2015-16            | 342,624                     | 80.8%                                                         | 1,756,312                      |
| 2016-17            | 337,442                     | 104.3%                                                        | 1,741,662                      |

**Funded Status and Funding Progress.** As of January 1, 2017, the most recent valuation date, the actuarial accrued liability for benefits was \$3,000,638, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,000,638 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$47,881,884, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.3 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, mortality, and the healthcare cost trend. 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, 2017, 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 3.6 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 percent to 7.8 percent, and an annual healthcare cost trend rate that declines over a 23-year period from 7 percent assumed for the year beginning January 1, 2017, to an ultimate rate of 4.24 percent. 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 20-year period. The remaining amortization period at June 30, 2017, was 12 years.

## **F. 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 (SCREMP), a consortium under which seven district school boards have established a public entity risk sharing-pool for property protection, general liability, automobile liability, workers' compensation, government crime, and other coverage deemed necessary by the members of the

SCREMP. 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 the SCERMP provide that risk of loss is transferred to the consortium. The SCREMP is self-sustaining through member assessments (premiums), and purchases 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 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, finance officers or authorized representatives of all participating districts. Ascension, Inc. serves as the third-party administrator, insurance broker, and fiscal agent for the SCERMP.

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

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 \$1,000,000. The SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employers' liability is included subject to \$2,000,000 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 at future dates, which effectively limits the amount of liability of governmental entities for State tort claims to \$200,000 per claim and \$300,000 per occurrence.

The District is self-insured for health insurance coverage which is administered by a third-party administrator. The health insurance program is reported in an internal service fund. The District purchases reinsurance coverage which covers any individual claim over \$225,000 per year, and aggregate claims over \$2 million.

The District is self-insured for dental coverage which is administered by a third-party provider. The dental insurance program is reported in an internal service fund.

A liability in the amount of \$1,386,013 was determined by the District to cover 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:

| <u>Fiscal Year</u> | <u>Beginning-of-Fiscal-Year Liability</u> | <u>Current-Year Claims and Changes in Estimates</u> | <u>Claims Payments</u> | <u>Balance at Fiscal Year End</u> |
|--------------------|-------------------------------------------|-----------------------------------------------------|------------------------|-----------------------------------|
| 2015-16            | \$ 1,048,538.53                           | \$ 14,242,516.29                                    | \$ (14,322,950.44)     | \$ 968,104.38                     |
| 2016-17            | 968,104.38                                | 17,203,921.09                                       | (16,786,012.47)        | 1,386,013.00                      |

Except for the judgment rendered against the District, as disclosed in Note II.H.3., settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

## G. Operating Lease Commitments

The District leases facilities under an operating lease with a 15-year term. The following is a schedule by years of future minimum rental payments required under operating lease that has a remaining noncancelable lease term in excess of 1 year:

| <u>Fiscal Year Ending June 30</u>      | <u>Amount</u>     |
|----------------------------------------|-------------------|
| 2018                                   | \$ 95,000         |
| 2019                                   | 95,000            |
| <b>Total Minimum Payments Required</b> | <b>\$ 190,000</b> |

## H. Long-Term Liabilities

### 1. Certificates of Participation

Certificates of participation at June 30, 2017, are as follows:

| <u>Series</u>                              | <u>Amount Outstanding</u> | <u>Interest Rates (Percent)</u> | <u>Lease Term Maturity</u> | <u>Original Amount</u> |
|--------------------------------------------|---------------------------|---------------------------------|----------------------------|------------------------|
| 2006B, Refunding                           | \$ 5,615,000              | 4                               | 2021                       | \$ 13,945,000          |
| 2015, Refunding                            | 39,405,000                | 3.25 - 5                        | 2032                       | 40,205,000             |
| <b>Total Certificates of Participation</b> | <b>\$45,020,000</b>       |                                 |                            | <b>\$ 54,150,000</b>   |

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

As a condition of the financing arrangements, the District gave ground leases on District property to the Leasing Corporation, with a rental fee of \$1 and \$10 per year for Certificates Series 2015 and Series 2006B, respectively. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangements.

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

| <b>Certificates</b>     | <b>Description of Properties</b>                                                                                                                                                                                                                                                                                        |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Series 2006B, Refunding | Memorial Elementary School, renovation of the Kindergarten Learning Center, new classroom additions and ancillary facilities at Sebring High School, Lake Placid High School, Avon Park High School, Avon Park Middle School, Hill-Gustat Middle School, Lake Placid Middle School, and Lake Country Elementary School. |
| Series 2015, Refunding  | Avon Park Elementary School, Lake Placid Elementary School, Memorial Elementary School, and the Kindergarten Learning Center.                                                                                                                                                                                           |

The lease payments are payable by the District semiannually on March 1 and September 1 for the Certificates of Participation, Series 2015 and annually on March 1 for the Certificates of Participation, Series 2006B.

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

| <b>Fiscal Year Ending June 30</b>   | <b>Total</b>            | <b>Principal</b>        | <b>Interest</b>         |
|-------------------------------------|-------------------------|-------------------------|-------------------------|
| 2018                                | \$ 4,075,937.52         | \$ 2,160,000.00         | \$ 1,915,937.52         |
| 2019                                | 4,076,187.52            | 2,255,000.00            | 1,821,187.52            |
| 2020                                | 4,072,187.52            | 2,350,000.00            | 1,722,187.52            |
| 2021                                | 4,073,987.52            | 2,455,000.00            | 1,618,987.52            |
| 2022                                | 4,076,087.52            | 2,565,000.00            | 1,511,087.52            |
| 2023-2027                           | 20,365,187.60           | 14,865,000.00           | 5,500,187.60            |
| 2028-2032                           | 20,368,337.58           | 18,370,000.00           | 1,998,337.58            |
| <b>Total Minimum Lease Payments</b> | <b>\$ 61,107,912.78</b> | <b>\$ 45,020,000.00</b> | <b>\$ 16,087,912.78</b> |

## 2. Bonds Payable

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

| <b>Bond Type</b>           | <b>Amount Outstanding</b> | <b>Interest Rates (Percent)</b> | <b>Annual Maturity To</b> |
|----------------------------|---------------------------|---------------------------------|---------------------------|
| State School Bonds:        |                           |                                 |                           |
| Series 2009A, Refunding    | \$ 35,000                 | 5                               | 2019                      |
| Series 2014B, Refunding    | 36,000                    | 2 - 5                           | 2020                      |
| District Revenue Bonds:    |                           |                                 |                           |
| Series 2014, Refunding     | 3,260,000                 | 2 - 5                           | 2042                      |
| <b>Total Bonds Payable</b> | <b>\$ 3,331,000</b>       |                                 |                           |

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

### **State School Bonds**

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

### **District Revenue Bonds**

The School Board issued \$3,430,000 in Refunding Certificates of Indebtedness, Capital Improvement and Refunding Revenue Bonds, Series 2014, dated May 8, 2014. The proceeds were used to refund all the outstanding Refunding Certificates of Indebtedness, Series 1999A, and for the acquisition and construction of certain capital school projects. These bonds are secured by a pledge of funds accruing to the District from the State's Pari-Mutuel Tax Collection Trust Fund (pledged revenues) pursuant to Section 212.20(6)(d.)6a., Florida Statutes.

The District has pledged a total of \$5,365,243.75 of pledged revenues in connection with the District Revenue Bonds series 2014, described above. During the 2016-17 fiscal year, the District recognized pledged revenues totaling \$223,250 and expended \$218,412.50 (97.8 percent) of these revenues for debt service directly collateralized by these revenues. The pledged revenues are committed until final maturity of the debt on September 1, 2041. Approximately 96 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

| <b><u>Fiscal Year Ending June 30</u></b> | <b><u>Total</u></b>    | <b><u>Principal</u></b> | <b><u>Interest</u></b> |
|------------------------------------------|------------------------|-------------------------|------------------------|
| State School Bonds:                      |                        |                         |                        |
| 2018                                     | \$ 47,430.00           | \$ 44,000.00            | \$ 3,430.00            |
| 2019                                     | 24,230.00              | 23,000.00               | 1,230.00               |
| 2020                                     | 4,080.00               | 4,000.00                | 80.00                  |
| Total State School Bonds                 | 75,740.00              | 71,000.00               | 4,740.00               |
| District Revenue Bonds:                  |                        |                         |                        |
| 2018                                     | 221,662.50             | 90,000.00               | 131,662.50             |
| 2019                                     | 219,862.50             | 90,000.00               | 129,862.50             |
| 2020                                     | 217,837.50             | 90,000.00               | 127,837.50             |
| 2021                                     | 220,525.00             | 95,000.00               | 125,525.00             |
| 2022                                     | 218,031.25             | 95,000.00               | 123,031.25             |
| 2023-2027                                | 1,094,050.00           | 525,000.00              | 569,050.00             |
| 2028-2032                                | 1,096,025.00           | 625,000.00              | 471,025.00             |
| 2033-2037                                | 1,085,625.00           | 765,000.00              | 320,625.00             |
| 2038-2042                                | 991,625.00             | 885,000.00              | 106,625.00             |
| Total District Revenue Bonds             | 5,365,243.75           | 3,260,000.00            | 2,105,243.75           |
| <b>Total</b>                             | <b>\$ 5,440,983.75</b> | <b>\$ 3,331,000.00</b>  | <b>\$ 2,109,983.75</b> |

### 3. Judgments Payable

On August 18, 2016, two verdicts were rendered against the District in two separate lawsuits that were tried in Federal Court. The judgments totaled \$3,000,000 in favor of the plaintiffs. In July 2017, the District settled the two lawsuits and an additional three related lawsuits for \$3,500,000. In August 2017, the District paid \$2,500,000 and the District's insurance covered \$1,000,000. Therefore, a liability for judgments payable of \$2,500,000 was recorded in the government-wide financial statements.

### 4. 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        |
|---------------------------------------|--------------------------|-------------------------|-------------------------|--------------------------|------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>        |                          |                         |                         |                          |                        |
| Bonds Payable                         | \$ 3,535,000.00          | \$ -                    | \$ 204,000.00           | \$ 3,331,000.00          | \$ 134,000.00          |
| Certificates of Participation Payable | 47,090,000.00            | -                       | 2,070,000.00            | 45,020,000.00            | 2,160,000.00           |
| Compensated Absences Payable          | 6,283,336.52             | 450,430.41              | 400,000.00              | 6,333,766.93             | 386,600.00             |
| Net Pension Liability                 | 40,046,048.69            | 36,978,991.00           | 19,146,992.78           | 57,878,046.91            | 665,367.57             |
| Judgments Payable                     | 3,000,000.00             | -                       | 500,000.00              | 2,500,000.00             | 2,500,000.00           |
| Other Postemployment Benefits Payable | 1,756,312.00             | 337,442.00              | 352,092.00              | 1,741,662.00             | -                      |
| <b>Total Governmental Activities</b>  | <b>\$ 101,710,697.21</b> | <b>\$ 37,766,863.41</b> | <b>\$ 22,673,084.78</b> | <b>\$ 116,804,475.84</b> | <b>\$ 5,845,967.57</b> |
| <b>BUSINESS-TYPE ACTIVITIES</b>       |                          |                         |                         |                          |                        |
| Compensated Absences Payable          | \$ 45,965.35             | \$ 8,121.15             | \$ -                    | \$ 54,086.50             | \$ 13,400.00           |
| Net Pension Liability                 | 232,802.31               | 282,955.00              | 50,745.22               | 465,012.09               | 5,345.79               |
| <b>Total Business-Type Activities</b> | <b>\$ 278,767.66</b>     | <b>\$ 291,076.15</b>    | <b>\$ 50,745.22</b>     | <b>\$ 519,098.59</b>     | <b>\$ 18,745.79</b>    |

For the governmental activities, judgments, 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. 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:

| <u>Source</u>                                               | <u>Amount</u>           |
|-------------------------------------------------------------|-------------------------|
| Governmental Funds:                                         |                         |
| Florida Education Finance Program                           | \$ 45,077,803.00        |
| Categorical Educational Program - Class Size Reduction      | 12,734,339.00           |
| Gross Receipts Tax (Public Education Capital Outlay)        | 465,733.00              |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 441,016.02              |
| State License Tax                                           | 229,169.00              |
| Discretionary Lottery Funds                                 | 193,048.00              |
| School Recognition                                          | 128,553.00              |
| Food Service Supplement                                     | 122,415.00              |
| Florida Best and Brightest Teacher Scholarship Program      | 102,254.00              |
| Voluntary Prekindergarten Program                           | 58,385.00               |
| Miscellaneous                                               | 324,063.12              |
| <b>Subtotal Government Funds</b>                            | <u>59,876,778.14</u>    |
| Enterprise Fund:                                            |                         |
| Regional Educational Consortium Services                    | <u>247,781.14</u>       |
| <b>Total</b>                                                | <u>\$ 60,124,559.28</u> |

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

### 2. Property Taxes

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

|                                                                 | <u>Millages</u> | <u>Taxes Levied</u>  |
|-----------------------------------------------------------------|-----------------|----------------------|
| <b><u>General Fund</u></b>                                      |                 |                      |
| Nonvoted School Tax:                                            |                 |                      |
| Required Local Effort                                           | 4.708           | \$ 23,882,110        |
| Basic Discretionary Local Effort                                | 0.748           | 3,794,354            |
| <b><u>Capital Projects - Local Capital Improvement Fund</u></b> |                 |                      |
| Nonvoted Tax:                                                   |                 |                      |
| Local Capital Improvements                                      | 1.500           | 7,608,998            |
| <b>Total</b>                                                    | <u>6.956</u>    | <u>\$ 35,285,462</u> |

## K. Interfund Transfers

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

| <b>Funds</b>          | <b>Interfund</b>       |                        |
|-----------------------|------------------------|------------------------|
|                       | <b>Transfers In</b>    | <b>Transfers Out</b>   |
| Major:                |                        |                        |
| General               | \$ 2,727,000.00        | \$ -                   |
| Nonmajor Governmental | 4,077,340.46           | 6,804,340.46           |
| <b>Total</b>          | <b>\$ 6,804,340.46</b> | <b>\$ 6,804,340.46</b> |

Transfers out from the nonmajor Capital Projects – Local Capital Improvement Fund were to provide debt service payments and provide funding for certain expenditures of the District's facilities, maintenance, and technology departments and to fund property and casualty insurance premiums.

## III. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2016-17 fiscal year:

|                                                   | <b>Total</b>      | <b>Group<br/>Health<br/>Insurance</b> | <b>Employee<br/>Dental<br/>Plan</b> |
|---------------------------------------------------|-------------------|---------------------------------------|-------------------------------------|
| Total Assets                                      | \$ 4,583,855.99   | \$ 4,067,005.88                       | \$ 516,850.11                       |
| Liabilities and Net Position:                     |                   |                                       |                                     |
| Accounts Payable                                  | \$ 248,100.43     | \$ 234,137.33                         | \$ 13,963.10                        |
| Estimated Liability for<br>Self-Insurance Program | 1,386,013.00      | 1,290,034.00                          | 95,979.00                           |
| Net Position:                                     |                   |                                       |                                     |
| Unrestricted                                      | 2,949,742.56      | 2,542,834.55                          | 406,908.01                          |
| Total Liabilities and Net Position                | \$ 4,583,855.99   | \$ 4,067,005.88                       | \$ 516,850.11                       |
| Revenues:                                         |                   |                                       |                                     |
| Premium Revenues                                  | \$ 16,217,016.24  | \$ 15,311,189.24                      | \$ 905,827.00                       |
| Other Revenues                                    | 339,340.67        | 339,340.67                            | -                                   |
| Total Revenues                                    | 16,556,356.91     | 15,650,529.91                         | 905,827.00                          |
| Total Expenses                                    | (19,220,758.78)   | (18,218,984.69)                       | (1,001,774.09)                      |
| Change in Net Position                            | \$ (2,664,401.87) | \$ (2,568,454.78)                     | \$ (95,947.09)                      |

## IV. CONSORTIUM

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

## OTHER REQUIRED SUPPLEMENTARY INFORMATION

### Budgetary Comparison Schedule General Fund For the Fiscal Year Ended June 30, 2017

|                                                 | General Fund       |                 |                 | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|-------------------------------------------------|--------------------|-----------------|-----------------|-----------------------------------------------------------|
|                                                 | Original<br>Budget | Final<br>Budget | Actual          |                                                           |
| <b>Revenues</b>                                 |                    |                 |                 |                                                           |
| Intergovernmental:                              |                    |                 |                 |                                                           |
| Federal Direct                                  | \$ 170,000.00      | \$ 172,064.86   | \$ 172,064.86   | \$ -                                                      |
| Federal Through State and Local                 | 570,000.00         | 685,230.20      | 685,230.20      | -                                                         |
| State                                           | 58,767,166.00      | 58,615,270.19   | 58,614,191.67   | (1,078.52)                                                |
| Local:                                          |                    |                 |                 |                                                           |
| Property Taxes                                  | 26,565,682.00      | 26,896,249.71   | 26,896,249.71   | -                                                         |
| Miscellaneous                                   | 1,744,458.00       | 2,324,821.54    | 2,324,821.54    | -                                                         |
| Total Local Revenues                            | 28,310,140.00      | 29,221,071.25   | 29,221,071.25   | -                                                         |
| <b>Total Revenues</b>                           | 87,817,306.00      | 88,693,636.50   | 88,692,557.98   | (1,078.52)                                                |
| <b>Expenditures</b>                             |                    |                 |                 |                                                           |
| Current - Education:                            |                    |                 |                 |                                                           |
| Instruction                                     | 55,581,829.00      | 57,684,833.73   | 56,536,866.29   | 1,147,967.44                                              |
| Student Support Services                        | 4,068,033.00       | 4,587,115.28    | 4,582,924.64    | 4,190.64                                                  |
| Instructional Media Services                    | 856,991.00         | 934,540.00      | 916,592.64      | 17,947.36                                                 |
| Instruction and Curriculum Development Services | 862,514.00         | 928,753.02      | 924,740.56      | 4,012.46                                                  |
| Instructional Staff Training Services           | 713,899.00         | 743,921.66      | 716,536.57      | 27,385.09                                                 |
| Instruction-Related Technology                  | 496,939.00         | 583,467.99      | 583,467.99      | -                                                         |
| Board                                           | 530,046.00         | 503,224.41      | 503,224.41      | -                                                         |
| General Administration                          | 426,756.00         | 490,073.63      | 489,789.61      | 284.02                                                    |
| School Administration                           | 6,061,533.00       | 6,210,797.45    | 6,178,836.45    | 31,961.00                                                 |
| Facilities Acquisition and Construction         | -                  | 368,579.47      | 49,511.68       | 319,067.79                                                |
| Fiscal Services                                 | 792,600.00         | 879,669.63      | 879,669.63      | -                                                         |
| Central Services                                | 1,306,271.00       | 1,486,407.18    | 1,399,388.82    | 87,018.36                                                 |
| Student Transportation Services                 | 5,758,776.00       | 5,014,051.44    | 4,985,084.78    | 28,966.66                                                 |
| Operation of Plant                              | 8,579,953.00       | 7,841,084.26    | 7,818,965.82    | 22,118.44                                                 |
| Maintenance of Plant                            | 2,360,434.00       | 2,187,652.23    | 2,155,778.41    | 31,873.82                                                 |
| Administrative Technology Services              | 497,743.00         | 679,193.62      | 679,193.62      | -                                                         |
| Community Services                              | 414,745.00         | 631,908.10      | 593,814.05      | 38,094.05                                                 |
| Fixed Capital Outlay:                           |                    |                 |                 |                                                           |
| Facilities Acquisition and Construction         | -                  | 14,682.00       | 14,682.00       | -                                                         |
| Other Capital Outlay                            | -                  | 558,020.15      | 558,020.15      | -                                                         |
| <b>Total Expenditures</b>                       | 89,309,062.00      | 92,327,975.25   | 90,567,088.12   | 1,760,887.13                                              |
| <b>Deficiency of Revenues Over Expenditures</b> | (1,491,756.00)     | (3,634,338.75)  | (1,874,530.14)  | 1,759,808.61                                              |
| <b>Other Financing Sources</b>                  |                    |                 |                 |                                                           |
| Transfers In                                    | 1,491,756.00       | 2,727,000.00    | 2,727,000.00    | -                                                         |
| <b>Net Change in Fund Balances</b>              | -                  | (907,338.75)    | 852,469.86      | 1,759,808.61                                              |
| Fund Balances, Beginning                        | 4,142,356.23       | 4,142,356.23    | 4,142,356.23    | -                                                         |
| <b>Fund Balances, Ending</b>                    | \$ 4,142,356.23    | \$ 3,235,017.48 | \$ 4,994,826.09 | \$ 1,759,808.61                                           |

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

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>(1)<br/>(b)</b> | <b>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>(a/b)</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>[(b-a)/c]</b> |
|-----------------------------------------|--------------------------------------------------|------------------------------------------------------------------|----------------------------------------------|-----------------------------------|------------------------------------|--------------------------------------------------------------------------|
| 07/01/12                                | \$ -                                             | \$ 3,714,000                                                     | \$ 3,714,000                                 | 0.0%                              | \$ 58,060,000                      | 6.4%                                                                     |
| 01/01/15                                | -                                                | 3,281,969                                                        | 3,281,969                                    | 0.0%                              | 48,848,939                         | 6.7%                                                                     |
| 01/01/17                                | -                                                | 3,000,638                                                        | 3,000,638                                    | 0.0%                              | 47,881,884                         | 6.3%                                                                     |

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)**

|                                                                                                        | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   | <b>2013</b>   |
|--------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| District's proportion of the FRS net pension liability                                                 | 0.138923724%  | 0.152282002%  | 0.156398242%  | 0.152312412%  |
| District's proportionate share of the FRS net pension liability                                        | \$ 35,078,349 | \$ 19,669,263 | \$ 9,542,592  | \$ 26,219,745 |
| District's covered payroll                                                                             | \$ 61,645,573 | \$ 61,310,553 | \$ 61,174,266 | \$ 57,977,043 |
| District's proportionate share of the FRS net pension liability as a percentage of its covered payroll | 56.90%        | 32.08%        | 15.60%        | 45.22%        |
| 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)**

|                                                                          | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|--------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Contractually required FRS contribution                                  | \$ 3,285,871  | \$ 3,406,729  | \$ 3,712,765  | \$ 3,425,785  |
| FRS contributions in relation to the contractually required contribution | (3,285,871)   | (3,406,729)   | (3,712,765)   | (3,425,785)   |
| FRS contribution deficiency (excess)                                     | \$ -          | \$ -          | \$ -          | \$ -          |
| District's covered payroll                                               | \$ 57,284,629 | \$ 61,645,573 | \$ 61,310,553 | \$ 61,174,266 |
| FRS contributions as a percentage of covered payroll                     | 5.74%         | 5.53%         | 6.06%         | 5.60%         |

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)**

|                                                                                                        | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   | <b>2013</b>   |
|--------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| District's proportion of the HIS net pension liability                                                 | 0.199618510%  | 0.202085952%  | 0.205875517%  | 0.200363755%  |
| District's proportionate share of the HIS net pension liability                                        | \$ 23,264,710 | \$ 20,609,588 | \$ 19,249,863 | \$ 17,444,299 |
| District's covered payroll                                                                             | \$ 61,645,573 | \$ 61,310,553 | \$ 61,174,266 | \$ 57,977,043 |
| District's proportionate share of the HIS net pension liability as a percentage of its covered payroll | 37.74%        | 33.62%        | 31.47%        | 30.09%        |
| 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)**

|                                                                          | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|--------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Contractually required HIS contribution                                  | \$ 950,831    | \$ 1,023,366  | \$ 772,498    | \$ 705,260    |
| HIS contributions in relation to the contractually required contribution | (950,831)     | (1,023,366)   | (772,498)     | (705,260)     |
| HIS contribution deficiency (excess)                                     | \$ -          | \$ -          | \$ -          | \$ -          |
| District's covered payroll                                               | \$ 57,284,629 | \$ 61,645,573 | \$ 61,310,553 | \$ 61,174,266 |
| 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 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.

## **3. 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.

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

| Federal Grantor/Pass-Through Grantor/<br>Program or Cluster | Federal<br>CFDA<br>Number | Pass - Through<br>Entity Identifying<br>Number | Passed<br>Through to<br>Subrecipients | Total<br>Expenditures   |
|-------------------------------------------------------------|---------------------------|------------------------------------------------|---------------------------------------|-------------------------|
| <b>Clustered</b>                                            |                           |                                                |                                       |                         |
| <b>Child Nutrition Cluster:</b>                             |                           |                                                |                                       |                         |
| United States Department of Agriculture:                    |                           |                                                |                                       |                         |
| Florida Department of Agriculture and Consumer Services:    |                           |                                                |                                       |                         |
| School Breakfast Program                                    | 10.553                    | 17002                                          | \$ -                                  | \$ 1,344,183.97         |
| National School Lunch Program                               | 10.555                    | 17001, 17003                                   | -                                     | 5,436,635.77            |
| Summer Food Service Program for Children                    | 10.559                    | 16006, 16007, 17006, 17007                     | -                                     | 249,809.16              |
| <b>Total Child Nutrition Cluster</b>                        |                           |                                                | -                                     | <b>7,030,628.90</b>     |
| <b>Special Education Cluster:</b>                           |                           |                                                |                                       |                         |
| United States Department of Education:                      |                           |                                                |                                       |                         |
| Special Education - Grants to States:                       | 84.027                    |                                                |                                       |                         |
| Florida Department of Education                             |                           | 262, 263                                       | 92,235.93                             | 3,741,864.82            |
| Putnam County District School Board                         |                           | None                                           | -                                     | 1,310.60                |
| Total Special Education - Grants to States                  | 84.027                    |                                                | 92,235.93                             | 3,743,175.42            |
| Special Education - Preschool Grants:                       |                           |                                                |                                       |                         |
| Florida Department of Education                             | 84.173                    | 266, 267                                       | -                                     | 80,288.00               |
| <b>Total Special Education Cluster</b>                      |                           |                                                | 92,235.93                             | <b>3,823,463.42</b>     |
| <b>Not Clustered</b>                                        |                           |                                                |                                       |                         |
| <b>United States Department of Agriculture:</b>             |                           |                                                |                                       |                         |
| Florida Department of Agriculture and Consumer Services:    |                           |                                                |                                       |                         |
| Fresh Fruit and Vegetable Program                           | 10.582                    | 17004                                          | -                                     | 31,050.00               |
| <b>United States Department of Defense:</b>                 |                           |                                                |                                       |                         |
| Army Junior Reserve Officers Training Corps                 | 12.UNK                    | None                                           | -                                     | 172,064.86              |
| <b>United States Department of Education:</b>               |                           |                                                |                                       |                         |
| Florida Department of Education:                            |                           |                                                |                                       |                         |
| Title I Grants to Local Educational Agencies                | 84.010                    | 212, 223, 226                                  | -                                     | 3,992,443.90            |
| Migrant Education - State Grant Program                     | 84.011                    | 217                                            | -                                     | 1,191,952.39            |
| Career and Technical Education - Basic Grants to States     | 84.048                    | 161                                            | -                                     | 257,209.21              |
| Education for Homeless Children and Youth                   | 84.196                    | 127                                            | -                                     | 41,118.28               |
| Twenty-First Century Community Learning Centers             | 84.287                    | 244                                            | -                                     | 186,881.76              |
| English Language Acquisition State Grants                   | 84.365                    | 102                                            | -                                     | 121,943.10              |
| Improving Teacher Quality State Grants                      | 84.367                    | 224                                            | -                                     | 545,348.32              |
| Florida Gulf Coast University:                              |                           |                                                |                                       |                         |
| Special Education - State Personnel Development             | 84.323                    | None                                           | -                                     | 88,724.77               |
| Advanced Via Individual Determination Center:               |                           |                                                |                                       |                         |
| Investing in Innovation (i3) Fund                           | 84.411                    | None                                           | -                                     | 51,330.21               |
| <b>Total United States Department of Education</b>          |                           |                                                | -                                     | <b>6,476,951.94</b>     |
| <b>Total Expenditures of Federal Awards</b>                 |                           |                                                | <b>\$ 92,235.93</b>                   | <b>\$ 17,534,159.12</b> |

The notes below 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 Highlands 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 for National School Lunch Program. Includes \$502,807.86 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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111 West Madison Street  
Tallahassee, Florida 32399-1450



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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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Highlands County District School Board, as of and for the fiscal year ended June 30, 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 23, 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 discretely presented component unit, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Financial Statement Finding No. 2017-001 that we consider to be a significant deficiency.

### **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*.

### **District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** Financial Statement 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 the financial statements and, accordingly, we express no opinion on it.

### **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 23, 2018



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the  
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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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 Highlands 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.

### **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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name "Sherrill" and last name "Norman" clearly legible, and "F." as a middle initial.

Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 23, 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? Yes

Noncompliance material to financial statements noted? No

#### **Federal Awards**

Internal control over major Federal program:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

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)? No

Identification of major Federal program:

|              |                                              |
|--------------|----------------------------------------------|
| CFDA Number: | Name of Federal Program or Cluster:          |
| 84.010       | Title I Grants to Local Educational Agencies |

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 FINDING

### SIGNIFICANT DEFICIENCY

#### Financial Reporting

|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Finding Number</b>                          | <b>2017-001</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Opinion Units</b>                           | Governmental Activities, Business-Type Activities, and Major Enterprise Fund                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Financial Statements<br/>Account Titles</b> | <p>Government-wide Financial Statements – Governmental Activities: Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, Long-Term Liabilities – Portion Due Within One Year, Long-Term Liabilities – Portion Due After One Year, and various other functional expenses.</p> <p>Government-wide Financial Statements – Business-Type Activities and Major Enterprise Fund: Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, Long-Term Liabilities – Portion Due Within One Year, Long-Term Liabilities – Portion Due After One Year, and a net debit entry to Business-Type Activities Heartland Educational Consortium expenses or Employee Benefits expense of the Major Enterprise Fund.</p>                                                                                                                                                                                                                                                                                                                                                           |
| <b>Fund Name</b>                               | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Adjustment Amounts</b>                      | <p>Government-wide financial statements audit adjustments included:</p> <ul style="list-style-type: none"><li>• Governmental Activities: Additions of \$6,387,842, \$6,820,280, and \$3,880,339 for Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, and Long-Term Liabilities – Portion Due After One Year, respectively; and a reduction to Long-Term Liabilities – Portion Due Within One Year of \$3,974,849, resulting in various offsetting net debit entries to functional expenses totaling \$337,928.</li><li>• Business-Type Activities and Major Enterprise Fund: Additions of \$83,034, \$107,777, and \$123,789 for Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, and Long-Term Liabilities – Portion Due After One Year, respectively; and a reduction to Long-Term Liabilities – Portion Due Within One Year of \$29,279, resulting in offsetting net debit entry totaling \$119,253 to Business-Type Activities Heartland Educational Consortium expenses or to Employee Benefits expense of the Major Enterprise Fund.</li></ul> |
| <b>Statistically Valid Sample</b>              | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Prior Year Finding</b>                      | Not Applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Finding</b>                                 | District financial reporting procedures for pension activities and related account balances need improvement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Criteria</b>                                | <p>State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR).</p> <p>Section 1010.01, Florida Statutes requires that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP). GAAP require that contributions made subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period (June 30, 2017) should be reported as deferred outflows of resources related to pensions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Condition</b>                               | On the government-wide financial statements for governmental activities, the District under reported Deferred Outflows of Resources – Pensions, Deferred                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

Inflows of Resources – Pensions, and Long-Term Liabilities – Portion Due After One Year, and over reported Long-Term Liabilities – Portion Due Within One Year. As a result of these misstatements, various functional expenses were understated.

On the government-wide financial statements for business-type activities and in the major enterprise fund, the District under reported Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, and Long-Term Liabilities – Portion Due After One Year, and over reported Long-Term Liabilities – Portion Due Within One Year. As a result of these misstatements, Heartland Educational Consortium and Major Enterprise Fund expenses were understated.

**Cause**

In response to our inquiry, District personnel indicated that staff turnover and inexperience with the financial statement preparation process caused the errors. Also, the District review procedures did not detect these reporting errors.

**Effect**

Reporting errors such as these may cause financial statement users to misunderstand District financial activities and incorrectly assess the District's financial position.

We expanded our audit procedures to determine the adjustments necessary to ensure District financial statement amounts were properly reported, and District personnel accepted these adjustments. However, our audit procedures cannot substitute for management's responsibility for proper financial reporting.

**Recommendation**

The District should improve procedures to ensure that pension activities and related account balances are properly reported.

**District Response**

The District will review its procedures to ensure that pension activities and related account balances are properly reported.

## SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reported.

## ***PRIOR AUDIT FOLLOW-UP***

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

## ***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

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

## **CORRECTIVE ACTION PLAN**

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# ***The School Board of Highlands County***

426 School Street • Sebring, FL 33870-4048

(863) 471-5555 • FAX (863) 471-5600 • TDD (863) 382-3693

Dr. Brenda Longshore  
Superintendent

Jill Compton Twist  
Chairperson

Charlene Edwards  
Vice Chairperson

Bill Brantley

Donna Howerton

Jan Shoop

### **The School Board of Highlands County Management's Corrective Action Plan For the Fiscal Year Ended June 30, 2017**

Finding Number: 2017-001 District financial reporting procedures for pension activities and related account balances need improvement.

#### **Planned Corrective Action:**

The District will require additional training for finance staff to insure that pension activities and related account balances are properly reported.

Anticipated completion Date: **June 30, 2018**

Responsible Contact Person: Richard Birt Director of Finance

**"A fully accredited school system"**  
Southern Association of Colleges and Schools  
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