

STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2018-120
March 2018

**HARDEE 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, Bob Shayman served as Superintendent of the Hardee County Schools from 11-22-16, David Durastanti served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Paul Samuels, Vice Chair through 11-21-16, Chair from 11-22-16	1
Mildred Smith	2
Teresa Crawford, Chair through 11-21-16	3
Garry McWhorter, Vice Chair from 11-22-16	4
Thomas Trevino	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 Becky D. Grode, 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 or by telephone at (850) 412-2905.

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Hardee 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

Finding No. 2017-001: An inadequate separation of duties existed in that the Finance Director, responsible for reviewing and approving payroll and other expenditure transactions, also served as District security administrator and, thereby, had full update capability to computer files.

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 Migrant Education program and Special Education Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the 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 programs;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective action for the Federal awards finding included in our report No. 2017-173.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 14 percent of the assets and 97 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee County District School Board, as of June 30, 2017, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 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
February 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hardee 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.

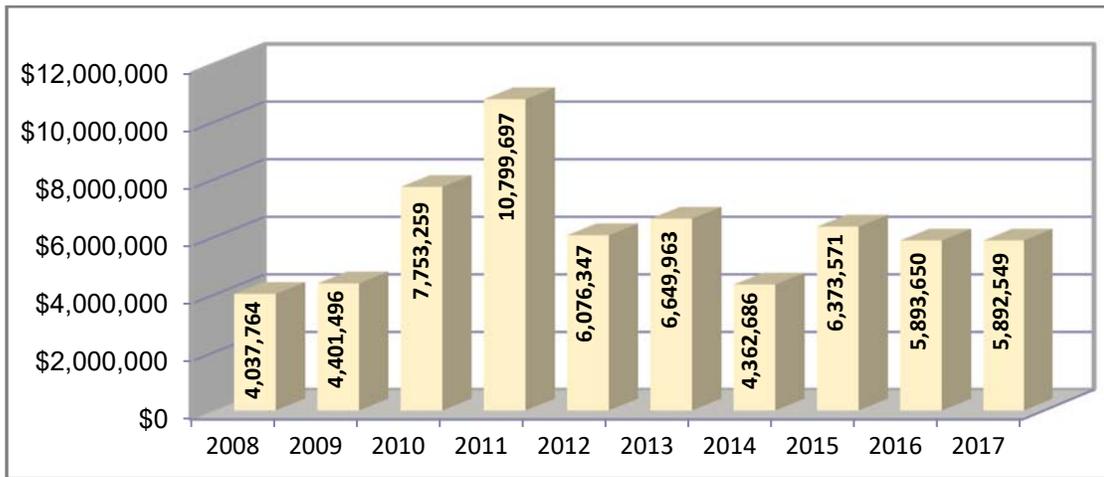
FINANCIAL HIGHLIGHTS

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

- Net position decreased \$1,858,076. The decrease was primarily due to the net effect of expenditures exceeding revenues and depreciation expense exceeding capital asset additions.
- General Fund revenues exceeded expenditures by \$585,486. When other financing sources (loss recoveries and transfers in) totaling \$266,741 are considered, the fund balance of the General Fund increased by \$852,227 to \$9,053,806. A significant portion of the General Fund's fund balance is considered nonspendable, restricted, or assigned, leaving an unassigned fund balance of \$5,892,549 as of June 30, 2017.

The following chart shows the General Fund's unreserved/unassigned fund balance for the past 10 years:

General Fund Unreserved/Unassigned Fund Balances at June 30



OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the

accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, student support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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.
- Component unit – The District presents one separate legal entity in the report. The Hardee County Education Foundation, Inc., is a legally separate organization and component unit that is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for the component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing

so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

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

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's 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

	Activities		Increase (Decrease)
	6-30-17	6-30-16	
Current and Other Assets	\$ 11,641,121	\$ 10,314,360	\$ 1,326,761
Capital Assets	58,980,641	60,785,163	(1,804,522)
Total Assets	70,621,762	71,099,523	(477,761)
Deferred Outflows of Resources	10,036,268	4,483,647	5,552,621
Long-Term Liabilities	32,461,648	24,487,011	7,974,637
Other Liabilities	843,607	635,880	207,727
Total Liabilities	33,305,255	25,122,891	8,182,364
Deferred Inflows of Resources	1,145,007	2,394,435	(1,249,428)
Net Position:			
Net Investment in Capital Assets	56,477,641	58,111,163	(1,633,522)
Restricted	3,741,060	3,098,999	642,061
Unrestricted (Deficit)	(14,010,933)	(13,144,318)	(866,615)
Total Net Position	\$ 46,207,768	\$ 48,065,844	\$ (1,858,076)

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. Net position is restricted for State required carryover programs, food service, capital projects, etc. The remaining balance of (\$14,010,933) unrestricted net position reflects, in part, the District's proportionate share of net pension liability and related pension amounts for the FRS pension plan and health insurance subsidy (HIS) pension plan.

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

- Current and other assets increased due to increased cash and cash equivalents at June 30, 2017.
- Capital assets and net investment in capital assets decreased because depreciation expense (\$3,069,873) in the 2016-17 fiscal year exceeded capital outlay expenditures for capital assets and other additions (\$1,265,351).
- Deferred outflows of resources – pensions increased by \$5,552,621 primarily due to differences between projected and actual investment earnings for the FRS pension plan and changes in assumptions for the HIS pension plan.

- The District's net pension liability increased by \$7,956,657 during the 2016-17 fiscal year to \$25,834,072. This net pension liability reflects the District's share of the FRS net pension liability as required by Governmental Accounting Standards Board Statement No. 68. The District's share of the FRS pension plan net pension liability increased by \$6,926,832, while the District's share of the HIS pension plan net pension liability increased by \$1,029,825.
- Deferred inflows of resources – pension decreased by \$1,249,428 due to the net effect of differences between projected and actual investment earnings for the FRS pension plan assets and employer specific amounts due to changes in employer proportion.

The following is a summary of the District's operating results for the fiscal year ended June 30, 2017, compared to operating results for the fiscal year ended June 30, 2016:

Operating Results for the Fiscal Year Ended

	Governmental Activities		Increase (Decrease)
	6-30-17	6-30-16	
Program Revenues:			
Charges for Services	\$ 126,786	\$ 186,012	\$ (59,226)
Operating Grants and Contributions	3,318,505	3,173,171	145,334
Capital Grants and Contributions	194,907	198,303	(3,396)
General Revenues:			
Property Taxes, Levied for Operational Purposes	10,096,371	10,213,764	(117,393)
Property Taxes, Levied for Capital Projects	781,410	777,526	3,884
Florida Education Finance Program	22,710,999	21,900,275	810,724
Other Federal Sources	4,774,264	4,923,773	(149,509)
Other State Sources	6,467,561	6,413,509	54,052
Unrestricted Investment Earnings	25,081	16,714	8,367
Miscellaneous	1,181,081	1,300,443	(119,362)
Total Revenues	49,676,965	49,103,490	573,475
Functions/Program Expenses:			
Instruction	27,264,966	26,418,530	846,436
Student Support Services	3,084,106	3,050,229	33,877
Instructional Media Services	867,663	869,767	(2,104)
Instruction and Curriculum Development Services	793,288	647,433	145,855
Instructional Staff Training Services	993,450	954,036	39,414
Instruction-Related Technology	1,103,493	1,072,575	30,918
Board	373,064	314,845	58,219
General Administration	544,475	554,668	(10,193)
School Administration	2,353,451	2,248,287	105,164
Facilities Acquisition and Construction	166,551	191,591	(25,040)
Fiscal Services	464,262	462,497	1,765
Food Services	3,257,760	3,251,850	5,910
Central Services	215,740	204,281	11,459
Student Transportation Services	2,495,218	2,458,076	37,142
Operation of Plant	3,626,991	3,652,115	(25,124)
Maintenance of Plant	1,998,879	2,042,279	(43,400)
Administrative Technology Services	269,201	407,525	(138,324)
Community Services	233,366	204,429	28,937
Unallocated Interest on Long-Term Debt	120,026	127,339	(7,313)
Unallocated Depreciation Expense	1,309,091	1,341,222	(32,131)
Total Functions/Program Expenses	51,535,041	50,473,574	1,061,467
Change in Net Position	(1,858,076)	(1,370,084)	(487,992)
Net Position - Beginning	48,065,844	49,435,928	(1,370,084)
Net Position - Ending	\$46,207,768	\$48,065,844	\$(1,858,076)

The District's net position decreased by \$1,858,076 during the 2016-17 fiscal year. Contributing elements of the change are as follows:

- The District increased new teacher pay by \$437 to \$38,037; increased other instructional and non-instructional employee pay by \$437; awarded a step increase; awarded a bonus of either \$500 or \$1,000 to eligible employees; and increased the Board contribution to health insurance by \$360 to \$9,504. In addition, the District funded several "one-time" projects during the 2016-17 fiscal year including a new software program to improve security; 125 chromebooks; stadium renovations; flooring improvements at Hardee Junior High cafeteria; a bus engine; and a new facilities department truck.
- Depreciation expense in the 2016-17 fiscal year exceeded capital outlay expenditures by \$1,804,522.

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.

As of June 30, 2017, the District's governmental funds reported combined ending fund balances of \$10,917,540, an increase of \$1,111,722 in comparison with the prior fiscal year. Of the total ending fund balance \$5,892,549, or 54 percent, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remaining fund balances are classified as nonspendable (\$282,494), restricted (\$3,703,421), and assigned (\$1,039,076).

The following schedule summarizes fund balances for individual fund types:

	Fund Balances			
	Unassigned Fund Balance	Nonspendable Restricted, and Assigned Fund Balance	Total Fund Balance	Change in Total Fund Balance
Major Governmental Funds:				
General	\$ 5,892,549	\$ 3,161,257	\$ 9,053,806	\$ 852,227
Special Revenue - Other	-	5,530	5,530	-
Other Nonmajor Governmental Funds	-	1,858,204	1,858,204	259,495
Total	\$ 5,892,549	\$ 5,024,991	\$10,917,540	\$ 1,111,722
Percentage of Total Fund Balance	54%	46%	100%	

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 \$5,892,549, while the total fund balance is \$9,053,806. 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 17 percent of the total General Fund revenues, while total fund balance represents 22 percent of total General Fund revenues. The General Fund's fund balance increased from the prior fiscal year \$852,227, or 10 percent. The General Fund's fund balance increased because revenues significantly exceeded expenditures in the following restricted projects: Instructional Materials, Digital Classroom Plan, Fuel Tax Refund, Reading Categorical, Workforce Development, Lottery, etc.

The Special Revenue – Other Fund has total revenues and expenditures of \$4,714,935 each. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary comparison schedule for the General Fund lists original budget, final budget, and actual amounts.

- Instruction had a positive variance of \$954,833 primarily due to unspent funds for supplies, textbooks, computer-related equipment, and Advanced Placement exam fees.
- Instruction-related technology had a positive variance of \$518,538 mostly because only 13 percent of Digital Classroom Program funds were spent during the 2016-17 fiscal year.
- Operation of plant had a positive variance of \$212,934, primarily due to the timing of utility payments.
- Maintenance of plant had a positive variance of \$120,063 due to unspent funds for repairs, paving, other services and supplies/materials.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2017, is \$58,980,641 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; building and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. The total decrease in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$1,804,522, or 3 percent.

Capital Assets, Net of Depreciation

	Balance 6-30-17	Balance 6-30-16	Increase (Decrease)
Land	\$ 2,046,222	\$ 2,046,222	\$ -
Land Improvements	140,182	140,182	-
Construction in Progress	5,889	208,882	(202,993)
Improvements Other Than Buildings	2,400,438	2,197,772	202,666
Buildings and Fixed Equipment	51,223,574	52,773,687	(1,550,113)
Furniture, Fixture, and Equipment	1,718,243	1,832,048	(113,805)
Motor Vehicles	1,310,643	1,296,437	14,206
Computer Software	135,450	289,933	(154,483)
Total Capital Assets, Net of Depreciation	\$ 58,980,641	\$ 60,785,163	\$ (1,804,522)

Most capital assets decreased because depreciation expense exceeded capital asset additions during the 2016-17 fiscal year. Additional information on the District's capital assets can be found in Notes I.F.4. and II.C. to the financial statements.

Long-Term Debt

Bonds payable is the only long-term debt related to capital assets. At June 30, 2017, the District had total bonded debt outstanding of \$2,503,000, comprised of \$2,215,000 for District Revenue Bonds, Series 2009, which will mature in November 2035 and \$288,000 for two series of State School Bonds that mature in calendar years 2020, and 2021, respectively.

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

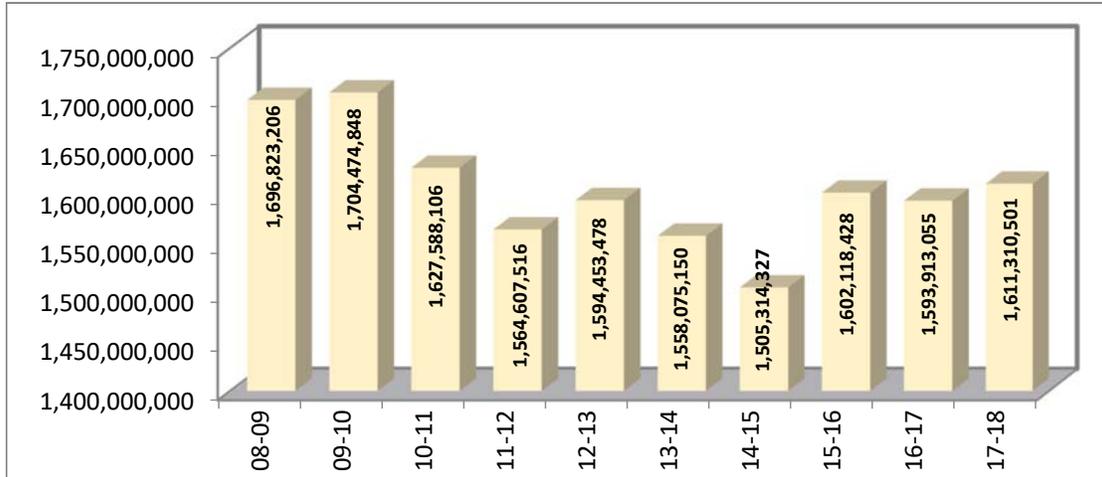
OTHER MATTERS OF SIGNIFICANCE

Hardee County

Hardee County's population was estimated to be 27,360 in calendar year 2016 with 7.3 percent of the population under age 5 and 26.4 percent of the population under age 18. Between calendar years 2010 and 2016, Hardee County's population decreased by 1.3 percent. Because funding is largely based on numbers of enrolled students, any decrease in population, particularly of school-aged children, may decrease District enrollment and related funding.

Taxable value for Hardee County increased by \$17,397,446 (1 percent) to \$1,611,310,501 for the 2017-18 fiscal year. Taxable value in Hardee County is comprised of real property and tangible property. The biggest components of real property are agricultural, single family residential, and improved commercial/industrial property. Tangible property includes power generation, utilities, and other tangible property. The following chart represents Hardee County taxable property values:

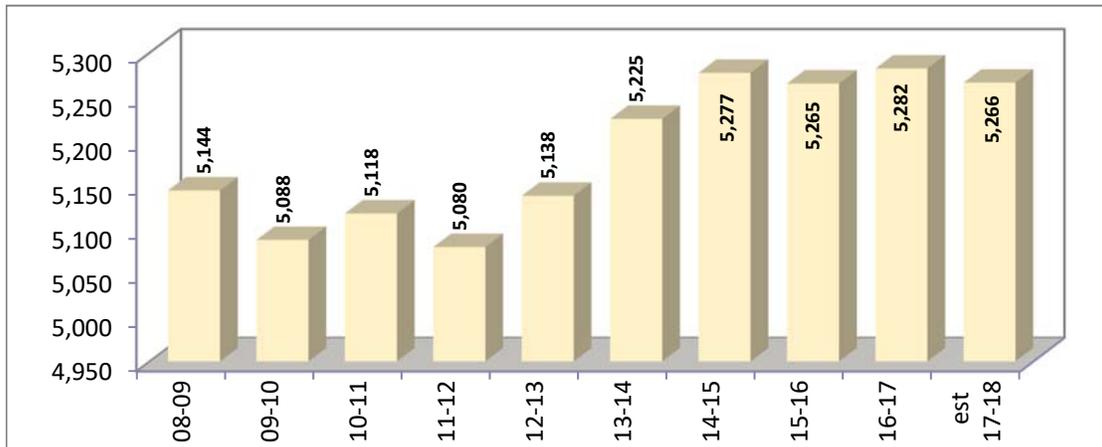
Hardee County Taxable Property Value



Hardee County School District

The Hardee County School District is comprised of five elementary schools, a junior high school, a senior high school, an adult education program, various preschool programs, and an alternative school. The District's number of unweighted full-time equivalent students (UFTE) in the 2016-17 fiscal year increased by 17 students to 5,282. The District projects to serve 5,266 UFTE students in the 2017-18 fiscal year. The following chart shows the number of UFTE students:

Number of Unweighted Full-Time Equivalent Students



On July 31, 2017, the Board adopted the proposed millage rates, the tentative budget for the 2017-18 fiscal year, and the projects to be funded with capital outlay taxes. The following schedule compares total fund balances at June 30, 2017, and projected fund balances for June 30, 2018:

Fund Balance Comparison

	Projected Fund Balance 6-30-18	Actual Fund Balance 6-30-17	Projected Change In Fund Balance FY 2017-18
Major Governmental Funds:			
General	\$ 6,826,043	\$ 9,053,806	\$ (2,227,763)
Special Revenue - Other	5,530	5,530	-
Other Nonmajor Governmental Funds	1,864,671	1,858,204	6,467
Total	\$ 8,696,244	\$ 10,917,540	\$ (2,221,296)

The fund balance in the General Fund is expected to decrease in the 2017-18 fiscal year because unspent funds at June 30, 2017, are expected to be spent during the 2017-18 fiscal year in the following General Fund projects: Unrestricted (\$897,353), Digital Classroom Program (\$602,085); and Instructional Materials (\$473,695).

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:

Greg Harrelson, CPA, CGFO
 Finance Director
 Hardee County District School Board
 P.O. Box 1678
 Wauchula, Florida 33873
 (863) 773-9058 ext. 1217
 gharrelson@hardee.k12.fl.us

BASIC FINANCIAL STATEMENTS

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

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Unit</u>
ASSETS		
Cash and Cash Equivalents	\$ 7,854,090.64	\$ 224,872.00
Investments	3,148,806.97	17,260.00
Accounts Receivable	-	2,800.00
Due from Other Agencies	355,728.84	-
Inventories	282,493.89	-
Capital Assets:		
Nondepreciable Capital Assets	2,192,292.85	-
Depreciable Capital Assets, Net	56,788,348.27	-
TOTAL ASSETS	<u>70,621,761.46</u>	<u>244,932.00</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	10,036,268.00	-
LIABILITIES		
Accrued Salaries and Benefits	56,472.30	-
Accounts Payable	503,209.04	40,900.00
Due to Other Agencies	120,007.67	-
Matured Interest Payable	1,817.50	-
Accrued Interest Payable	120,026.25	-
Unearned Revenues	42,073.86	-
Long-Term Liabilities:		
Portion Due Within One Year	675,707.50	-
Portion Due After One Year	31,785,940.73	-
TOTAL LIABILITIES	<u>33,305,254.85</u>	<u>40,900.00</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	1,145,007.00	-
NET POSITION		
Net Investment in Capital Assets	56,477,641.12	-
Restricted for:		
State Required Carryover Programs	1,795,550.83	-
Debt Service	154,737.02	-
Capital Projects	747,099.87	-
Food Service	956,367.55	-
Other Purposes	87,304.29	113,409.00
Unrestricted	(14,010,933.07)	90,623.00
TOTAL NET POSITION	<u>\$ 46,207,767.61</u>	<u>\$ 204,032.00</u>

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

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

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Instruction	\$ 27,264,965.80	\$ 35,782.21	\$ -
Student Support Services	3,084,105.80	-	-
Instructional Media Services	867,662.59	-	-
Instruction and Curriculum Development Services	793,288.11	-	-
Instructional Staff Training Services	993,450.28	-	-
Instruction-Related Technology	1,103,492.93	-	-
Board	373,064.10	-	-
General Administration	544,474.68	-	-
School Administration	2,353,451.26	-	-
Facilities Acquisition and Construction	166,551.11	-	-
Fiscal Services	464,262.25	-	-
Food Services	3,257,759.97	53,599.79	3,054,959.04
Central Services	215,739.44	-	-
Student Transportation Services	2,495,217.58	37,404.02	-
Operation of Plant	3,626,991.33	-	-
Maintenance of Plant	1,998,879.04	-	263,546.00
Administrative Technology Services	269,200.67	-	-
Community Services	233,366.34	-	-
Unallocated Interest on Long-Term Debt	120,026.25	-	-
Unallocated Depreciation Expense*	1,309,091.40	-	-
Total Primary Government	\$ 51,535,040.93	\$ 126,786.02	\$ 3,318,505.04
Component Unit			
The Hardee County Education Foundation, Inc.	\$ 156,756.00	\$ 0.00	\$ 164,770.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

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

**Net (Expense) Revenue and Changes
in Net Position**

Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit
\$ -	\$ (27,229,183.59)	\$ -
-	(3,084,105.80)	-
-	(867,662.59)	-
-	(793,288.11)	-
-	(993,450.28)	-
-	(1,103,492.93)	-
-	(373,064.10)	-
-	(544,474.68)	-
-	(2,353,451.26)	-
194,906.61	28,355.50	-
-	(464,262.25)	-
-	(149,201.14)	-
-	(215,739.44)	-
-	(2,457,813.56)	-
-	(3,626,991.33)	-
-	(1,735,333.04)	-
-	(269,200.67)	-
-	(233,366.34)	-
-	(120,026.25)	-
-	(1,309,091.40)	-
<u>\$ 194,906.61</u>	<u>(47,894,843.26)</u>	<u>-</u>
<u>\$ 0.00</u>	<u>-</u>	<u>8,014.00</u>
	10,096,370.64	-
	781,410.07	-
	33,952,823.96	-
	25,081.52	461.00
	1,181,081.01	-
	<u>46,036,767.20</u>	<u>461.00</u>
	(1,858,076.06)	8,475.00
	<u>48,065,843.67</u>	<u>195,557.00</u>
	<u>\$ 46,207,767.61</u>	<u>\$ 204,032.00</u>

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

	General Fund	Special Revenue - Other Fund
ASSETS		
Cash and Cash Equivalents	\$ 6,058,325.43	\$ -
Investments	3,141,915.91	-
Due from Other Funds	16,524.47	-
Due from Other Agencies	106,275.15	223,239.10
Inventories	244,855.79	-
TOTAL ASSETS	\$ 9,567,896.75	\$ 223,239.10
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accrued Salaries and Benefits	\$ 56,472.30	\$ -
Accounts Payable	310,092.58	186,629.44
Due to Other Funds	-	16,524.47
Due to Other Agencies	120,007.67	-
Matured Interest Payable	-	-
Unearned Revenues	27,518.40	14,555.46
Total Liabilities	514,090.95	217,709.37
Fund Balances:		
Nonspendable:		
Inventories	244,855.79	-
Restricted for:		
Federal Required Carryover Programs	-	5,529.73
State Required Carryover Programs	1,795,550.83	-
Debt Service	-	-
Capital Projects	-	-
Local Carryover Programs	81,774.56	-
Food Service	-	-
Total Restricted Fund Balance	1,877,325.39	5,529.73
Assigned for:		
After School Child Care Project	170,138.78	-
Budget Deficit	868,937.00	-
Total Assigned Fund Balance	1,039,075.78	-
Unassigned Fund Balance	5,892,548.84	-
Total Fund Balances	9,053,805.80	5,529.73
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,567,896.75	\$ 223,239.10

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

Other Governmental Funds	Total Governmental Funds
\$ 1,795,765.21	\$ 7,854,090.64
6,891.06	3,148,806.97
-	16,524.47
26,214.59	355,728.84
37,638.10	282,493.89
<hr/>	<hr/>
\$ 1,866,508.96	\$ 11,657,644.81
\$ -	\$ 56,472.30
6,487.02	503,209.04
-	16,524.47
-	120,007.67
1,817.50	1,817.50
-	42,073.86
<hr/>	<hr/>
8,304.52	740,104.84
<hr/>	<hr/>
37,638.10	282,493.89
-	5,529.73
-	1,795,550.83
154,737.02	154,737.02
747,099.87	747,099.87
-	81,774.56
918,729.45	918,729.45
<hr/>	<hr/>
1,820,566.34	3,703,421.46
-	170,138.78
-	868,937.00
<hr/>	<hr/>
-	1,039,075.78
<hr/>	<hr/>
-	5,892,548.84
<hr/>	<hr/>
1,858,204.44	10,917,539.97
<hr/>	<hr/>
\$ 1,866,508.96	\$ 11,657,644.81

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

Total Fund Balances - Governmental Funds		\$ 10,917,539.97
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.		58,980,641.12
Interest on bonds payable is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due.		(120,026.25)
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	\$ (2,503,000.00)	
Compensated Absences Payable	(2,221,059.23)	
Net Pension Liability	(25,834,072.00)	
Other Postemployment Benefits Payable	<u>(1,903,517.00)</u>	(32,461,648.23)
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	\$ 10,036,268.00	
Deferred Inflows Related to Pensions	<u>(1,145,007.00)</u>	<u>8,891,261.00</u>
Net Position - Governmental Activities		<u>\$ 46,207,767.61</u>

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

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

	<u>General Fund</u>	<u>Special Revenue - Other Fund</u>
Revenues		
Intergovernmental:		
Federal Direct	\$ 59,328.99	\$ -
Federal Through State and Local	-	4,714,935.13
State	28,994,060.70	-
Local:		
Property Taxes	10,096,370.64	-
Charges for Services - Food Service	-	-
Miscellaneous	1,271,385.27	-
Total Local Revenues	<u>11,367,755.91</u>	<u>-</u>
Total Revenues	<u>40,421,145.60</u>	<u>4,714,935.13</u>
Expenditures		
Current - Education:		
Instruction	23,103,264.38	2,589,863.22
Student Support Services	1,943,717.68	1,013,836.11
Instructional Media Services	638,318.58	-
Instruction and Curriculum Development Services	379,368.77	373,156.18
Instructional Staff Training Services	535,649.83	429,523.30
Instruction-Related Technology	1,014,887.98	58,597.41
Board	345,910.52	-
General Administration	325,038.50	197,980.73
School Administration	2,249,483.90	-
Facilities Acquisition and Construction	11,805.69	-
Fiscal Services	432,153.59	-
Food Services	7,119.92	-
Central Services	189,507.68	36.81
Student Transportation Services	2,123,736.89	16,886.62
Operation of Plant	3,542,397.84	-
Maintenance of Plant	1,859,038.40	-
Administrative Technology Services	262,539.32	-
Community Services	230,474.76	-
Fixed Capital Outlay:		
Facilities Acquisition and Construction	234,928.78	-
Other Capital Outlay	406,316.67	35,054.75
Debt Service:		
Principal	-	-
Interest and Fiscal Charges	-	-
Total Expenditures	<u>39,835,659.68</u>	<u>4,714,935.13</u>
Excess of Revenues Over Expenditures	<u>585,485.92</u>	<u>-</u>
Other Financing Sources (Uses)		
Transfers In	263,546.00	-
Loss Recoveries	3,194.97	-
Transfers Out	-	-
Total Other Financing Sources (Uses)	<u>266,740.97</u>	<u>-</u>
Net Change in Fund Balances	852,226.89	-
Fund Balances, Beginning	8,201,578.91	5,529.73
Fund Balances, Ending	<u>\$ 9,053,805.80</u>	<u>\$ 5,529.73</u>

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

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 59,328.99
3,015,005.04	7,729,940.17
682,905.75	29,676,966.45
781,410.07	10,877,780.71
53,599.79	53,599.79
7,963.49	1,279,348.76
<u>842,973.35</u>	<u>12,210,729.26</u>
<u>4,540,884.14</u>	<u>49,676,964.87</u>
-	25,693,127.60
-	2,957,553.79
-	638,318.58
-	752,524.95
-	965,173.13
-	1,073,485.39
-	345,910.52
-	523,019.23
-	2,249,483.90
154,745.42	166,551.11
-	432,153.59
2,970,978.88	2,978,098.80
-	189,544.49
-	2,140,623.51
-	3,542,397.84
-	1,859,038.40
-	262,539.32
-	230,474.76
545,246.49	780,175.27
47,302.22	488,673.64
171,000.00	171,000.00
128,570.00	128,570.00
<u>4,017,843.01</u>	<u>48,568,437.82</u>
<u>523,041.13</u>	<u>1,108,527.05</u>
-	263,546.00
-	3,194.97
<u>(263,546.00)</u>	<u>(263,546.00)</u>
<u>(263,546.00)</u>	<u>3,194.97</u>
259,495.13	1,111,722.02
1,598,709.31	9,805,817.95
<u>\$ 1,858,204.44</u>	<u>\$ 10,917,539.97</u>

**Hardee 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 \$ 1,111,722.02

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (1,804,521.93)

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. 171,000.00

Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities. This is the decrease in the accrued interest payable. 7,312.50

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. (44,586.65)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (144,394.00)

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	\$	1,543,684.00	
HIS Pension Contribution		430,930.00	
FRS Pension Expense		(2,333,223.00)	
HIS Pension Expense		(795,999.00)	
		(1,154,608.00)	(1,154,608.00)

Change in Net Position - Governmental Activities \$ (1,858,076.06)

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

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

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 8,168.52	\$ 225,008.00
Investments	-	69,297.00
Due from Others	-	4,196.00
	\$ 8,168.52	\$ 298,501.00
LIABILITIES		
Internal Accounts Payable	\$ -	\$ 298,501.00
NET POSITION		
Held in Trust for Scholarships and Other Purposes	8,168.52	
TOTAL NET POSITION	\$ 8,168.52	

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

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

	Private-Purpose Trust Funds
ADDITIONS	
Investment Income:	
Interest, Dividends, and Other	\$ 12.29
Change in Net Position	12.29
Net Position - Beginning	8,156.23
Net Position - Ending	\$ 8,168.52

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

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Hardee County School District (District) and its component unit. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from the 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 District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with a specific program or activity is allocated to the related function, while remaining depreciation expense is not readily associated with a particular function is reported as unallocated.

B. Reporting Entity

The Hardee 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 Hardee 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 unit is included within the District's reporting entity:

Discretely Presented Component Unit. The component unit's columns in the government-wide financial statements include the financial data of the Hardee County Education Foundation, Inc. (Foundation). A separate column is used to emphasize that it is legally separate from the District.

The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. 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 1009 North 6th Avenue, Wauchula, Florida.

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. Separate financial statements are provided for governmental 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.

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

The District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the Henry D. Gilliard Memorial Citrus Award Scholarship Trust Fund, the James G. Smith Vocational Award, and the Charles Myer Memorial Scholarship Trust Fund.
- 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 funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized 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 21 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 21 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 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 as a stand-alone enterprise fund 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, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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

Investments made locally consist of a certificate of deposit.

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 cost on the last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures at the time inventory items are purchased and are adjusted to reflect year-end physical inventories. For surplus donated foods, fiscal year-end adjustments are made to the expenditures and corresponding inventory accounts to record physical inventories on hand.

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, with the exception of improvements other than buildings which are those costing more than \$5,000. 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. Land acquired prior to 1973 and most buildings acquired or constructed prior to 1979 are stated at estimated historical cost using price levels at the time of acquisition and, as a result, \$89,680 of the stated land values and \$4,863,833 of stated building values are based on these estimates.

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	17.63 years
Buildings and Fixed Equipment	49.23 years
Furniture, Fixtures, and Equipment	6.66 years
Motor Vehicles	9.29 years
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. The deferred outflows of resources related to pensions is discussed in a subsequent note.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item

that qualifies for reporting in this category on the statement of net position. 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 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. The Board has, by resolution, authorized the Finance Director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

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

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

3. District Property Taxes

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

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

The Board adopted the 2016 tax levy on September 8, 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 Hardee County Tax Collector at fiscal year end but not yet remitted to the District.

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

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. Certificates of deposit will be placed in the provider's safekeeping

department for the term of the deposit. The certificate of deposit is held in a bank qualified as a public depository under Florida law.

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	\$ 80,984.40
Debt Service Accounts	6 Months	6,891.06
Certificate of Deposit	October 2017	<u>3,141,915.91</u>
Total Investments, Governmental Activities		<u>\$ 3,229,791.37</u>
Agency Funds		
Certificate of Deposit	October 2017	<u>\$ 69,297.00</u>

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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District's SBA debt service accounts have a Level 1 fair value measurement.

Interest Rate Risk

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

Florida PRIME uses a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

For Florida PRIME, with regard to redemption gates, Section 218.409(8)(a), Florida Statutes, states, "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the

trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2017, there were no redemption fees, maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

Credit Risk

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

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

The District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 2,046,221.85	\$ -	\$ -	\$ 2,046,221.85
Land Improvements	140,182.06	-	-	140,182.06
Construction in Progress	208,881.88	158,915.08	361,908.02	5,888.94
Total Capital Assets Not Being Depreciated	<u>2,395,285.79</u>	<u>158,915.08</u>	<u>361,908.02</u>	<u>2,192,292.85</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,594,048.48	473,752.06	-	6,067,800.54
Buildings and Fixed Equipment	84,830,290.12	184,515.84	76,928.00	84,937,877.96
Furniture, Fixtures, and Equipment	6,626,572.83	461,558.23	287,802.02	6,800,329.04
Motor Vehicles	4,978,213.15	302,759.00	324,360.35	4,956,611.80
Computer Software	873,015.05	45,759.00	133,017.00	785,757.05
Total Capital Assets Being Depreciated	<u>102,902,139.63</u>	<u>1,468,344.13</u>	<u>822,107.37</u>	<u>103,548,376.39</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,396,276.84	271,085.77	-	3,667,362.61
Buildings and Fixed Equipment	32,056,602.48	1,734,629.81	76,928.00	33,714,304.29
Furniture, Fixtures, and Equipment	4,794,524.52	575,363.69	287,802.02	5,082,086.19
Motor Vehicles	3,681,776.20	288,552.31	324,360.35	3,645,968.16
Computer Software	583,082.33	200,241.54	133,017.00	650,306.87
Total Accumulated Depreciation	<u>44,512,262.37</u>	<u>3,069,873.12</u>	<u>822,107.37</u>	<u>46,760,028.12</u>
Total Capital Assets Being Depreciated, Net	<u>58,389,877.26</u>	<u>(1,601,528.99)</u>	<u>-</u>	<u>56,788,348.27</u>
Governmental Activities Capital Assets, Net	<u>\$ 60,785,163.05</u>	<u>\$ (1,442,613.91)</u>	<u>\$ 361,908.02</u>	<u>\$ 58,980,641.12</u>

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 777,165.47
Student Support Services	33,070.29
Instructional Media Services	211,156.72
Instructional Staff Training Services	4,020.66
General Administration	2,941.83
School Administration	26,428.18
Fiscal Services	18,597.43
Food Services	239,291.64
Central Services	23,395.12
Student Transportation Services	301,609.89
Operation of Plant	20,648.61
Maintenance of Plant	102,455.88
Unallocated	1,309,091.40
Total Depreciation Expense - Governmental Activities	<u>\$ 3,069,873.12</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).

The District's FRS and HIS pension expense totaled \$3,129,222 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.

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:

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

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:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Elected County Officers	3.00	42.47
DROP – Applicable to Members from All of the Above Classes	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

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

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

The District's contributions to the Plan totaled \$1,543,684 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 \$15,917,734 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 0.063040336 percent, which was a decrease of 0.006568402 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 \$2,333,223. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,218,784	\$ 148,205
Change of assumptions	962,975	-
Net difference between projected and actual earnings on FRS pension plan investments	4,114,511	-
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	176,017	780,659
District FRS contributions subsequent to the measurement date	1,543,684	-
Total	\$ 8,015,971	\$ 928,864

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$1,543,684, 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	\$ 752,977
2019	752,977
2020	2,357,050
2021	1,554,218
2022	104,800
Thereafter	21,401
Total	\$ 5,543,423

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:

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

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

Discount Rate. The discount rate used to measure the total pension liability was 7.6 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:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
District's proportionate share of the net pension liability	\$ 29,305,626	\$ 15,917,734	\$ 4,774,082

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 \$430,930 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 \$9,916,338 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 0.085085286 percent, which was a decrease of 0.002050825 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 \$795,999. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 22,586
Change of assumptions	1,556,125	-
Net difference between projected and actual earnings on HIS pension plan investments	5,014	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	28,228	193,557
District contributions subsequent to the measurement date	430,930	-
Total	<u>\$ 2,020,297</u>	<u>\$ 216,143</u>

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$430,930, 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	\$ 247,583
2019	247,583
2020	246,628
2021	246,170
2022	214,489
Thereafter	170,771
Total	\$ 1,373,224

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

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

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

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

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

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

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
District's proportionate share of the net pension liability	\$ 11,376,293	\$ 9,916,338	\$ 8,704,655

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 Gross Compensation</u>
FRS, Regular	6.30
FRS, Elected County Officers	11.34

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 \$214,683 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, prescription drug, and life insurance 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. The District does not offer any explicit subsidies for retiree coverage. 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, 24 retirees received medical insurance benefits and 202 retirees received life insurance benefits. The District provided required contributions of \$171,208 toward the annual OPEB cost, net of retiree contributions totaling \$263,553, 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)	\$ 131,092
Amortization of Unfunded Actuarial Accrued Liability	<u>269,535</u>
Annual Required Contribution	400,627
Interest on Net OPEB Obligation	61,569
Adjustment to Annual Required Contribution	<u>(146,594)</u>
Annual OPEB Cost (Expense)	315,602
Contribution Toward the OPEB Cost	<u>(171,208)</u>
Increase in Net OPEB Obligation	144,394
Net OPEB Obligation, Beginning of Year	<u>1,759,123</u>
Net OPEB Obligation, End of Year	<u>\$ 1,903,517</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 OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 443,091	51.6%	\$ 1,592,564
2015-16	453,521	63.3%	1,759,123
2016-17	315,602	54.2%	1,903,517

Funded Status and Funding Progress. As of January 1, 2017, the most recent valuation date, the actuarial accrued liability for benefits was \$3,179,264, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,179,264 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,614,404, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.9 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 3.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, projected salary increases of 3.7 to 7.8 percent, and an annual healthcare cost trend rate of negative 6 percent initially beginning October 1, 2017, changed by various increments and decrements per year to an ultimate rate of 4.24 percent in 2040. The investment rate of return and projected salary increases include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20-year period. The remaining amortization period at June 30, 2017, was 12 years.

F. Other Significant Commitments

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

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

Major Funds			
General	Special Revenue - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 351,917.88	\$ 88,588.99	\$ 3,682.50	\$ 444,189.37

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; third party injuries and/or property damage and natural disasters. The District is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which seven district school boards have established a public entity risk sharing pool for property protection, general liability, automobile liability, workers' compensation, government crime and other coverage deemed necessary by the members of the SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such risk management program. The interlocal agreement and bylaws of the SCERMP provide that risk of loss is transferred to the consortium. The SCERMP 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 directors, 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 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 Florida Legislature at future dates, which effectively limits the amount of liability of governmental entities for tort claims to \$200,000 per claim and \$300,000 per occurrence.

Health and hospitalization coverage is being provided by purchased commercial insurance on a guaranteed cost basis with rates established prior to renewal each year by the District's insurers based on the benefits and features selected by the District. Life insurance in the amount of \$25,000 is purchased by the District for eligible employees. These transactions are accounted for in the governmental funds.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal year.

H. Long-Term Liabilities

1. Bonds Payable

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2010A, Refunding	\$ 270,000	4.00 - 5.00	2021
Series 2014B, Refunding	18,000	2.00 - 5.00	2020
District Revenue Bonds:			
Series 2009	<u>2,215,000</u>	3.35 - 5.40	2035
Total Bonds Payable	<u>\$ 2,503,000</u>		

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

State School Bonds

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

District Revenue Bonds

These bonds are authorized by Chapter 78-517, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hardee County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the Hardee County Board of Commissioners, who then remits the distribution to the District.

The District has pledged a total of \$3,451,613.75 of sales tax revenues in connection with the District Revenue Bonds of 2009, described above. During the 2016-17 fiscal year, the District recognized pledged revenues totaling \$187,375 and expended \$185,061 (99 percent) of these revenues for debt service directly collateralized by these revenues. The pledged revenues are committed until final maturity of the debt on November 1, 2035. Approximately 97 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:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2018	\$ 87,690.00	\$ 74,000.00	\$ 13,690.00
2019	76,990.00	67,000.00	9,990.00
2020	79,290.00	72,000.00	7,290.00
2021	78,750.00	75,000.00	3,750.00
Total State School Bonds	322,720.00	288,000.00	34,720.00
District Revenue Bonds:			
2018	181,336.25	75,000.00	106,336.25
2019	183,560.00	80,000.00	103,560.00
2020	185,425.00	85,000.00	100,425.00
2021	182,025.00	85,000.00	97,025.00
2022	183,350.00	90,000.00	93,350.00
2023-2027	911,641.25	510,000.00	401,641.25
2028-2032	901,995.00	640,000.00	261,995.00
2033-2036	722,281.25	650,000.00	72,281.25
Total District Revenue Bonds	3,451,613.75	2,215,000.00	1,236,613.75
Total	\$ 3,774,333.75	\$ 2,503,000.00	\$ 1,271,333.75

2. Changes in Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 2,674,000.00	\$ -	\$ 171,000.00	\$ 2,503,000.00	\$ 149,000.00
Compensated Absences Payable	2,176,472.58	151,321.95	106,735.30	2,221,059.23	240,823.00
Net Pension Liability	17,877,415.00	11,070,507.00	3,113,850.00	25,834,072.00	285,884.50
Other Postemployment Benefits Payable	1,759,123.00	315,602.00	171,208.00	1,903,517.00	-
Total Governmental Activities	\$ 24,487,010.58	\$ 11,537,430.95	\$ 3,562,793.30	\$ 32,461,648.23	\$ 675,707.50

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

I. Fund Balance Reporting

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

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

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

J. Interfund Receivables and Payables

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Major:		
General	\$ 16,524.47	\$ -
Special Revenue - Other	-	16,524.47
Total	\$ 16,524.47	\$ 16,524.47

Interfund receivables in the General Fund represent amounts for temporary cash shortages in the Special Revenue – Other Fund. All interfund balances will be repaid within 1 year.

K. Revenues

1. Schedule of State Revenue Sources

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 22,710,999.00
Categorical Educational Program - Class Size Reduction	5,623,958.00
Gross Receipts Tax (Public Education Capital Outlay)	263,546.00
Workforce Development Program	233,727.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	194,906.61
School Recognition	138,992.00
Discretionary Lottery Funds	84,026.00
Voluntary Prekindergarten Program	67,607.17
Florida Best and Brightest Teacher Scholarship Program	47,718.37
Food Service Supplement	39,954.00
Miscellaneous	271,532.30
Total	\$ 29,676,966.45

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:

General Fund	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	4.722	\$ 7,604,118.45
Basic Discretionary Local Effort	0.748	1,204,549.05
Voted School Tax:		
Additional Discretionary Local Effort	1.000	1,610,359.69
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	0.500	805,179.84
Total	6.970	\$ 11,224,207.03

L. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 263,546.00	\$ -
Nonmajor Governmental	-	263,546.00
Total	\$ 263,546.00	\$ 263,546.00

Interfund transfers consisted of transfers of the Capital Projects – Public Education Capital Outlay fund to the General Fund to assist in funding maintenance operations of the District.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 70,210.00	\$ 70,210.00	\$ 59,328.99	\$ (10,881.01)
Federal Through State and Local	255,000.00	-	-	-
State	28,635,604.00	28,982,465.12	28,994,060.70	11,595.58
Local:				
Property Taxes	9,900,113.00	9,917,113.00	10,096,370.64	179,257.64
Miscellaneous	988,657.00	1,338,608.96	1,271,385.27	(67,223.69)
Total Local Revenues	<u>10,888,770.00</u>	<u>11,255,721.96</u>	<u>11,367,755.91</u>	<u>112,033.95</u>
Total Revenues	<u>39,849,584.00</u>	<u>40,308,397.08</u>	<u>40,421,145.60</u>	<u>112,748.52</u>
Expenditures				
Current - Education:				
Instruction	24,077,271.89	24,058,097.06	23,103,264.38	954,832.68
Student Support Services	1,986,819.00	2,025,951.37	1,943,717.68	82,233.69
Instructional Media Services	648,944.59	664,731.47	638,318.58	26,412.89
Instruction and Curriculum Development Services	319,097.00	388,649.00	379,368.77	9,280.23
Instructional Staff Training Services	527,224.41	621,488.14	535,649.83	85,838.31
Instruction-Related Technology	1,943,292.25	1,533,425.92	1,014,887.98	518,537.94
Board	362,052.00	357,361.00	345,910.52	11,450.48
General Administration	369,003.00	340,882.00	325,038.50	15,843.50
School Administration	2,167,878.00	2,250,828.79	2,249,483.90	1,344.89
Facilities Acquisition and Construction	195,090.00	48,787.89	11,805.69	36,982.20
Fiscal Services	435,120.00	464,252.50	432,153.59	32,098.91
Food Services	7,000.00	14,119.97	7,119.92	7,000.05
Central Services	187,571.00	195,210.00	189,507.68	5,702.32
Student Transportation Services	2,154,250.00	2,212,224.00	2,123,736.89	88,487.11
Operation of Plant	3,697,260.00	3,755,331.85	3,542,397.84	212,934.01
Maintenance of Plant	1,944,838.19	1,979,101.29	1,859,038.40	120,062.89
Administrative Technology Services	271,413.00	263,662.77	262,539.32	1,123.45
Community Services	216,425.00	239,125.71	230,474.76	8,650.95
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	234,928.78	234,928.78	-
Other Capital Outlay	-	406,316.67	406,316.67	-
Total Expenditures	<u>41,510,549.33</u>	<u>42,054,476.18</u>	<u>39,835,659.68</u>	<u>2,218,816.50</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,660,965.33)</u>	<u>(1,746,079.10)</u>	<u>585,485.92</u>	<u>2,331,565.02</u>
Other Financing Sources				
Transfers In	263,546.00	263,546.00	263,546.00	-
Sale of Capital Assets	1,000.00	-	-	-
Loss Recoveries	6,000.00	1,000.00	3,194.97	2,194.97
Total Other Financing Sources	<u>270,546.00</u>	<u>264,546.00</u>	<u>266,740.97</u>	<u>2,194.97</u>
Net Change in Fund Balances	<u>(1,390,419.33)</u>	<u>(1,481,533.10)</u>	<u>852,226.89</u>	<u>2,333,759.99</u>
Fund Balances, Beginning	8,201,578.91	8,201,578.91	8,201,578.91	-
Fund Balances, Ending	<u>\$ 6,811,159.58</u>	<u>\$ 6,720,045.81</u>	<u>\$ 9,053,805.80</u>	<u>\$ 2,333,759.99</u>

Special Revenue - Other Fund

Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -
5,516,435.37	5,685,011.72	4,714,935.13	(970,076.59)
-	-	-	-
-	-	-	-
-	-	-	-
<u>5,516,435.37</u>	<u>5,685,011.72</u>	<u>4,714,935.13</u>	<u>(970,076.59)</u>
3,152,616.91	3,101,320.51	2,589,863.22	511,457.29
1,203,484.14	1,224,622.44	1,013,836.11	210,786.33
1,038.25	38.25	-	38.25
357,818.72	427,728.44	373,156.18	54,572.26
485,349.00	563,397.85	429,523.30	133,874.55
58,702.00	58,702.00	58,597.41	104.59
-	-	-	-
214,028.42	217,962.77	197,980.73	19,982.04
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,090.00	848.84	36.81	812.03
42,307.93	55,335.87	16,886.62	38,449.25
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	35,054.75	35,054.75	-
<u>5,516,435.37</u>	<u>5,685,011.72</u>	<u>4,714,935.13</u>	<u>970,076.59</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
5,529.73	5,529.73	5,529.73	-
<u>\$ 5,529.73</u>	<u>\$ 5,529.73</u>	<u>\$ 5,529.73</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/13	\$ -	\$ 5,409,966	\$ 5,409,966	0.0%	\$24,174,028	22.4%
01/01/15	-	4,395,762	4,395,762	0.0%	24,700,213	17.8%
01/01/17	-	3,179,264	3,179,264	0.0%	24,614,404	12.9%

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

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

	2016	2015	2014	2013
District's proportion of the FRS net pension liability	0.063040336%	0.069608738%	0.069253542%	0.067720944%
District's proportionate share of the FRS net pension liability	\$ 15,917,734	\$ 8,990,902	\$ 4,225,484	\$ 11,657,789
District's covered payroll	\$ 26,272,108	\$ 26,442,176	\$ 25,771,379	\$ 25,348,760
District's proportionate share of the FRS net pension liability as a percentage of its covered payroll	60.59%	34.00%	16.40%	45.99%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

	2017	2016	2015	2014
Contractually required FRS contribution	\$ 1,543,684	\$ 1,538,208	\$ 1,697,120	\$ 1,516,946
FRS contributions in relation to the contractually required contribution	(1,543,684)	(1,538,208)	(1,697,120)	(1,516,946)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 25,959,652	\$ 26,272,108	\$ 26,442,176	\$ 25,771,379
FRS contributions as a percentage of covered payroll	5.95%	5.85%	6.42%	5.89%

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)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the HIS net pension liability	0.085085286%	0.087136111%	0.086702459%	0.087248289%
District's proportionate share of the HIS net pension liability	\$ 9,916,338	\$ 8,886,513	\$ 8,106,891	\$ 7,596,111
District's covered payroll	\$ 26,272,108	\$ 26,442,176	\$ 25,771,379	\$ 25,348,760
District's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.74%	33.61%	31.46%	29.97%
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)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 430,930	\$ 435,215	\$ 333,088	\$ 297,013
HIS contributions in relation to the contractually required contribution	(430,930)	(435,215)	(333,088)	(297,013)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 25,959,652	\$ 26,272,108	\$ 26,442,176	\$ 25,771,379
HIS contributions as a percentage of covered payroll	1.66%	1.66%	1.26%	1.15%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgetary Basis of Accounting

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

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

2. Schedule of Funding Progress – Other Postemployment Benefits Plan

The District is required to obtain periodic actuarial valuations of its postemployment benefits other than pensions. For the January 1, 2017, valuation, the following key assumptions were modified to reflect current experience:

- The number of retirees currently receiving postemployment benefits through the District's core plan decreased from 27 in the previous valuation to 24 this year. At the same time, the number of active employees eligible for future postemployment benefits decrease from 697 to 687. Combined population changes had a decreasing effect on the valuation results.
- The total cost of coverage increased from \$905 per employee per month (as expected for year beginning January 1, 2015) to \$1,067 per employee per month for year beginning January 1, 2017. This is higher than the projected \$997 per employee per month projected for 2017 at the time the previous valuation was performed. This change had an increasing effect on the costs and liabilities.
- The age grading factors used in the development of the Per Capita Costs to reflect rates at which medical costs increase with age of the member has been revised to be based on the results of the study published (June 2013) in *Health Care Costs – From Birth to Death* sponsored by the Society of Actuaries and authored by Mr. Dale H. Yamamoto. This change had a decreasing effect on the costs and liabilities.
- Retiree premium contributions increased from \$8.55 per retiree per month for \$15,000 benefit offered to retirees under the age of 65 to \$12.75 per retiree per month for the same benefit. This change had an effect of decreasing the gap between the costs and premiums collected from retirees for life insurance coverage and such has a decreasing effect on the costs and liabilities.
- Coverage acceptance rates have been revised based on the data collected for the current valuation. It is now assumed that 40 percent of employees who are covered at the time of retirement would continue coverage (35 percent single and 5 percent dual coverage) under the core District plan, a decrease from 45 percent assumed in the previous valuation. This change had a decreasing effect on the costs and liabilities.
- Previous assumptions were that costs and premiums were to be 6.5 percent, 6.25 percent, and 6 percent for plan years beginning 2017, 2018, and 2019, respectively. Trend rates have been revised for costs and premiums charged to retirees the year beginning October 1, 2017, to be negative 6 percent (a decrease, to reflect the actual change in premium rates negotiated for the year), followed by 7 percent and 6.75 percent for the years beginning in 2018 and 2019, respectively. Long-term trend rates are assumed to follow a pattern used in the previous valuation. This change had a decreasing effect on the costs and liabilities.

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

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

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

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

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Expenditures
Clustered			
Child Nutrition Cluster:			
United States Department of Agriculture:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	17002	\$ 469,253.04
National School Lunch Program	10.555	17001, 17003	2,518,969.17
Summer Food Service Program for Children	10.559	16006, 16007, 17006, 17007	26,672.11
Total Child Nutrition Cluster			<u>3,014,894.32</u>
United States Department of Education:			
Special Education - Grants to States:			
Florida Department of Education	84.027	263	1,141,186.91
Brevard County District School Board		None	129.60
Polk County District School Board		None	35,000.00
Putnam County District School Board		None	886.31
University of South Florida		None	611.36
Total Special Education - Grants to States	84.027		<u>1,177,814.18</u>
Special Education - Preschool Grants:			
Florida Department of Education	84.173	267	27,874.41
Polk County District School Board		None	40,000.00
Total Special Education - Preshool Grants	84.173		<u>67,874.41</u>
Total Special Education Cluster			<u>1,245,688.59</u>
Not Clustered			
United States Department of Defense:			
Air Force Junior Reserve Officers Training Corps	12.UNK	N/A	59,328.99
Total United States Department of Defense			<u>59,328.99</u>
National Science Foundation:			
Highlands County District School Board:			
Education and Human Resources	47.076	None	1,158.56
Total National Science Foundation			<u>1,158.56</u>
United States Department of Education:			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	123,206.43
Title I Grants to Local Educational Agencies	84.010	212, 226	2,133,421.94
Migrant Education - State Grant Program	84.011	217	686,632.75
Career and Technical Education - Basic Grants to States	84.048	161	86,353.81
Rural Education	84.358	110	53,664.19
English Language Acquisition State Grants	84.365	102	85,917.79
Improving Teacher Quality State Grants	84.367	224	269,524.93
Florida Gulf Coast University:			
Special Education - State Personnel Development	84.323	None	5,183.75
Advancement Via Individual Determination:			
Investing in Innovation (i3) Fund	84.411	None	24,182.39
Total United States Department of Education			<u>3,468,087.98</u>
Total Expenditures of Federal Awards			<u>\$ 7,789,158.44</u>

The accompanying notes are an integral part of this schedule.

- Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Hardee 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, or changes in net position of the District.
- (2) Summary of Significant Accounting Policies. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.
- (4) Noncash Assistance-National School Lunch Program - Includes \$173,523.37 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardee 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 February 28, 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 included as District Response in 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
February 28, 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
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the Hardee 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 each of the District's major Federal programs for the fiscal year ended June 30, 2017. The District's major Federal programs are 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 each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 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 each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 28, 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 programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditor’s report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major Federal programs:

CFDA Numbers:	Name of Federal Program or Cluster:
84.011	Migrant Education – State Grant Program
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low risk auditee? Yes

SECTION II – FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Information Technology – Access Privileges

Finding Number	2017-001
Opinion Units	Not Applicable
Financial Statements	
Account Titles	Not Applicable
Fund Names	Not Applicable
Adjustment Amounts	Not Applicable
Statistically Valid Sample	Not Applicable
Prior Year Finding	Not Applicable

Finding	An inadequate separation of duties existed in that the Finance Director who had primary responsibility for monitoring District financial activities also served as District security administrator and, thereby, had full update capability to computer files.
Criteria	Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned responsibilities. A security administrator is responsible for granting employee IT access privileges and limiting such IT access privileges based on the employee's job responsibilities. Given the security administrator's level of access, controls designed to timely detect errors or unauthorized use of the system by the administrator are necessary. Such controls should include appropriately separating the security administrator responsibilities from financial input and monitoring responsibilities.
Condition	Our examination of District records and inquiries with District personnel disclosed that District management periodically reviewed assigned IT access privileges. However, an inadequate separation of duties existed in that the Finance Director, who had primary responsibility for monitoring District financial activities such as reviewing and approving payroll and other expenditure transactions, also served as District security administrator and, thereby, had full update capability to computer files.
Cause	District management indicated that, due to the size of the District IT Department and the need for the security administrator to have a good understanding of various District operations, the District designated the Finance Director as the security administrator.
Effect	Our examination of District records and discussions with District personnel disclosed that the District had certain controls in place, such as documented: <ul style="list-style-type: none">• Independent verifications of electronic funds transfers made by the Finance Director from District accounts.• Independent verifications of bank account reconciliations prepared by the Finance Director.• Independent verifications of accounting entries made by the Finance Director.

- Superintendent review and approval of Finance Director activities and time worked.
- Board and Superintendent monthly expenditure review and approval.

While these controls compensated, in part, for the inappropriate separation of financial monitoring and security administrator responsibilities, the existence of unnecessary or inappropriate IT access privileges increases the risk that errors or fraud may occur and not be timely detected.

In response to our inquiry, District personnel indicated that the District will designate a security administrator other than the Finance Director. Our examination of District records supporting selected transactions, including payroll and other expenditure transactions, indicated that the selected transactions were authorized and properly supported; however, our procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation

District management should ensure that assigned IT access privileges restrict employees from performing incompatible functions by transferring the security administrator responsibilities to an employee other than the Finance Director.

District Response

On January 29, 2018, District staff transferred System Control access privileges in Harris School Solutions software from the Finance Director to another employee.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reported.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for the Federal awards audit finding included in our report No. 2017-173.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



THE SCHOOL BOARD OF HARDEE COUNTY

Bob Shayman, Superintendent

P. O. Box 1678 – 1009 North 6th Avenue • Wauchula, FL 33873

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School Board

District 1
Paul Samuels

District 2
Mildred Smith

District 3
Teresa Crawford

District 4
Garry McWhorter

District 5
Thomas Trevino

Audit Report No. (Finding No.)	Program/Area	Brief Description	Status	Comments
2017-173 (2016-001)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)	District procedures did not always ensure that teachers who taught core academic subjects in Title I Schoolwide Program schools were highly qualified, resulting in questioned costs of \$52,326.	Fully corrected	The grantor sustained the finding but did not require the repayment of questioned costs.

DISTRICT VISION STATEMENT
Empower and inspire all students for success

CORRECTIVE ACTION PLAN



THE SCHOOL BOARD OF HARDEE COUNTY

Bob Shayman, Superintendent

P. O. Box 1678 – 1009 North 6th Avenue • Wauchula, FL 33873
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January 29, 2018

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

School Board

District 1
Paul Samuels

District 2
Mildred Smith

District 3
Teresa Crawford

District 4
Garry McWhorter

District 5
Thomas Trevino

Finding Number: 2017-001.
Planned Corrective Action: Transfer System Control access privileges in Harris School Solutions software from the Finance Director to another employee.
Anticipated Completion Date: January 29, 2018
Responsible Contact Person: Greg Harrelson, Finance Director

DISTRICT VISION STATEMENT
Empower and inspire all students for success