STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2018-161
March 2018

HOLMES 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, Terry L. Mears served as Superintendent of the Holmes County Schools from 11-22-16, Eddie Dixon served as Superintendent before that date, and the following individuals served as School Board Members:

	District No.
Rusty Williams	1
Debbie Kolmetz through 11-21-16	2
Wilburn G. Baker from 11-22-16	2
Alan Justice	3
Shirley Owens, Vice Chair	4
Sid Johnson, Chair	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 Melissa F. Hall, CPA, and the audit was supervised by Shelly G. Curti, 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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HOLMES COUNTY DISTRICT SCHOOL BOARD

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster and Title I program 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 actions for findings included in our report No. 2017-175.

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*.

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STATE OF FLORIDA

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Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes 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 12 percent of the assets and 14 percent of the liabilities of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based solely on the report 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 report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County District School Board, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES**

OF FEDERAL AWARDS, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 22, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Holmes County District School Board has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds. 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:

- The District's total net position increased by $22,127,007, or 56.5 percent, for the 2016-17 fiscal year. The increase in net position was primarily caused by an increase in capital assets associated with the ongoing construction of a new school and the receipt of the related Special Facility Construction Account funding.
- General Fund revenues totaled $25,023,043, or 44.8 percent of all revenues in the 2016-17 fiscal year, compared to $24,039,652, or 51.6 percent in the prior year. The decrease in percentage was due to an increase in Public Education Capital Outlay (PECO) funds designated for construction on a new facility.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $908,138 at June 30, 2017, or 3.6 percent of General Fund revenues and 3.6 percent of General Fund expenditures. The prior year unassigned fund balance in the General Fund was $771,955, or 3.2 percent of General Fund revenues and 3.1 percent of General Fund expenditures.
- During the current year, the General Fund expenditures exceeded revenues by $5,754 before transfers and the fund balance increased by $42,790 after transfers from the Debt Service Fund - Other and Capital Projects Funds. This may be compared to last year's results, in which General Fund expenditures exceeded revenues before transfers by $984,203.

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. State and Federal revenues, property taxes, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

Over a period of time, changes in the District's net position are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school building and administrative facilities.

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, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to 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, Capital Projects – Public Education Capital Outlay Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Fund: Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains one type of proprietary fund, an internal service fund. This fund is used to account for resources set aside to fund a portion of the District's compensated absences liability.

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

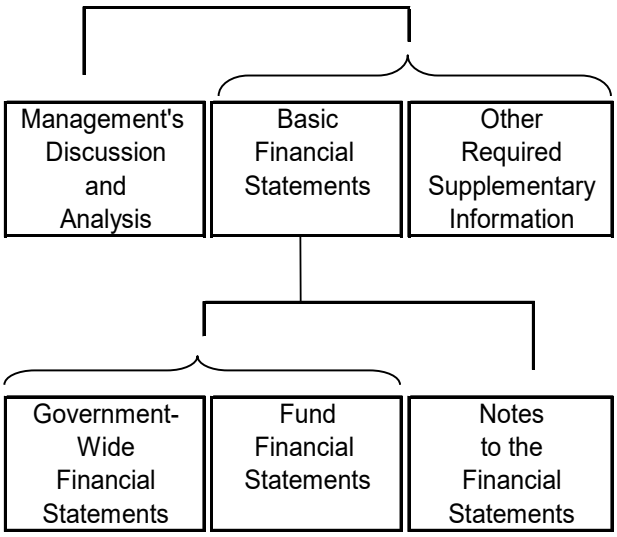
Notes to Financial Statements

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.

Components of the Annual Financial Report



Major Features of Holmes County School District's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	Instances in which the District is trustee or agent for someone else's resources
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net position Statement of revenues, expenses, and changes in fund net position Statement of cash flows	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position, End of Year

	Governmental Activities	
	6-30-17	**6-30-16**
Current and Other Assets	$ 11,478,965	$ 9,511,506
Capital Assets	72,755,209	48,766,590
Total Assets	84,234,174	58,278,096
Deferred Outflows of Resources	8,097,146	3,851,409
Long-Term Liabilities	25,339,934	18,101,102
Other Liabilities	5,079,303	2,830,276
Total Liabilities	30,419,237	20,931,378
Deferred Inflows of Resources	613,125	2,026,176
Net Position:		
Net Investment in Capital Assets	67,958,064	45,605,205
Restricted	6,471,884	4,215,153
Unrestricted (Deficit)	(13,130,990)	(10,648,407)
Total Net Position	$ 61,298,958	$ 39,171,951

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 deficit unrestricted net position was the result, in part, of accruing $2,406,411 in compensated absences payable, $2,309,829 in other postemployment benefit obligations, and $18,922,909 in net pension liability.

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

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-17	6-30-16
Program Revenues:		
Charges for Services	$ 102,283	$ 119,579
Operating Grants and Contributions	2,816,878	2,501,996
Capital Grants and Contributions	25,451,016	17,209,925
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,691,767	2,687,910
Property Taxes, Levied for Capital Projects	737,740	703,305
Grants and Contributions Not Restricted to Specific Programs	23,760,437	23,401,402
Unrestricted Investment Earnings	7,055	5,235
Miscellaneous	304,304	4,901
Total Revenues	55,871,480	46,634,253
Functions/Program Expenses:		
Instruction	17,737,129	16,345,790
Student Support Services	804,240	764,846
Instructional Media Services	619,770	592,530
Instruction and Curriculum Development Services	704,608	528,148
Instructional Staff Training Services	524,618	370,178
Instruction-Related Technology	237,124	236,544
Board	230,666	214,875
General Administration	384,462	331,998
School Administration	1,972,768	1,896,953
Facilities Acquisition and Construction	1,262,120	-
Fiscal Services	328,751	350,040
Food Services	1,958,473	1,805,061
Central Services	477,011	520,018
Student Transportation Services	1,272,766	1,338,276
Operation of Plant	2,675,287	2,541,996
Maintenance of Plant	928,106	1,001,090
Administrative Technology Services	7,942	3,998
Unallocated Interest on Long-Term Debt	24,981	31,290
Unallocated Depreciation Expense	1,540,646	1,584,499
Loss on Disposal of Assets	53,005	-
Total Functions/Program Expenses	33,744,473	30,458,130
Change in Net Position	22,127,007	16,176,123
Net Position - Beginning	39,171,951	22,995,828
Net Position - Ending	$ 61,298,958	$ 39,171,951

The largest revenue source is the State of Florida (84.7 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding

across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Capital Grants and Contributions increased due to receipt of $8.2 million in Special Facility Construction Account funds.

Instruction expenses represent 52.6 percent of total governmental expenses in the 2016-17 fiscal year. Instruction expenses increased by $1.4 million, or 8.5 percent, from the previous fiscal year due mainly from increases in pension, other postemployment benefit, and compensated absence expenses.

Facilities Acquisition and Construction expense increased by approximately $1.3 million due mainly to purchasing noncapitalized furniture and fixtures for the District's new Bonifay K-8 school.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by $683,057 during the fiscal year to $4,610,463. Approximately 19.7 percent of this amount is unassigned fund balance ($908,138), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is (1) not in spendable form ($158,236), (2) restricted for particular purposes ($3,326,849), or (3) assigned for particular purposes ($217,240).

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 $908,138, while the total fund balance is $1,053,770. Total fund balance slightly increased by $42,790 during the fiscal year.

The Capital Projects – Public Education Capital Outlay Fund has a fund balance of $2,076,299, which is restricted primarily for the construction of the new Bonifay K-8 School. The fund balance decreased by $1,155,369 in the current fiscal year.

The Capital Projects – Local Capital Improvement Fund has a fund balance of $1,080,795, which is restricted to acquisition, construction, and maintenance of capital assets. The fund balance increased $370,875 in the current fiscal year mainly due to a decrease in transfers out.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Florida law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. Variances between the original, final, and actual appropriations and expenditures were the result of certain grants and funds that are not budgeted until grant approval. During the 2016-17 fiscal year, the District amended its General Fund budget as needed to comply with

Florida law and local District policies. There were no significant variances noted between the original budget, final budget, and actual revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The following table reflects the District's net investment in capital assets at June 30, 2017, and June 30, 2016:

Capital Assets

	Governmental Activities	
	6-30-17	6-30-16
Land	$ 676,786	$ 676,786
Construction in Progress	39,633,787	14,920,610
Improvements Other Than Buildings	209,784	168,794
Buildings and Fixed Equipment	30,078,700	31,155,130
Furniture, Fixtures, and Equipment	1,206,956	672,077
Motor Vehicles	949,196	1,173,193
Total Capital Assets	$ 72,755,209	$ 48,766,590

Construction in Progress increased $24,713,177 as a result of the ongoing construction of the new Bonifay K-8 school. A certificate of occupancy was issued in August 2017. 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

The following table discloses the 2016-17 fiscal year debt principal payments and outstanding balances as of June 30, 2017:

Outstanding Debt

	Total Payments	Debt Outstanding
June 30, 2017	$ 317,927	$ 1,700,785

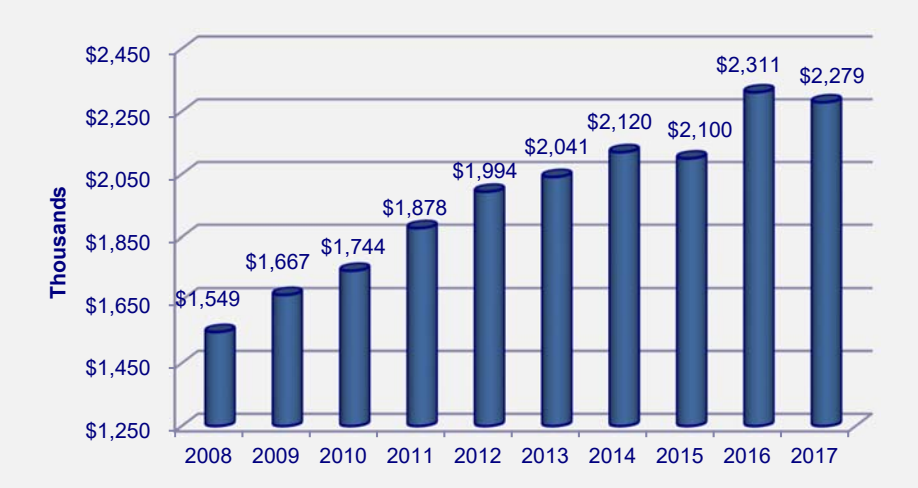
Additional information on the District's long-term debt can be found in Notes II.I. through II.J.3. to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Insurance Premiums

The insurance industry has presented a challenge for consumers for the past few years. The current provider of health insurance has a contractual provision whereby the District is to pay at least 75 percent of the premium cost for employee health coverage. The District's total cost for health insurance benefits is reflected in the chart below for the June 30 fiscal year ends as indicated:

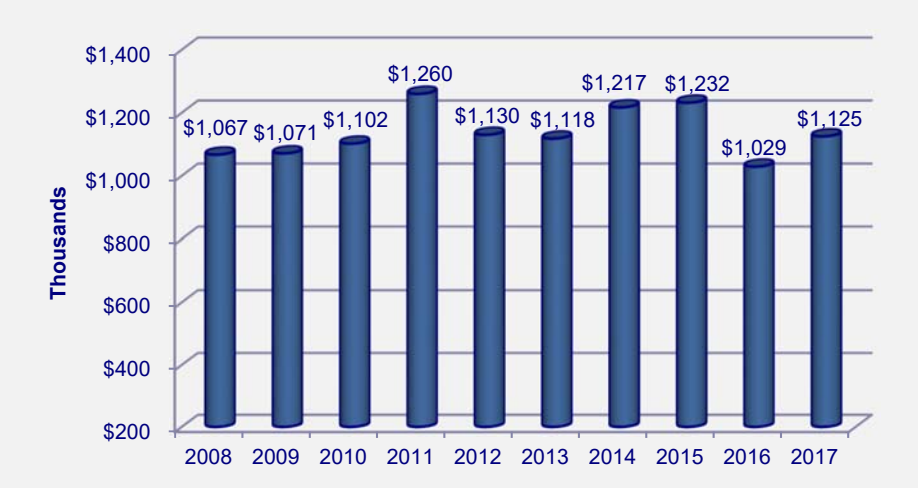
Health Insurance Premiums



Energy Costs

Energy costs for the operation of plant have impacted the District's cost containment ability. These energy costs are reflected in the following chart for the June 30 fiscal year ends as indicated.

Energy Costs



Terminal Pay Benefits

Terminal pay benefits are a significant annual cost and liability for the District. The District purchases leave from employees when they participate in the Deferred Retirement Option Program, and when they terminate from employment, at the rate of 80 percent of the value of sick leave earned on an annual basis by current employees with certain limits. The following chart reflects the total terminal pay liability for the June 30 fiscal year ends as indicated:

Terminal Pay Liability



REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Holmes County District School Board, 701 East Pennsylvania Avenue, Bonifay, Florida 32425.

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 7,183,058.52
Investments	7,408.45
Accounts Receivable	3,542.84
Due from Other Agencies	4,126,503.28
Prepaid Insurance Costs	215.47
Inventories	158,235.85
Capital Assets:	
Nondepreciable Capital Assets	40,310,572.99
Depreciable Capital Assets, Net	32,444,636.47
TOTAL ASSETS	84,234,173.87
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	8,097,146.00
LIABILITIES	
Accrued Salaries and Benefits	71,983.32
Payroll Deductions and Withholdings	8,196.38
Accounts Payable	1,902,762.56
Construction Contracts Payable	1,384,583.74
Construction Contracts Payable - Retained Percentage	1,711,776.63
Long-Term Liabilities:	
Portion Due Within One Year	1,911,506.81
Portion Due After One Year	23,428,427.26
TOTAL LIABILITIES	30,419,236.70
DEFERRED INFLOWS OF RESOURCES	
Pensions	613,125.00
NET POSITION	
Net Investment in Capital Assets	67,958,064.28
Restricted for:	
State Required Carryover Programs	36,070.87
Debt Service	7,408.45
Capital Projects	6,349,408.20
Food Service	78,996.76
Unrestricted (Deficit)	(13,130,990.39)
TOTAL NET POSITION	$ 61,298,958.17

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

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Governmental Activities:			
Instruction	$ 17,737,129.05	$ 58,063.42	$ 64,020.13
Student Support Services	804,240.42	-	-
Instructional Media Services	619,769.84	-	-
Instruction and Curriculum Development Services	704,607.56	-	-
Instructional Staff Training Services	524,618.33	-	-
Instruction-Related Technology	237,124.02	-	-
Board	230,665.76	-	-
General Administration	384,461.71	-	-
School Administration	1,972,768.00	-	-
Facilities Acquisition and Construction	1,262,120.09	-	-
Fiscal Services	328,750.58	-	-
Food Services	1,958,472.68	37,757.03	1,916,502.11
Central Services	477,011.37	-	-
Student Transportation Services	1,272,766.49	6,462.00	722,702.00
Operation of Plant	2,675,286.68	-	-
Maintenance of Plant	928,106.05	-	113,654.00
Administrative Technology Services	7,941.66	-	-
Unallocated Interest on Long-Term Debt	24,981.18	-	-
Unallocated Depreciation Expense	1,540,646.18	-	-
Loss on Disposal of Capital Assets	53,004.66	-	-
Total Governmental Activities	$ 33,744,472.31	$ 102,282.45	$ 2,816,878.24
General Revenues:			
Taxes:			
Property Taxes, Levied for Operational Purposes			
Property Taxes, Levied for Capital Projects			
Grants and Contributions Not Restricted to Specific Programs			
Unrestricted Investment Earnings			
Miscellaneous			
Total General Revenues			
Change in Net Position			
Net Position - Beginning			
Net Position - Ending			

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
$ -	$ (17,615,045.50)
-	(804,240.42)
-	(619,769.84)
-	(704,607.56)
-	(524,618.33)
-	(237,124.02)
-	(230,665.76)
-	(384,461.71)
-	(1,972,768.00)
25,451,015.48	24,188,895.39
-	(328,750.58)
-	(4,213.54)
-	(477,011.37)
-	(543,602.49)
-	(2,675,286.68)
-	(814,452.05)
-	(7,941.66)
-	(24,981.18)
-	(1,540,646.18)
-	(53,004.66)
$ 25,451,015.48	(5,374,296.14)
	2,691,767.38
	737,740.01
	23,760,437.44
	7,054.83
	304,303.87
	27,501,303.53
	22,127,007.39
	39,171,950.78
	$ 61,298,958.17

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

	General Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	$ 718,829.87	$ 3,285,390.68	$ 1,058,628.63
Investments	-	-	-
Accounts Receivable	3,542.84	-	-
Due from Other Funds	347,114.53	-	22,166.08
Due from Other Agencies	-	3,690,172.85	-
Prepaid Insurance Costs	215.47	-	-
Inventories	109,561.15	-	-
TOTAL ASSETS	$ 1,179,263.86	$ 6,975,563.53	$ 1,080,794.71
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued Salaries and Benefits	$ 19,583.90	$ -	$ -
Payroll Deductions and Withholdings	-	-	-
Accounts Payable	83,743.56	1,802,903.95	-
Construction Contracts Payable	-	1,384,583.74	-
Construction Contracts Payable - Retained Percentage	-	1,711,776.63	-
Due to Other Funds	22,166.08	-	-
Total Liabilities	125,493.54	4,899,264.32	-
Fund Balances:			
Nonspendable:			
Inventories	109,561.15	-	-
Restricted for:			
State Required Carryover Programs	36,070.87	-	-
Debt Service	-	-	-
Capital Projects	-	2,076,299.21	1,080,794.71
Food Service	-	-	-
Total Restricted Fund Balance	36,070.87	2,076,299.21	1,080,794.71
Assigned for:			
Debt Service	-	-	-
Capital Projects	-	-	-
Total Assigned Fund Balance	-	-	-
Unassigned Fund Balance	908,138.30	-	-
Total Fund Balances	1,053,770.32	2,076,299.21	1,080,794.71
TOTAL LIABILITIES AND FUND BALANCES	$ 1,179,263.86	$ 6,975,563.53	$ 1,080,794.71

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

Other Governmental Funds	Total Governmental Funds
$ 331,010.56	$ 5,393,859.74
7,408.45	7,408.45
-	3,542.84
-	369,280.61
436,330.43	4,126,503.28
-	215.47
48,674.70	158,235.85
$ 823,424.14	$ 10,059,046.24
$ 52,399.42	$ 71,983.32
8,196.38	8,196.38
16,115.05	1,902,762.56
-	1,384,583.74
-	1,711,776.63
347,114.53	369,280.61
423,825.38	5,448,583.24
48,674.70	158,235.85
-	36,070.87
7,408.45	7,408.45
95,953.91	3,253,047.83
30,322.06	30,322.06
133,684.42	3,326,849.21
1,785.46	1,785.46
215,454.18	215,454.18
217,239.64	217,239.64
-	908,138.30
399,598.76	4,610,463.00
$ 823,424.14	$ 10,059,046.24

Holmes 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		$ 4,610,463.00
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.		72,755,209.46
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:		
Installment-Purchase Payable	$ (237,562.26)	
Bonds Payable	(310,000.00)	
Compensated Absences Payable (net of $1,789,198.78 set aside in the Internal Service Fund to fund a portion of the liability)	(617,212.48)	
Net Pension Liability	(18,922,909.00)	
Other Postemployment Benefits Payable	(2,309,829.00)	
Special Public Education Capital Outlay Advance Payable	(1,153,222.55)	(23,550,735.29)
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	$ 8,097,146.00	
Deferred Inflows Related to Pensions	(613,125.00)	7,484,021.00
Net Position - Governmental Activities		$ 61,298,958.17

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

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

	General Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 64,020.13	$ -	$ -
Federal Through State and Local	88,687.98	-	-
State	21,412,586.25	25,564,669.48	-
Local:			
Property Taxes	2,691,767.38	-	737,740.01
Charges for Services - Food Service	-	-	-
Miscellaneous	765,981.54	2,178.38	1,152.16
Total Local Revenues	3,457,748.92	2,178.38	738,892.17
Total Revenues	25,023,043.28	25,566,847.86	738,892.17
Expenditures			
Current - Education:			
Instruction	14,791,980.11	-	-
Student Support Services	663,133.50	-	-
Instructional Media Services	585,513.06	-	-
Instruction and Curriculum Development Services	462,967.70	-	-
Instructional Staff Training Services	279,159.84	-	-
Instruction-Related Technology	222,592.08	-	-
Board	219,995.91	-	-
General Administration	243,127.89	-	-
School Administration	1,857,396.63	-	-
Facilities Acquisition and Construction	-	1,142,297.29	-
Fiscal Services	312,043.22	-	-
Food Services	5,899.37	-	-
Central Services	455,481.53	-	-
Student Transportation Services	1,194,546.32	-	-
Operation of Plant	2,631,147.62	-	-
Maintenance of Plant	876,570.74	-	-
Administrative Technology Services	1,746.80	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	-	24,712,127.12	-
Other Capital Outlay	225,494.47	754,107.20	-
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	31.00	-
Total Expenditures	25,028,796.79	26,608,562.61	-
Excess (Deficiency) of Revenues Over Expenditures	(5,753.51)	(1,041,714.75)	738,892.17
Other Financing Sources (Uses)			
Transfers In	449,915.37	-	-
Transfers Out	(401,372.00)	(113,654.00)	(368,017.20)
Total Other Financing Sources (Uses)	48,543.37	(113,654.00)	(368,017.20)
Net Change in Fund Balances	42,789.86	(1,155,368.75)	370,874.97
Fund Balances, Beginning	1,010,980.46	3,231,667.96	709,919.74
Fund Balances, Ending	$ 1,053,770.32	$ 2,076,299.21	$ 1,080,794.71

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

Other Governmental Funds	Total Governmental Funds
$ -	$ 64,020.13
4,554,928.50	4,643,616.48
347,005.08	47,324,260.81
-	3,429,507.39
37,757.03	37,757.03
5,134.40	774,446.48
42,891.43	4,241,710.90
4,944,825.01	56,273,608.32
1,983,039.08	16,775,019.19
96,981.55	760,115.05
-	585,513.06
202,733.42	665,701.12
221,997.39	501,157.23
-	222,592.08
-	219,995.91
128,093.53	371,221.42
-	1,857,396.63
-	1,142,297.29
-	312,043.22
1,894,849.78	1,900,749.15
-	455,481.53
15,805.59	1,210,351.91
-	2,631,147.62
-	876,570.74
-	1,746.80
-	24,712,127.12
50,315.78	1,029,917.45
299,167.90	299,167.90
24,950.18	24,981.18
4,917,934.20	56,555,293.60
26,890.81	(281,685.28)
241,005.83	690,921.20
(209,250.00)	(1,092,293.20)
31,755.83	(401,372.00)
58,646.64	(683,057.28)
340,952.12	5,293,520.28
$ 399,598.76	$ 4,610,463.00

Holmes 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		$ (683,057.28)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year.		24,041,623.78
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets.		(53,004.66)
The governmental funds reported deferred inflows of resources related to unavailable capital outlay and debt service (CO&DS) revenue in the prior fiscal year. The amount became available and was recognized as revenue in the current fiscal year. This amount was accrued and reported as revenue on the statement of activities in the prior fiscal year.		(756.62)
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 long-term debt that was repaid in the current fiscal year.		299,167.90
Special facility construction advances provide current financial resources to the governmental funds, but increase long-term liabilities in the statement of net position. This is the decrease in the long-term liability in the current fiscal year.		18,758.58
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 used in the current fiscal year.		(505,216.17)
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.		(366,515.00)
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	$ 1,204,839.00	
HIS Pension Contribution	289,937.00	
FRS Pension Expense	(1,955,142.00)	
HIS Pension Expense	(565,873.00)	(1,026,239.00)
An internal service fund is used by management to accumulate resources to fund a portion of the cost of compensated absences. Accordingly, this represents the net increase in the internal service fund assets set aside for this purpose.		402,245.86
Change in Net Position - Governmental Activities		$ 22,127,007.39

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

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

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,789,198.78
LIABILITIES	
Noncurrent Liabilities:	
Compensated Absences Payable	$ 1,789,198.78
NET POSITION	
Unrestricted	$ 0.00

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

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

	Governmental Activities - Internal Service Fund
OPERATING EXPENSE	
Compensated Absences Expense	$ 402,245.86
Operating Loss	(402,245.86)
NONOPERATING REVENUES (EXPENSES)	
Interest	1,173.86
Miscellaneous Fees	(300.00)
Total Nonoperating Revenues	873.86
Loss Before Transfers	(401,372.00)
Transfers In	401,372.00
Change in Net Position	-
Total Net Position - Beginning	-
Total Net Position - Ending	$ 0.00

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

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from Other Funds	$ 401,372.00
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	1,173.86
Miscellaneous Fees	(300.00)
Net Cash Provided by Investing Activities	873.86
Net Increase in Cash and Cash Equivalents	402,245.86
Cash and Cash Equivalents, Beginning	1,386,952.92
Cash and Cash Equivalents, Ending	$ 1,789,198.78

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

Operating Loss	$ (402,245.86)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Compensated Absences Payable	402,245.86
Net Cash Used by Operating Activities	$ 0.00

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 353,447.00
LIABILITIES	
Internal Accounts Payable	$ 353,447.00

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

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 Holmes County School District (District). All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

B. Reporting Entity

The Holmes 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 Holmes County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on these criteria, no component units are included within the District's reporting entity.

C. Basis of Presentation: Government-Wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Public Education Capital Outlay Fund - to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, new and replacement equipment, motor vehicle purchases, and debt service payments on school buses.

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

- Internal Service Fund – to account for the resources set aside to fund a portion of the Board's compensated absences liability.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

E. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses

are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized 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 45 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 45 days of year end). Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary fund is 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.

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

1. Cash and Cash Equivalents

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

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

2. Investments

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

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

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

3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Purchases are recorded as expenditures during the year and are adjusted to reflect year-end physical inventories.

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 $750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at acquisition value at the date of donation.

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

Description	Estimated Useful Lives
Improvements Other Than Buildings	20 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 10 years
Motor Vehicles	5 - 10 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, and to the extent funded in accordance with Board Policy in the Internal Service Fund, 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, deferred outflows of resources related to pensions which 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, deferred inflows of resources related to pensions which is discussed in a subsequent note.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the

governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2017.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board approves the assignment of the 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.

Pursuant to Section 1013.64, Florida Statutes, the District received special allocations in the 2014-15, 2015-16, and 2016-17 fiscal years for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following 3 fiscal years. During the 3-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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 Holmes County Property Appraiser, and property taxes are collected by the Holmes County Tax Collector.

The Board adopted the 2016 tax levy on October 31, 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 Holmes 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.

6. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from activities related to funding a portion of the District's compensated absences liability. The principal operating revenue is contributions made to fund the compensated absences liability. The primary operating expense is the payment of terminal leave. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	39 Day Average	$ 10,136.27
Debt Service Accounts	6 Months	7,408.45
Total Investments		$ 17,544.72

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. The District's investments in SBA debt service accounts are valued using Level 1 inputs.

Interest Rate Risk

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

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

For Florida PRIME, with regard to redemption gates, Section 218.409(8)(a), Florida Statutes, states, "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees, 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's investment policy limits investments to bids from qualified depositories, financial deposit instruments insured by the Federal Deposit Insurance Corporation, time deposits, securities of the United States Government, State managed cooperative investment plans, and other forms of investments as authorized by Section 218.415, Florida Statutes, as well as Florida PRIME.

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:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 676,786.30	$ -	$ -	$ 676,786.30
Construction in Progress	14,920,610.13	24,713,176.56	-	39,633,786.69
Total Capital Assets Not Being Depreciated	15,597,396.43	24,713,176.56	-	40,310,572.99
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,721,806.09	55,523.00	-	1,777,329.09
Buildings and Fixed Equipment	53,972,815.63	-	-	53,972,815.63
Furniture, Fixtures, and Equipment	3,386,483.02	795,050.39	196,292.66	3,985,240.75
Motor Vehicles	4,344,880.99	18,520.01	65,957.00	4,297,444.00
Total Capital Assets Being Depreciated	63,425,985.73	869,093.40	262,249.66	64,032,829.47
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,553,011.82	14,533.18	-	1,567,545.00
Buildings and Fixed Equipment	22,817,686.00	1,076,429.00	-	23,894,115.00
Furniture, Fixtures, and Equipment	2,714,406.00	207,167.00	143,288.00	2,778,285.00
Motor Vehicles	3,171,688.00	242,517.00	65,957.00	3,348,248.00
Total Accumulated Depreciation	30,256,791.82	1,540,646.18	209,245.00	31,588,193.00
Total Capital Assets Being Depreciated, Net	33,169,193.91	(671,552.78)	53,004.66	32,444,636.47
Governmental Activities Capital Assets, Net	$ 48,766,590.34	$ 24,041,623.78	$ 53,004.66	$ 72,755,209.46

Depreciation expense is not charged to individual functions but rather is reflected as unallocated on the statement of activities.

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 $2,521,015 for the fiscal year ended June 30, 2017.

FRS Pension Plan

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

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

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

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated

cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

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

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

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.
(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled $1,204,839 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 $12,297,908 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 0.048704436 percent, which was a decrease of 0.001912623 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 $1,955,142. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 941,622	$ 114,502
Change of assumptions	743,987	-
Net difference between projected and actual earnings on FRS pension plan investments	3,178,859	-
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	488,476	338,923
District FRS contributions subsequent to the measurement date	1,204,839	-
Total	$ 6,557,783	$ 453,425

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling $1,204,839, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 734,256
2019	734,256
2020	1,973,573
2021	1,272,322
2022	140,737
Thereafter	44,375
Total	$ 4,899,519

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

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

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

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

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

best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate. The discount rate used to measure the total pension liability was 7.6 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	$ 22,641,282	$ 12,297,908	$ 3,688,416

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 $289,937 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 $6,625,001 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 0.056844589 percent, which was an increase of 0.000953516 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 $565,873. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 15,089
Change of assumptions	1,039,631	-
Net difference between projected and actual earnings on HIS pension plan investments	3,350	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	206,445	144,611
District contributions subsequent to the measurement date	289,937	-
Total	$ 1,539,363	$ 159,700

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling $289,937, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 199,481
2019	199,481
2020	198,844
2021	198,537
2022	149,208
Thereafter	144,175
Total	$ 1,089,726

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:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
District's proportionate share of the net pension liability	$ 7,600,382	$ 6,625,001	$ 5,815,489

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:

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

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

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

The District's Investment Plan pension expense totaled $33,410.15 for the fiscal year ended June 30, 2017.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. 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, 95 retirees received other postemployment benefits. The District provided required contributions of $240,213 toward the annual OPEB cost, net of retiree contributions totaling $530,193, which represents 4.4 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:

Description	Amount
Normal Cost (service cost for 1 year)	$ 251,035
Amortization of Unfunded Actuarial Accrued Liability	378,271
Annual Required Contribution	629,306
Interest on Net OPEB Obligation	68,016
Adjustment to Annual Required Contribution	(90,594)
Annual OPEB Cost (Expense)	606,728
Contribution Toward the OPEB Cost	(240,213)
Increase (Decrease) in Net OPEB Obligation	366,515
Net OPEB Obligation, Beginning of Year	1,943,314
Net OPEB Obligation, End of Year	$ 2,309,829

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:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014-15	$ 680,417	47.1%	$ 1,526,762
2015-16	703,098	40.8%	1,943,314
2016-17	606,728	39.6%	2,309,829

Funded Status and Funding Progress. As of October 1, 2016, the most recent valuation date, the actuarial accrued liability for benefits was $7,975,875, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $7,975,875 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $12,116,253, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 65.8 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 trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to financial statements as required supplementary information, presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of October 1, 2016, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2017, and to estimate the District's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.5 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 3.25 percent per year, projected salary increases of 3.7 percent to 7.8 percent, and an annual healthcare cost trend rate of 0 percent initially beginning October 1, 2017, followed by an increase to 7, 6.75, and 6.5 percent for years beginning 2018, 2019, and 2020, respectively, then declining to an ultimate level of 4.59 percent, which includes an additional 0.35 percent trend representing the estimate of the ultimate effect of the Federal Excise Tax, beginning October 1, 2040. The investment rate of return and projected salary increases rate 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 22-year period. The remaining amortization period at June 30, 2017, was 22 years.

F. Special Termination Benefits

School Board Policy No. 6.53 provides for the payment of special termination benefits to all employees who qualify under one of two plans. Under Plan I, qualifying employees receive up to $16,000 if the employee retires with an effective date at the end of the school year in which they first reach 30 through 33 years of experience. Under Plan II, qualifying employees receive 10 percent of their annual salary if the employee is retiring with 33 years or less experience and is not eligible under Plan I. In order to receive either of these benefits, the employee must be eligible to retire under the FRS. In addition to payments for accrued leave and regular termination benefits, the District reported expenditures, totaling $34,037.69, during the 2016-17 fiscal year for six employees who received special termination benefits.

G. Construction and Other Significant Commitments

Construction Contracts. The following is a schedule of major construction contract commitments at fiscal year end:

Project	Contract Amount	Completed to Date	Balance Committed
Bonifay K-8 School:			
Contractor	$ 27,673,049.84	$ 26,845,812.24	$ 827,237.60
Architect	2,038,555.13	1,997,784.03	40,771.10
Direct Purchase Orders	10,391,772.94	10,306,263.60	85,509.34
Total	$ 40,103,377.91	$ 39,149,859.87	$ 953,518.04

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. At June 30, 2017, the Capital Projects – Public Education Capital Outlay Fund had encumbrances totaling $953,518.04.

H. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Holmes County District School Board is a member of the Panhandle Area Educational Consortium – Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, sabotage and terrorism, employee dishonesty, equipment breakdown, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

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

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

I. Installment-Purchase Payable

The class and amount of property being acquired under installment-purchase is as follows:

	Asset Balance
Motor Vehicles	$ 1,171,082

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2018	$ 241,005.83	$ 237,562.26	$ 3,443.57

The imputed interest rate is 1.45 percent.

J. Long-Term Liabilities

1. Special Public Education Capital Outlay Advance Payable

The liability at June 30, 2017, of $1,153,222.55 represents the amount of the Public Education Capital Outlay Special Facilities allocation expected to be replaced by other District capital outlay sources that are committed under Section 1013.64, Florida Statutes, for funding specific construction needs. The liability is expected to be retired by the close of the 2017-18 fiscal year.

2. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2010A, Refunding	$ 310,000	4 - 5	2021

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 SBA.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2018	$ 84,750	$ 70,000	$ 14,750
2019	86,250	75,000	11,250
2020	88,250	80,000	8,250
2021	89,250	85,000	4,250
Total State School Bonds	$ 348,500	$ 310,000	$ 38,500

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	$ 471,730.16	$ -	$ 234,167.90	$ 237,562.26	$ 237,562.26
Bonds Payable	375,000.00	-	65,000.00	310,000.00	70,000.00
Compensated Absences Payable	1,901,195.09	647,252.08	142,035.91	2,406,411.26	259,726.00
Net Pension Liability	12,237,882.00	10,839,578.00	4,154,551.00	18,922,909.00	190,996.00
Other Postemployment Benefits Payable	1,943,314.00	606,728.00	240,213.00	2,309,829.00	-
Special Public Education Capital Outlay Advance Payable	1,171,981.13	-	18,758.58	1,153,222.55	1,153,222.55
Total Governmental Activities	$ 18,101,102.38	$ 12,093,558.08	$ 4,854,726.39	$ 25,339,934.07	$ 1,911,506.81

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

K. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in Note I.F.10., fund balance 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.

L. Interfund Receivables and Payables

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 347,114.53	$ 22,166.08
Capital Projects:		
Local Capital Improvement	22,166.08	-
Nonmajor Governmental	-	347,114.53
Total	$ 369,280.61	$ 369,280.61

The interfund receivables and payables represent loans to finance expenditures paid by the General Fund on behalf of the nonmajor Special Revenue – Other Fund and funds due to the Capital Projects – Local Capital Improvement Fund from General Fund for Local Capital Improvement property taxes.

M. Revenues

1. Schedule of State Revenue Sources

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

Source	Amount
Gross Receipts Tax (Public Education Capital Outlay)	$ 25,564,669.48
Florida Education Finance Program	17,824,580.00
Categorical Educational Program - Class Size Reduction	3,150,472.00
Voluntary Prekindergarten Program	196,073.22
School Recognition	121,378.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	83,106.96
Mobile Home License Tax	11,151.89
Miscellaneous	372,829.26
Total	$ 47,324,260.81

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:

	Millages	Taxes Levied
General Fund		
Nonvoted School Tax:		
Required Local Effort	4.689	$ 2,367,273.04
Prior Period Funding Adjustment	0.036	18,174.84
Basic Discretionary Local Effort	0.748	377,632.81
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.500	757,285.04
Total	6.973	$ 3,520,365.73

N. Interfund Transfers

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 449,915.37	$ 401,372.00
Capital Projects:		
Public Education Capital Outlay	-	113,654.00
Local Capital Improvement	-	368,017.20
Nonmajor Governmental	241,005.83	209,250.00
Internal Service	401,372.00	-
Total	$ 1,092,293.20	$ 1,092,293.20

The interfund transfers were to reimburse the General Fund for capital outlay and maintenance expenditures and food service operational expenditures. The transfer into the nonmajor fund was to transfer funds from the Capital Projects – Local Capital Improvement Fund to the Debt Service – Other Fund for the installment-purchase debt service payment. The transfer into the Internal Service Fund was to provide funding for a portion of the District's compensated absences liability.

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 59,089.06	$ 64,020.13	$ 64,020.13	$ -
Federal Through State and Local	65,000.00	88,687.98	88,687.98	-
State	21,251,841.84	21,412,586.25	21,412,586.25	-
Local:				
Property Taxes	2,636,991.00	2,713,933.46	2,691,767.38	(22,166.08)
Miscellaneous	164,600.00	364,609.54	765,981.54	401,372.00
Total Local Revenues	2,801,591.00	3,078,543.00	3,457,748.92	379,205.92
Total Revenues	24,177,521.90	24,643,837.36	25,023,043.28	379,205.92
Expenditures				
Current - Education:				
Instruction	14,751,805.58	14,791,980.11	14,791,980.11	-
Student Support Services	669,773.07	669,773.07	663,133.50	6,639.57
Instructional Media Services	651,361.39	649,109.05	585,513.06	63,595.99
Instruction and Curriculum Development Services	434,917.09	462,967.70	462,967.70	-
Instructional Staff Training Services	243,437.26	279,159.84	279,159.84	-
Instruction-Related Technology	281,072.22	281,072.22	222,592.08	58,480.14
Board	189,434.55	219,995.91	219,995.91	-
General Administration	191,558.46	243,127.89	243,127.89	-
School Administration	1,763,108.03	1,857,396.63	1,857,396.63	-
Fiscal Services	302,751.47	312,043.22	312,043.22	-
Food Services	-	5,899.37	5,899.37	-
Central Services	477,917.12	455,481.53	455,481.53	-
Student Transportation Services	1,186,146.07	1,194,546.32	1,194,546.32	-
Operation of Plant	2,424,921.49	2,631,147.62	2,631,147.62	-
Maintenance of Plant	947,033.20	901,132.83	876,570.74	24,562.09
Administrative Technology Services	87,200.00	64,200.00	1,746.80	62,453.20
Fixed Capital Outlay:				
Other Capital Outlay	225,494.47	225,494.47	225,494.47	-
Total Expenditures	24,827,931.47	25,244,527.78	25,028,796.79	215,730.99
Deficiency of Revenues Over Expenditures	(650,409.57)	(600,690.42)	(5,753.51)	594,936.91
Other Financing Sources (Uses)				
Transfers In	590,074.50	590,074.50	449,915.37	(140,159.13)
Transfers Out	-	-	(401,372.00)	(401,372.00)
Total Other Financing Sources (Uses)	590,074.50	590,074.50	48,543.37	(541,531.13)
Net Change in Fund Balances	(60,335.07)	(10,615.92)	42,789.86	53,405.78
Fund Balances, Beginning	1,010,980.46	1,010,980.46	1,010,980.46	-
Fund Balances, Ending	$ 950,645.39	$ 1,000,364.54	$ 1,053,770.32	$ 53,405.78

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]
10/01/12	$ -	$ 8,339,851	$ 8,339,851	0.0%	$ 11,365,424	73.4%
10/01/14	-	9,340,085	9,340,085	0.0%	11,240,543	83.1%
10/01/16	-	7,975,875	7,975,875	0.0%	12,116,253	65.8%

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

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

	2016	2015	2014	2013
District's proportion of the FRS net pension liability	0.048704436%	0.050617059%	0.051665204%	0.046247981%
District's proportionate share of the FRS net pension liability	$ 12,297,908	$ 6,537,872	$ 3,152,337	$ 7,961,336
District's covered payroll	$ 17,627,690	$ 16,952,459	$ 17,268,816	$ 16,142,015
District's proportionate share of the FRS net pension liability as a percentage of its covered payroll	69.76%	38.57%	18.25%	49.32%
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	$ 1,204,839	$ 1,187,735	$ 1,234,087	$ 1,131,687
FRS contributions in relation to the contractually required contribution	(1,204,839)	(1,187,735)	(1,234,087)	(1,131,687)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 17,695,394	$ 17,627,690	$ 16,952,459	$ 17,268,816
FRS contributions as a percentage of covered payroll	6.81%	6.74%	7.28%	6.55%

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

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

	2016	2015	2014	2013
District's proportion of the HIS net pension liability	0.056844589%	0.055891073%	0.058112640%	0.055565903%
District's proportionate share of the HIS net pension liability	$ 6,625,001	$ 5,700,010	$ 5,433,674	$ 4,837,742
District's covered payroll	$ 17,627,690	$ 16,952,459	$ 17,268,816	$ 16,142,015
District's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.58%	33.62%	31.47%	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)

	2017	2016	2015	2014
Contractually required HIS contribution	$ 289,937	$ 291,365	$ 213,650	$ 199,074
HIS contributions in relation to the contractually required contribution	(289,937)	(291,365)	(213,650)	(199,074)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 17,695,394	$ 17,627,690	$ 16,952,459	$ 17,268,816
HIS contributions as a percentage of covered payroll	1.64%	1.65%	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 October 1, 2016, unfunded actuarial accrued liability of $7,975,875 was significantly lower than the October 1, 2014, liability of $9,340,085 as a result of benefit changes and other changes in liability and costs as discussed below:

- The number of active employees with medical coverage increased from 326 as of the prior valuation date to 336 as of October 1, 2016. At the same time, the number of retirees with medical coverage as of the valuation date decreased from 116 in the previous valuation to 95 as of October 1, 2016. The combined population changes had a decreasing effect on the costs and liabilities.
- The average cost of coverage provided to employees, retirees, and their dependents increased from $551 per subscriber per month (as expected for the 2014 plan year) to $564 per subscriber per month for the 2016 plan year. This is lower than the $589 per subscriber per month projected for 2016 at the time the prior valuation was performed, mainly due to the addition of the relatively lower-cost "Blue Options 3900" medical plan option. This change had a decreasing 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.
- It was assumed previously that costs and premiums would increase at a rate of 6.5 percent, 6.25 percent, 6 percent, and 5.84 percent for plan years beginning in 2017, 2018, 2019, and 2020, respectively. Trend rates were revised for costs and premiums charged to retirees for the year beginning October 1, 2017, to be 0 percent higher than for the year beginning October 1, 2016, (to reflect no premium increases expected), followed by 7 percent, 6.75 percent, and 6.5 percent for the years beginning 2018, 2019, and 2020, respectively. Long-term trend rates follow the same model as used before declining over a 20-year period from 6.5 percent assumed for the year 2020 to the ultimate level of 4.24 percent. This change had a decreasing effect on the costs and liabilities.
- The District selected an interest discount rate of 3.50 percent for this valuation. This is lower than the 4 percent used in the prior valuation as of October 1, 2014. This change had an increasing 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.

Holmes 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	$ 394,656.55
National School Lunch Program	10.555	17001, 17003	1,477,927.13
Total Child Nutrition Cluster			1,872,583.68
Special Education Cluster:			
United States Department of Education:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	743,318.00
Special Education - Preschool Grants	84.173	267	29,139.00
Total Special Education Cluster			772,457.00
Not Clustered			
United States Department of Agriculture:			
Florida Department of Agriculture and Consumer Services:			
Child Nutrition Discretionary Grants Limited Availability	10.579	023456	15,290.00
United States Department of Defense:			
Army Junior Reserve Officers Training Corps	12.UNK	N/A	64,020.13
United States Department of Education:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 226	1,019,712.02
Career and Technical Education - Basic Grants to States	84.048	161	68,452.75
Twenty-First Century Community Learning Centers	84.287	244	524,174.41
Rural Education	84.358	110	93,262.64
Improving Teacher Quality State Grants	84.367	224	188,996.00
Total United States Department of Education			1,894,597.82
Total Expenditures of Federal Awards			$ 4,618,948.63

The notes below are an integral part of this schedule.

Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Holmes County District School Board under programs of the Federal Government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

(2) Summary of Significant Accounting Policies. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.

(4) Noncash Assistance – National School Lunch Program. Includes $163,875.60 of donated foods received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

AUDITOR GENERAL
STATE OF FLORIDA

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County District School Board, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 22, 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 as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a

timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 22, 2018

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR 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 Holmes 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
March 22, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major Federal 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: 10.553 and 10.555 84.010	Name of Federal Program or Cluster: Child Nutrition Cluster Title I Grants to Local Educational Agencies
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reported.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for the financial statement and Federal awards audit findings included in our report No. 2017-175.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Holmes County School Board

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Terry L. Mears
BOARD MEMBERS
Shirley Owens, Chair
Alan Justice, Vice-Chair
Wilburn Baker
Rusty Williams
Sid Johnson

Audit Report No. (Finding No.)	Program/Area	Brief Description	Status	Comments
2016-141 (2015-001) 2017-175 (2016-002)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)	District procedures did not ensure that all teachers who taught core academic subjects in Title I Schoolwide Program schools were highly qualified, resulting in questioned costs of $207,058.41 and $95,944.67 for the 2014-15 and 2015-16 fiscal years, respectively.	Fully Corrected.	The Florida Department of Education accepted the District's corrective action plan and did not require the restoration of questioned costs.
2016-141 (2015-002) 2017-175 (2016-003)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)	The District continued to lack documentation to support certain adjustments to the high school graduation rate cohort.	Fully Corrected.	The Florida Department of Education accepted the District's corrective action plan.
2017-175 (2016-001)	Financial Reporting	District financial reporting procedures need improvement to ensure that account balances and transactions are properly reported.	Fully Corrected.	The District established new procedures to ensure the correct reporting of transactions and balances.