

**HOLMES COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2012



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Rusty Williams	1
Gary Scott	2
Jason Motley, Chair	3
Anthony Register, Vice Chair	4
Sid Johnson	5

Gary Galloway, Superintendent

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Nicole W. Ostrowski, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Controls over contractual payment processing needed to be enhanced.

Finding No. 4: The District did not have a Board-approved written information technology (IT) security incident response plan.

Finding No. 5: District IT security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster, Title I, Race-to-the-Top, and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-141.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and

substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 10 percent of the assets and 11 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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 for the Holmes County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Holmes County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the

heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA
February 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Holmes County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. 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 2011-12 fiscal year are as follows:

- The District's net assets decreased by \$1,826,589.52, or 4.4 percent. The decrease was primarily due to the decrease in funds from the Federal economic stimulus program and Florida Education Finance Program (FEFP). Net assets decreased in the previous fiscal year by 1.5 percent.
- During the current fiscal year, the General Fund's fund balance decreased by \$534,227.95, primarily from a reduction of FEFP funds of approximately \$1 million. This may be compared to last fiscal year's results when the General Fund's fund balance increased by \$667,634.47. The June 30, 2012, General Fund fund balance is \$2,028,591.32.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to financial statements.

In addition to the basic financial statements, the report represents certain required supplementary information, which includes the MD&A, the budgetary comparison schedule, the schedule of funding progress for other postemployment benefits, and notes to required supplementary information.

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 assets 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 assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets 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, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. State and Federal revenues and property taxes 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 assets 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 buildings 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, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other 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 and major Special Revenue Funds to demonstrate compliance with the budget.

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. 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.

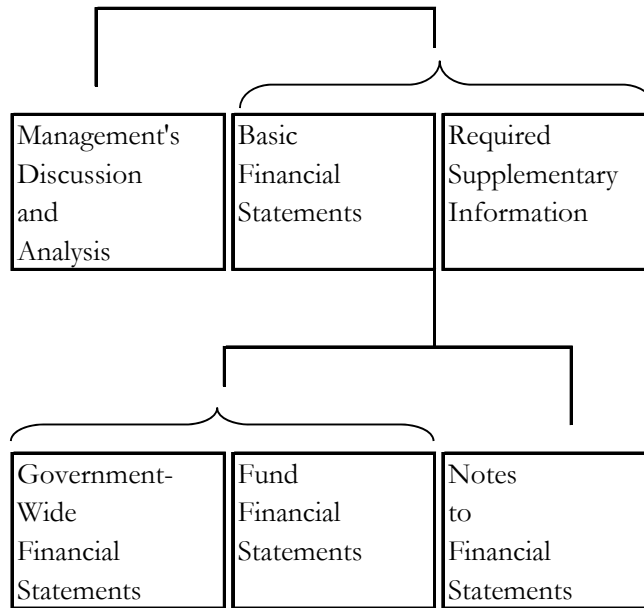
The District uses agency funds to account for resources held for student activities and groups.

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.

The following illustrates the components of the annual financial report and their relation to each other.

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 Funds	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 assets	Balance sheet	Statement of net assets	Statement of fiduciary assets and liabilities
	Statement of activities	Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in net assets	
			Statement of cash flows	
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

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 6,911,964	\$ 7,254,852
Capital Assets	37,907,926	39,284,860
Total Assets	44,819,890	46,539,712
Long-Term Liabilities	4,331,283	4,310,893
Other Liabilities	645,599	559,221
Total Liabilities	4,976,882	4,870,114
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	36,763,880	37,964,860
Restricted	1,038,770	1,041,349
Unrestricted	2,040,358	2,663,389
Total Net Assets	\$ 39,843,008	\$ 41,669,598

The largest portion of the District’s net assets (92.3 percent) reflects its investment in capital assets (e.g., land; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles), 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.

The restricted portion of the District’s net assets (2.6 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (5.1 percent) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	\$ 419,777	\$ 451,932
Operating Grants and Contributions	1,931,101	2,118,553
Capital Grants and Contributions	80,306	113,388
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,809,930	2,959,486
Grants and Contributions Not Restricted to Specific Programs	20,830,335	23,307,534
Unrestricted Investment Earnings	24,283	50,598
Miscellaneous	215,718	394,187
Total Revenues	26,311,450	29,395,678
Functions/Program Expenses:		
Instruction	15,190,122	15,899,671
Pupil Personnel Services	591,407	633,711
Instructional Media Services	545,759	629,492
Instruction and Curriculum Development Services	268,196	302,406
Instructional Staff Training Services	379,829	342,730
Instruction Related Technology	176,934	248,707
School Board	175,716	183,255
General Administration	218,794	265,511
School Administration	1,768,544	1,863,745
Fiscal Services	292,534	319,025
Food Services	1,652,218	1,629,387
Central Services	674,127	606,044
Pupil Transportation Services	1,324,118	1,400,478
Operation of Plant	2,402,505	2,907,563
Maintenance of Plant	863,247	1,075,276
Administrative Technology Services		480
Community Services	321	
Unallocated Interest on Long-Term Debt	52,099	64,975
Unallocated Depreciation Expense	1,561,569	1,656,383
Total Functions/Program Expenses	28,138,039	30,028,839
Decrease in Net Assets	\$ (1,826,589)	\$ (633,161)

The largest revenue source is the State of Florida (68 percent). Revenues from State sources for current operations are primarily received through the 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. The decrease in grants and contributions not restricted to specific programs is specifically related to the decrease in FEFP revenues and Federal economic stimulus program funds.

Instruction expenses represent 54 percent of total governmental expenses in the 2011-12 fiscal year. Instruction expenses decreased \$709,549, from the previous fiscal year due mainly to the reduction of expenses associated with Federal economic stimulus programs.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

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 \$1,922,615.73, while total fund balance is \$2,028,591.32. Total fund balance decreased by \$534,277.95 during the fiscal year primarily from a reduction of FEFP funds of approximately \$1 million.

The Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund each have zero fund balances at the end of the current fiscal year. The District uses these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance. For the Special Revenue – Federal Economic Stimulus Fund, revenues and expenditures declined from \$1,945,402.11 each in the prior fiscal year to \$843,653.75 each in the current fiscal year due to the expiration of certain stimulus grants.

The Debt Service – Other Fund has a total fund balance of \$609,738.43, which is available to fund the loan repayment related to the energy savings contract. The fund balance decreased \$143,884.03, in part, because of loan payments of \$146,701.51 made during the fiscal year.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$729,292.77, which is restricted to acquisition, construction, and maintenance of capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District’s budget is prepared according to Florida law and is based on the modified basis of accounting. The most significant budgeted fund is the General Fund.

During the 2011-12 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

There were no major capital asset events during the current fiscal year. Additional information on the District’s capital assets can be found in note 4 to the financial statements. The following table reflects the District’s investment in capital assets, net of accumulated depreciation at June 30, 2012, and June 30, 2011:

	Capital Assets	
	Governmental Activities	
	6-30-12	6-30-11
Land	\$ 450,584	\$ 450,584
Improvements Other Than Buildings	223,801	260,402
Buildings and Fixed Equipment	35,624,053	36,761,249
Furniture, Fixtures, and Equipment	666,819	721,375
Motor Vehicles	942,669	1,091,250
Total Capital Assets	\$ 37,907,926	\$ 39,284,860

Long-Term Debt

The following table discloses the 2011-12 fiscal year debt principal payments and outstanding debt as of June 30, 2012:

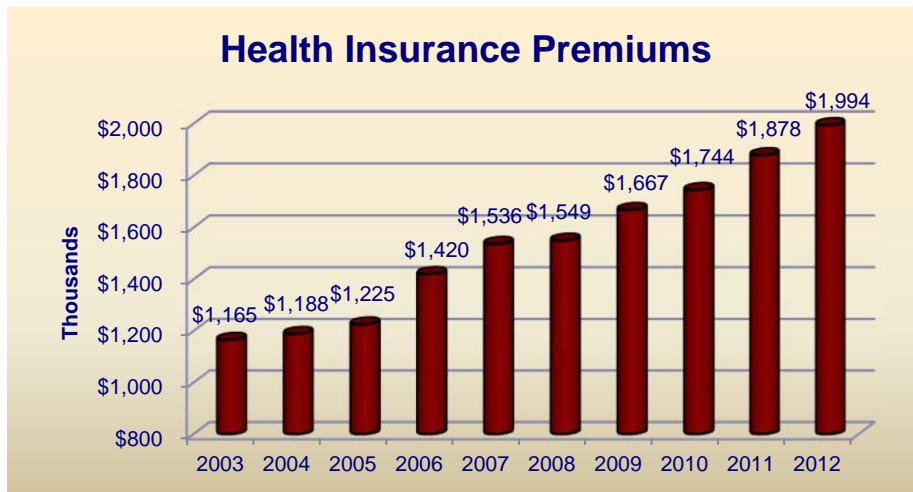
	Outstanding Debt	
	Total Payments	Debt Outstanding
2012	<u>\$ 175,954</u>	<u>\$ 1,144,046</u>

Additional information on the District’s long-term debt can be found in notes 5 through 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

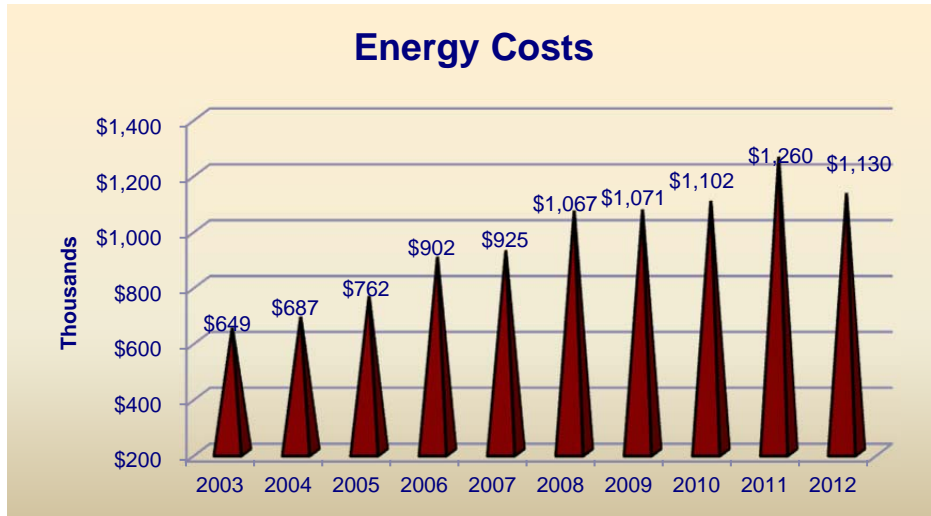
Insurance Premiums

The insurance industry has presented a challenge for consumers for several 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 of health insurance benefits is reflected in the chart below for the June 30 fiscal year-ends as indicated:



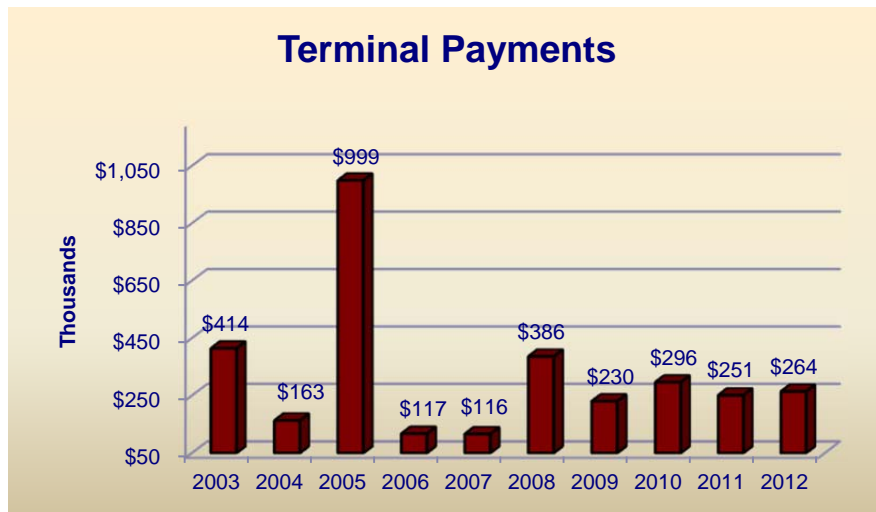
Energy Costs

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:



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, when they terminate from employment, and 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 reflects the total cost of terminal costs and terminal liability for the June 30 fiscal year-ends as indicated:





REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Holmes County District School Board’s finances. Questions concerning information provided in the MD&A, other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Holmes County District School Board, 701 East Pennsylvania Avenue, Bonifay, FL 32425.

BASIC FINANCIAL STATEMENTS

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 4,801,725.36
Investments	1,672,517.19
Accounts Receivable	4,165.00
Due from Other Agencies	303,015.60
Inventories	130,541.26
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	<u>37,457,342.20</u>
TOTAL ASSETS	<u>\$ 44,819,890.27</u>
LIABILITIES	
Payroll Deductions and Withholdings	\$ 506,788.35
Accounts Payable	138,810.71
Long-Term Liabilities:	
Portion Due Within One Year	501,496.33
Portion Due After One Year	<u>3,829,786.75</u>
Total Liabilities	<u>4,976,882.14</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	36,763,879.84
Restricted for:	
Debt Service	14,601.23
Capital Projects	762,295.35
Food Service	261,873.41
Unrestricted	<u>2,040,358.30</u>
Total Net Assets	<u>39,843,008.13</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,819,890.27</u>

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, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 15,190,122.43	\$ 50,179.18	\$	\$	\$ (15,139,943.25)
Pupil Personnel Services	591,407.30				(591,407.30)
Instructional Media Services	545,759.36				(545,759.36)
Instruction and Curriculum Development Services	268,196.38				(268,196.38)
Instructional Staff Training Services	379,828.75				(379,828.75)
Instruction Related Technology	176,933.92				(176,933.92)
School Board	175,716.07				(175,716.07)
General Administration	218,793.58				(218,793.58)
School Administration	1,768,544.39				(1,768,544.39)
Fiscal Services	292,533.62				(292,533.62)
Food Services	1,652,217.57	341,282.90	1,277,377.12		(33,557.55)
Central Services	674,127.07				(674,127.07)
Pupil Transportation Services	1,324,118.01	28,315.30	653,724.00		(642,078.71)
Operation of Plant	2,402,504.80				(2,402,504.80)
Maintenance of Plant	863,247.24				(863,247.24)
Community Services	320.94				(320.94)
Unallocated Interest on Long-Term Debt	52,099.17			80,305.89	28,206.72
Unallocated Depreciation Expense	1,561,569.00				(1,561,569.00)
Total Governmental Activities	\$ 28,138,039.60	\$ 419,777.38	\$ 1,931,101.12	\$ 80,305.89	(25,706,855.21)
General Revenues:					
Property Taxes, Levied for Operational Purposes					2,809,929.45
Grants and Contributions Not Restricted to Specific Programs					20,830,335.35
Unrestricted Investment Earnings					24,283.39
Miscellaneous					215,717.50
Total General Revenues					23,880,265.69
Change in Net Assets					(1,826,589.52)
Net Assets - Beginning					41,669,597.65
Net Assets - Ending					\$ 39,843,008.13

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

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**HOLMES COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash	\$ 2,271,747.45	\$	\$	\$ 609,738.43
Investments	5,001.30			
Accounts Receivable	4,135.00			
Due from Other Funds	260,324.26			
Due from Other Agencies	13,046.18	213,970.20	58,311.16	
Inventories	105,975.59			
TOTAL ASSETS	\$ 2,660,229.78	\$ 213,970.20	\$ 58,311.16	\$ 609,738.43
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 506,788.35	\$	\$	\$
Accounts Payable	124,850.11	5,362.60	6,594.50	
Due to Other Funds		208,607.60	51,716.66	
Total Liabilities	631,638.46	213,970.20	58,311.16	
Fund Balances:				
Nonspendable:				
Inventory	105,975.59			
Restricted for:				
Food Service				
Debt Service				
Capital Projects				
Total Restricted Fund Balance				
Assigned to:				
Debt Service				609,738.43
Capital Projects				
Total Assigned Fund Balance				609,738.43
Unassigned Fund Balance	1,922,615.73			
Total Fund Balances	2,028,591.32			609,738.43
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,660,229.78	\$ 213,970.20	\$ 58,311.16	\$ 609,738.43

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 729,292.77	\$ 421,557.77	\$ 4,032,336.42
	59,863.24	64,864.54
	30.00	4,165.00
		260,324.26
	17,688.06	303,015.60
	24,565.67	130,541.26
<u>\$ 729,292.77</u>	<u>\$ 523,704.74</u>	<u>\$ 4,795,247.08</u>
\$	\$ 2,003.50	\$ 506,788.35
		138,810.71
		260,324.26
	<u>2,003.50</u>	<u>905,923.32</u>
	24,565.67	130,541.26
	237,307.74	237,307.74
	14,601.23	14,601.23
729,292.77	33,002.58	762,295.35
<u>729,292.77</u>	<u>284,911.55</u>	<u>1,014,204.32</u>
	212,224.02	609,738.43
	212,224.02	212,224.02
		821,962.45
		1,922,615.73
729,292.77	521,701.24	3,889,323.76
<u>\$ 729,292.77</u>	<u>\$ 523,704.74</u>	<u>\$ 4,795,247.08</u>

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds \$ 3,889,323.76

Amounts reported for governmental activities in the statement of net assets 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. 37,907,925.86

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Notes Payable	\$ 544,046.02	
Bonds Payable	600,000.00	
Compensated Absences Payable (net of \$2,377,041.59 set aside in the Internal Service Fund to fund a portion of the liability)	217,884.47	
Other Postemployment Benefits Payable	592,311.00	(1,954,241.49)

Total Net Assets - Governmental Activities \$ 39,843,008.13

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, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 58,826.40	\$	\$	\$
Federal Through State and Local State	5,286.05	2,807,168.28	843,653.75	
	17,531,419.55			209,250.00
Local:				
Property Taxes	2,809,929.45			
Charges for Services - Food Service				
Miscellaneous	273,891.12			3,567.48
Total Local Revenues	<u>3,083,820.57</u>			<u>3,567.48</u>
Total Revenues	<u>20,679,352.57</u>	<u>2,807,168.28</u>	<u>843,653.75</u>	<u>212,817.48</u>
Expenditures				
Current - Education:				
Instruction	12,055,249.18	2,261,774.62	696,397.46	
Pupil Personnel Services	504,720.30	78,618.57		
Instructional Media Services	536,688.35	390.60		
Instruction and Curriculum Development Services	94,907.10	169,523.80		
Instructional Staff Training Services	183,909.40	153,583.49	37,325.44	
Instruction Related Technology	105,109.34	6,443.79	63,459.94	
School Board	173,234.07			
General Administration	169,101.92	55,296.44	3,794.73	
School Administration	1,752,384.49			
Fiscal Services	295,783.15			
Food Services				
Central Services	671,413.50		8,462.65	
Pupil Transportation Services	1,289,099.60	29,667.01		
Operation of Plant	2,384,248.68			
Maintenance of Plant	859,096.49			
Community Services	320.94			
Fixed Capital Outlay:				
Other Capital Outlay	141,432.84	51,869.96	34,213.53	
Debt Service:				
Principal				125,953.98
Interest and Fiscal Charges				20,747.53
Total Expenditures	<u>21,216,699.35</u>	<u>2,807,168.28</u>	<u>843,653.75</u>	<u>146,701.51</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(537,346.78)</u>			<u>66,115.97</u>
Other Financing Sources (Uses)				
Transfers In	275,460.98			
Insurance Loss Recoveries	2,657.85			
Transfers Out	<u>(275,000.00)</u>			<u>(210,000.00)</u>
Total Other Financing Sources (Uses)	<u>3,118.83</u>			<u>(210,000.00)</u>
Net Change in Fund Balances	<u>(534,227.95)</u>			<u>(143,884.03)</u>
Fund Balances, Beginning	<u>2,562,819.27</u>			<u>753,622.46</u>
Fund Balances, Ending	<u>\$ 2,028,591.32</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 609,738.43</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	1,253,617.12	58,826.40
	137,885.22	4,909,725.20
		17,878,554.77
		2,809,929.45
	341,282.90	341,282.90
3,389.67	9,331.80	290,180.07
<u>3,389.67</u>	<u>350,614.70</u>	<u>3,441,392.42</u>
<u>3,389.67</u>	<u>1,742,117.04</u>	<u>26,288,498.79</u>
		15,013,421.26
		583,338.87
		537,078.95
		264,430.90
		374,818.33
		175,013.07
		173,234.07
		228,193.09
		1,752,384.49
		295,783.15
	1,633,082.01	1,633,082.01
		679,876.15
		1,318,766.61
		2,384,248.68
		859,096.49
		320.94
	12,058.22	239,574.55
	50,000.00	175,953.98
	<u>31,351.64</u>	<u>52,099.17</u>
	<u>1,726,491.87</u>	<u>26,740,714.76</u>
<u>3,389.67</u>	<u>15,625.17</u>	<u>(452,215.97)</u>
		275,460.98
		2,657.85
	<u>(275,460.98)</u>	<u>(760,460.98)</u>
	<u>(275,460.98)</u>	<u>(482,342.15)</u>
3,389.67	(259,835.81)	(934,558.12)
<u>725,903.10</u>	<u>781,537.05</u>	<u>4,823,881.88</u>
<u>\$ 729,292.77</u>	<u>\$ 521,701.24</u>	<u>\$ 3,889,323.76</u>

**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, 2012**

Net Change in Fund Balances - Governmental Funds \$ (934,558.12)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (1,338,522.51)

The undepreciated cost of capital assets which are sold or otherwise disposed of is expensed 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 assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (38,411.89)

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

	Notes Payable	\$ 125,953.98	
	Bonds Payable	<u>50,000.00</u>	175,953.98

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 37,424.58

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. (233,769.00)

Internal service funds are 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. 505,293.44

Change in Net Assets - Governmental Activities \$ (1,826,589.52)

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2012**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash	\$ 769,388.94
Investments	1,541,741.68
Noncurrent Assets:	
Investments in SBA Fund B Surplus Funds Trust Fund	65,910.97
TOTAL ASSETS	\$ 2,377,041.59
LIABILITIES	
Noncurrent Liabilities:	
Compensated Absences Payable	\$ 2,377,041.59
NET ASSETS	
Unrestricted	
TOTAL LIABILITIES AND NET ASSETS	\$ 2,377,041.59

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 ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012**

	Governmental Activities - Internal Service Fund
OPERATING EXPENSES	
Compensated Absences Expense	\$ 505,293.44
Operating Loss	(505,293.44)
NONOPERATING REVENUES	
Interest Revenue	20,293.44
Loss Before Transfers	(485,000.00)
Transfers In	485,000.00
Change in Net Assets	
Net Assets - Beginning	
Net Assets - 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, 2012**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	\$ 485,000.00
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(5,831.16)
Interest Income	20,293.44
	14,462.28
Net Cash Provided by Investing Activities	14,462.28
Net Increase in Cash	499,462.28
Cash, Beginning	269,926.66
Cash, Ending	\$ 769,388.94
 Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (505,293.44)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Compensated Absences Payable	505,293.44
Net Cash Provided 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 ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	Agency Funds
ASSETS	
Cash	\$ 307,294.00
LIABILITIES	
Internal Accounts Payable	\$ 307,294.00

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Holmes County School District (District) is considered part of the Florida system of public education. 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 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 or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

Basis of Presentation:

- **Government-wide Financial Statements** - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District.

Government-wide financial statements are prepared using the economic resources measurement focus. 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 not readily associated with a particular function is reported as unallocated.

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. 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.

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

- **Fund Financial Statements** - Fund financial statements report detailed information about the District in the governmental, proprietary, and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and other costs related to the note payable for the energy savings contract.
- 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.

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.

Basis of Accounting. Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund and fiduciary funds financial statements. 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 in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 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. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

distinguish operating revenues and expenses from nonoperating activities. 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

Deposits and Investments. 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.

Investments consist of amounts placed in the State Board of Administration (SBA) debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate 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.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a certificate of deposit, which is reported at cost. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

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 the 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.

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 assets but are not reported in the governmental

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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 fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
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.

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 assets.

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

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.

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

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

The State provides financial assistance to administer certain educational programs. State Board of Education 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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. The District did not have any unencumbered categorical and earmarked educational program resources at June 30, 2012.

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

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 2011 tax levy on September 6, 2011. 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.

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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

Budgetary Information. The Board follows procedures established by State statutes and State Board of Education 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 State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

- 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.

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME	38 Day Average	\$ 10,002.59
Fund B	5.73 Year Average	106,171.69
Debt Service Accounts	6 Months	14,601.23
Certificate of Deposit	September 2012	<u>1,541,741.68</u>
Total Investments, Reporting Entity		<u>\$ 1,672,517.19</u>

- Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District 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 had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits 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.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The District’s investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education 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.

The District’s investment in Florida PRIME is rated AAAm by Standard & Poor’s. Fund B is unrated.

The District’s investment in a certificate of deposit is in a qualified public depository.

4. 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	\$ 450,583.66	\$	\$	\$ 450,583.66
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,723,157.27			1,723,157.27
Buildings and Fixed Equipment	54,031,062.63			54,031,062.63
Furniture, Fixtures, and Equipment	4,341,749.02	197,627.49	561,815.19	3,977,561.32
Motor Vehicles	3,584,986.68	25,419.00	35,871.70	3,574,533.98
Total Capital Assets Being Depreciated	63,680,955.60	223,046.49	597,686.89	63,306,315.20
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,462,755.00	36,600.00	(1.00) (1)	1,499,356.00
Buildings and Fixed Equipment	17,269,813.00	1,137,205.00	8.00 (1)	18,407,010.00
Furniture, Fixtures, and Equipment	3,620,374.00	213,759.00	523,391.00 (1)	3,310,742.00
Motor Vehicles	2,493,737.00	174,005.00	35,877.00 (1)	2,631,865.00
Total Accumulated Depreciation	24,846,679.00	1,561,569.00	559,275.00	25,848,973.00
Total Capital Assets Being Depreciated, Net	38,834,276.60	(1,338,522.51)	38,411.89	37,457,342.20
Governmental Activities Capital Assets, Net	\$ 39,284,860.26	\$ (1,338,522.51)	\$ 38,411.89	\$ 37,907,925.86

Note: (1) Accumulated depreciation deletions include adjustments totaling \$42.00 to correct errors in the District’s depreciation schedule for certain assets.

Depreciation expense is not charged to individual functions on the Statement of Activities but rather is reflected as unallocated depreciation.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

5. NOTES PAYABLE

Notes payable are comprised of the following:

<u>Regions Bank</u>	<u>Balance at June 30</u>
\$670,000, Borrowed 4-18-11, Under Provisions of Section 1013.23, Florida Statutes. Repayment to be Made Over a 5-Year Period. Interest Rate of 3 Percent.	<u>\$ 544,046.02</u>

Amounts payable for the planned extended repayment of the Section 1013.23, Florida Statutes, note are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	\$ 146,701.51	\$ 129,854.33	\$ 16,847.18
2014	146,701.51	133,875.46	12,826.05
2015	146,701.51	138,021.11	8,680.40
2016	146,701.51	142,295.12	4,406.39
Total	<u>\$ 586,806.04</u>	<u>\$ 544,046.02</u>	<u>\$ 42,760.02</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2010A, Refunding	<u>\$ 600,000</u>	4.0 - 5.0	2021

These bonds are issued by the State Board of Education on behalf of the District to finance capital outlay projects 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 State Board of Education and the State Board of Administration.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 79,250	\$ 50,000	\$ 29,250
2014	81,750	55,000	26,750
2015	84,000	60,000	24,000
2016	81,000	60,000	21,000
2017	83,000	65,000	18,000
2018-2021	348,500	310,000	38,500
Total State School Bonds	\$ 757,500	\$ 600,000	\$ 157,500

7. 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					
Notes Payable	\$ 670,000.00	\$	\$ 125,953.98	\$ 544,046.02	\$ 129,854.33
Bonds Payable	650,000.00		50,000.00	600,000.00	50,000.00
Compensated Absences Payable	2,632,350.64	226,689.05	264,113.63	2,594,926.06	321,642.00
Other Postemployment Benefits Payable	358,542.00	546,431.00	312,662.00	592,311.00	
Total Governmental Activities	\$ 4,310,892.64	\$ 773,120.05	\$ 752,729.61	\$ 4,331,283.08	\$ 501,496.33

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 260,324.26	\$
Special Revenue:		
Other		208,607.60
Federal Economic Stimulus		51,716.66
Total	\$ 260,324.26	\$ 260,324.26

The above interfund receivables and payables represent loans to finance expenditures paid by the General Fund on behalf of the Special Revenue – Other and Special Revenue – Federal Economic Stimulus Funds.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 275,460.98	\$ 275,000.00
Debt Service:		
Other		210,000.00
Nonmajor Governmental		275,460.98
Internal Service	485,000.00	
Total	\$ 760,460.98	\$ 760,460.98

The interfund transfers were to reimburse capital outlay and maintenance expenditures in the General Fund and to fund terminal pay benefits in the Internal Service Fund.

9. FUND BALANCE REPORTING

The District reports its governmental fund balances in the following categories, as applicable:

➤ Nonspendable

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.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ Restricted

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.

➤ Committed

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ Assigned

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories. On September 18, 2012, prior to the approval of the annual financial report, the Board approved the assigned fund balances.

➤ Unassigned

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.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue sources for the 2011-12 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 14,021,134.00
Categorical Educational Program - Class Size Reduction	3,211,762.00
School Recognition	110,252.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	82,012.38
Mobile Home License Tax	9,849.77
Discretionary Lottery Funds	9,410.00
Miscellaneous	434,134.62
Total	\$ 17,878,554.77

Accounting policies relating to certain State revenue sources are described in note 1.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.478	\$ 2,540,696.15
Basic Discretionary Local Effort	0.748	346,922.37
Total	6.226	\$ 2,887,618.52

12. FLORIDA RETIREMENT SYSTEM

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. 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. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Elected County

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,520,474.09, \$1,681,208.72, and \$1,135,666.42, respectively, which were equal to the required contributions for each fiscal year.

There were 29 District participants in the Investment Plan during the 2011-12 fiscal year. The District’s contributions, including employee contributions, to the Investment Plan totaled \$75,541.18, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

13. SPECIAL TERMINATION BENEFITS

Board policy 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 or 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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

expenditures, totaling \$29,761.64, during the 2011-12 fiscal year for nine employees that received special termination benefits.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are 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 2011-12 fiscal year, 107 retirees received other postemployment benefits. The District provided required contributions of \$312,662 toward the annual OPEB cost, net of retiree contributions totaling \$450,500, which represents 4.1 percent of covered payroll.

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 231,539
Amortization of Unfunded Actuarial Accrued Liability	<u>313,352</u>
Annual Required Contribution	544,891
Interest on Net OPEB Obligation	15,238
Adjustment to Annual Required Contribution	<u>(13,698)</u>
Annual OPEB Cost (Expense)	546,431
Contribution Toward the OPEB Cost	<u>(312,662)</u>
Increase in Net OPEB Obligation	233,769
Net OPEB Obligation, Beginning of Year	<u>358,542</u>
Net OPEB Obligation, End of Year	<u><u>\$ 592,311</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 470,062	117.5%	\$ 102,549
2010-11	538,989	52.5%	358,542
2011-12	546,431	57.2%	592,311

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$8,000,621, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,000,621 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$10,961,786, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 73 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

future. The required schedule of funding progress immediately following the notes to financial statements 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 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, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 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 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially beginning October 1, 2010, reduced to an ultimate rate of 5 percent after 8 years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 27 years.

15. 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, 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 three fiscal years.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 95,000.00	\$ 95,000.00	\$ 58,826.40	\$ (36,173.60)
Federal Through State and Local State	17,877,318.00	17,550,318.00	17,531,419.55	(18,898.45)
Local:				
Property Taxes	2,781,428.00	2,781,428.00	2,809,929.45	28,501.45
Miscellaneous	401,541.00	401,541.00	273,891.12	(127,649.88)
Total Local Revenues	<u>3,182,969.00</u>	<u>3,182,969.00</u>	<u>3,083,820.57</u>	<u>(99,148.43)</u>
Total Revenues	<u>21,155,287.00</u>	<u>20,828,287.00</u>	<u>20,679,352.57</u>	<u>(148,934.43)</u>
Expenditures				
Current - Education:				
Instruction	12,715,906.00	12,059,249.53	12,055,249.18	4,000.35
Pupil Personnel Services	526,758.00	508,720.00	504,720.30	3,999.70
Instructional Media Services	566,059.00	540,687.90	536,688.35	3,999.55
Instruction and Curriculum Development Services	162,157.00	98,907.00	94,907.10	3,999.90
Instructional Staff Training Services	176,693.00	187,909.00	183,909.40	3,999.60
Instruction Related Technology	109,576.00	109,109.00	105,109.34	3,999.66
School Board	173,590.00	177,234.00	173,234.07	3,999.93
General Administration	164,518.00	171,395.00	169,101.92	2,293.08
School Administration	1,740,171.00	1,756,384.00	1,752,384.49	3,999.51
Fiscal Services	328,537.00	299,783.56	295,783.15	4,000.41
Central Services	591,364.00	675,413.95	671,413.50	4,000.45
Pupil Transportation Services	1,322,404.00	1,293,099.62	1,289,099.60	4,000.02
Operation of Plant	2,663,532.00	2,388,248.80	2,384,248.68	4,000.12
Maintenance of Plant	864,113.00	863,096.80	859,096.49	4,000.31
Administrative Technology Services	2,000.00			
Community Services		4,321.00	320.94	4,000.06
Fixed Capital Outlay:				
Other Capital Outlay		141,432.84	141,432.84	
Total Expenditures	<u>22,107,378.00</u>	<u>21,274,992.00</u>	<u>21,216,699.35</u>	<u>58,292.65</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(952,091.00)</u>	<u>(446,705.00)</u>	<u>(537,346.78)</u>	<u>(90,641.78)</u>
Other Financing Sources (Uses)				
Transfers In	115,000.00	115,000.00	275,460.98	160,460.98
Insurance Loss Recoveries			2,657.85	2,657.85
Transfers Out	<u>(102,000.00)</u>	<u>(279,000.00)</u>	<u>(275,000.00)</u>	<u>4,000.00</u>
Total Other Financing Sources (Uses)	<u>13,000.00</u>	<u>(164,000.00)</u>	<u>3,118.83</u>	<u>167,118.83</u>
Net Change in Fund Balances	<u>(939,091.00)</u>	<u>(610,705.00)</u>	<u>(534,227.95)</u>	<u>76,477.05</u>
Fund Balances, Beginning	2,562,819.00	2,562,819.27	2,562,819.27	
Fund Balances, Ending	<u>\$ 1,623,728.00</u>	<u>\$ 1,952,114.27</u>	<u>\$ 2,028,591.32</u>	<u>\$ 76,477.05</u>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,600,521.00	\$ 2,841,659.00	\$ 2,807,168.28	\$ (34,490.72)	\$ 758,807.00	\$ 844,807.00	\$ 843,653.75	\$ (1,153.25)
<u>2,600,521.00</u>	<u>2,841,659.00</u>	<u>2,807,168.28</u>	<u>(34,490.72)</u>	<u>758,807.00</u>	<u>844,807.00</u>	<u>843,653.75</u>	<u>(1,153.25)</u>
2,105,144.00	2,263,805.99	2,261,774.62	2,031.37	600,000.00	696,516.91	696,397.46	119.45
96,930.00	80,619.00	78,618.57	2,000.43				
16,668.00	2,391.00	390.60	2,000.40				
172,504.00	171,524.00	169,523.80	2,000.20				
53,841.00	155,583.05	153,583.49	1,999.56	55,000.00	37,400.00	37,325.44	74.56
	8,437.00	6,443.79	1,993.21	103,807.00	63,467.00	63,459.94	7.06
68,694.00	57,291.00	55,296.44	1,994.56		3,800.00	3,794.73	5.27
1,471.00	1,963.00		1,963.00		8,500.00	8,462.65	37.35
51,186.00	31,659.00	29,667.01	1,991.99		8.00		8.00
27,474.00	5,474.00		5,474.00				
6,609.00	8,537.00		8,537.00				
	2,000.00		2,000.00		71.56		71.56
	<u>51,869.96</u>	<u>51,869.96</u>			<u>34,213.53</u>	<u>34,213.53</u>	
<u>2,600,521.00</u>	<u>2,841,154.00</u>	<u>2,807,168.28</u>	<u>33,985.72</u>	<u>758,807.00</u>	<u>843,977.00</u>	<u>843,653.75</u>	<u>323.25</u>
	<u>505.00</u>		<u>(505.00)</u>		<u>830.00</u>		<u>(830.00)</u>
	<u>505.00</u>		<u>(505.00)</u>		<u>830.00</u>		<u>(830.00)</u>
\$ 0.00	\$ 505.00	\$ 0.00	\$ (505.00)	\$ 0.00	\$ 830.00	\$ 0.00	\$ (830.00)

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2008	\$ 0	\$ 4,408,903	\$ 4,408,903	0.0%	\$ 11,028,315	40.0%
June 30, 2009	0	4,360,952	4,360,952	0.0%	10,874,083	40.1%
October 1, 2010	0	8,000,621	8,000,621	0.0%	10,961,786	73.0%

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$8,000,621 was significantly higher than the June 30, 2009, liability of \$4,360,952 as a result of a change from using the alternative measurement method to using a simplified version of the unit credit actuarial method to an actuarial calculation using the entry age normal cost actuarial method.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 93,953.49	\$
National School Lunch Program	10.555	300, 350	328,702.77	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	177,119.76	
National School Lunch Program	10.555 (2)	300, 350	665,143.94	
Total United States Department of Agriculture			1,264,919.96	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	742,510.23	
Special Education - Preschool Grants	84.173	267	27,877.00	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	3,802.00	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	5,286.05	
Total Special Education Cluster			779,475.28	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,212,731.39	22,208.22
Career and Technical Education - Basic Grants to States	84.048	161	78,097.74	
Twenty-First Century Community Learning Centers	84.287	244	437,235.54	
Rural Education	84.358	110	109,154.58	
Improving Teacher Quality State Grants	84.367	224	199,561.80	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211, RG311	210,291.75	
Education Jobs Fund	84.410	541	629,560.00	
Total United States Department of Education			3,656,108.08	22,208.22
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	58,826.40	
Total Expenditures of Federal Awards			\$ 4,979,854.44	\$ 22,208.22

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes \$63,336.21 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited 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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to 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. Other auditors audited the financial statements of the school internal funds, as described in our report on the Holmes County District School Board'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, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting

that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 19, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Holmes County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct

and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
February 19, 2013

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA); ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities, band and choral directors, peer teachers, and supervising student clubs. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, level of job performance difficulties, and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that they were aware of the differentiated pay requirements, but the District had not implemented the requirements because of State funding reductions. In addition, District personnel indicated that they are continuing to work toward developing policies and procedures related to differentiated pay; however, they do not expect these policies to be finalized until the 2013-14 fiscal year. Without a Board-established documented process for identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors were consistently considered and applied. Similar findings were noted in our report Nos. 2011-147 and 2012-141.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains manual signatures of employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

Although the District did not make EFTs for vendor payments, District personnel maintained documentation signed by initiators and authorizers of EFTs for payroll-related activity such as direct deposit of employee pay and remittance of Federal taxes and other payroll withholdings. According to District records, cash of \$4,801,725 was available for electronic transfer at June 30, 2012. The Board established EFT agreements with four banks that identified the finance officer or finance officer-approved designee as authorized to initiate transfers, and initiators and authorizers of EFTs were different employees for an appropriate separation of duties. While the District used informal processes including oral instructions, written documentation of the transfers, and other reviews to monitor and control EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Further, the bank agreements did not contain the signature of the employees designated to make EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizer of EFTs and management review of EFT transactions, to compensate, in part, for lack of formal written procedures. Subsequent to our inquiry, the Board adopted written policies in September 2012, prescribing the accounting and control procedures of EFTs; however, as of January 2013, the policies did not provide for the use of electronic signatures and no efforts had been made to include signatures on bank agreements of employees designated to make EFTs. While our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy addressing the use of electronic signatures, and lack of signatures on bank agreements of employees designated to make EFTs, increases the risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-141.

Recommendation: The Board should enhance its written policies and procedures related to EFTs, including the use of electronic signatures. Such policies and procedures should ensure that EFT agreements contain required signatures of those authorized to initiate EFTs.

Finding No. 3: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine whether the District had proper controls over contractual services, we tested three contracts totaling \$93,000.

Pursuant to the Board-approved school health services plan dated March 2011, the Holmes County Health Department was responsible for providing school health services for the District. In July 2011, the Board approved a

request from the Health Department to pay \$55,000 annually for these services. However, the District prepaid \$27,500 each in October 2011 and March 2012 based on bills from the Health Department, instead of making payments after satisfactory completion of the services. Also, the health services plan or other District records did not establish where the services would be provided, service times, or consequences for noncompliance with expected deliverables. District personnel indicated that an annual report is submitted to the Board noting the school health services; however, the District did not maintain time records, such as sign-in, sign-out sheets, to evidence that District personnel with direct knowledge of the health services confirmed receipt of the services. District personnel indicated that time records for health services were not maintained because school principals monitor attendance of the Health Department personnel and the District office is notified of any absences.

While District records did not evidence any instances that the District office was notified for absences of the Health Department personnel, without records to confirm receipt of the health services, there is an increased risk of overpayments for these services. Without effective procedures to reconcile payments to contract terms and conditions and confirm that services are received prior to payment, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its monitoring procedures to ensure compliance with contract terms and conditions and confirm that services are appropriately received prior to payment.

Finding No. 4: Information Technology – Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification to affected parties.

The District drafted a comprehensive written security incident response plan but, as of December 2012, it had not been approved by the Board. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the lack of an approved written security incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources. A similar finding was noted in our report No. 2012-141.

Recommendation: The District should obtain Board approval of its written security incident response plan.

Finding No. 5: Information Technology – Security Controls – Data Loss Prevention

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

Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-141.

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-141. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-141, Finding No. 2	Audit Report No. 2011-147, Finding No. 3
2	Audit Report No. 2012-141, Finding No. 3	NA
4	Audit Report No. 2012-141, Finding No. 5	NA
5	Audit Report No. 2012-141, Finding No. 6	NA

NA – Not Applicable

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HOLMES COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2011-147 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Allowable Costs/Cost Principles	Controls over the administration and use of Title I program resources were not sufficient, resulting in \$100,388.79 of questioned costs.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2011-147 (2)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) - Eligibility	District procedures did not ensure that Title I schoolwide program resources were properly allocated to, and used at, schools with the greatest need, resulting in questioned costs of \$80,087.67.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2011-147 (3)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) - Period of Availability	The District charged expenditures to the Title I program for obligations not incurred during the grant period, resulting in \$35,475.75 of questioned costs.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2012-141 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, and Earmarking - Maintenance of Effort	The District did not ensure compliance with Federal maintenance of effort requirements, resulting in questioned costs of \$43,092.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.

EXHIBIT A
MANAGEMENT'S RESPONSE



Holmes District School Board
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SUPERINTENDENT
Eddie Dixon

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BOARD MEMBERS
Rusty Williams, Chair
Jason Motley, Vice-Chair
Debbie Kolmetz
Shirley Owens
Sid Johnson

February 19, 2013

David W. Martin
Auditor General
G74 Claude Pepper Building
111 West Madison Avenue
Tallahassee, Florida 32399

Dear Mr. Martin:

The district offers the following responses to Florida's Auditor General audit findings for the Holmes District School Board for the fiscal year ended June 30, 2012.

- Finding No. 1: The district expects to present our process for identifying the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c).b at the district planning summit on March 21, 2013. Once this planning meeting has been completed, school board negotiators will meet with Union representatives to finalize the plan. The plan will include the district-determined factors for differentiated pay which could include additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. The targeted implementation of the plan will be August, 2013 as outlined in the Race to the Top Grant.
- Finding No. 2: Bank agreements will be presented to the School Board on March 5, 2013 that will include the signatures of employees designated to make EFT's. Updated Board Policies will be presented to the board for approval for advertisement at the March 5, 2013 meeting; these updates will include policies for the use of electronic signatures.
- Finding No. 3: The School Health Services Contract for school year 2013/2014 has been prepared and will be presented to the Board in July, 2013. All areas of concern listed in this finding have been clarified in the contract. School district and health department staff have implemented changes for this year to address the concerns. Other contractual services contracts will be reviewed and changes implement by August, 2013.

**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**

- Finding No. 4: School district staff has completed a draft ITS Security Incident Response Plan that will be reviewed at the March 21, 2013 administrative summit. This plan should be presented for School Board approval during April, 2013.
- Finding No. 5: IT staff has prepared a HDSB Data Classification and Access Control Procedure document that is scheduled to be presented to district and school administrative personnel on March 21, 2013.

If you have questions or concerns, please advise.

Sincerely,



Eddie Dixon
Superintendent of Schools