REPORT NO. 2011-147
MARCH 2011

HOLMES COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Rickey D. Callahan, Chair	1
Gary Scott, Vice Chair	2
Jason Motley	3
Anthony Register	4
Vernon Lewis, Jr.	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. For the information technology portion of this audit, the audit team leader was Danielle M. Alvarez, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. 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 District did not obtain an actuarial valuation supporting the amount of the reported liability for other postemployment benefits provided by the District.

Finding No. 2: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 4: The District could improve controls over tangible personal property.

Finding No. 5: The District lacked comprehensive written Transportation Department policies and procedures to establish personnel duties and responsibilities and safeguard Department resources.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Title I, Part A Cluster; Special Education Cluster; Twenty-First Century Community Learning Centers; and State Fiscal Stabilization Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, except for the Title I, Part A Cluster. We noted noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Controls over the administration and use of Federal Title I program resources were not sufficient, resulting in $100,388.79 of questioned costs.

Federal Awards Finding No. 2: 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 $80,087.67 of questioned costs.

Federal Awards Finding No. 3: The District charged expenditures to the Title I program for obligations that were not incurred within the grant period, resulting in $35,475.75 of questioned costs.

Federal Awards Finding No. 4: Required documentation to support personnel charges totaling $18,710.81 for the Child Nutrition Cluster program were not maintained, contrary to Federal regulations.

Federal Awards Finding No. 5: Improvements were needed in controls over the free and reduced-price meal verification process.

Federal Awards Finding No. 6: The District had not implemented adequate controls to ensure the accountability and safeguarding of the District's tangible personal property, which impact the major Federal programs.

Audit Objectives and Scope

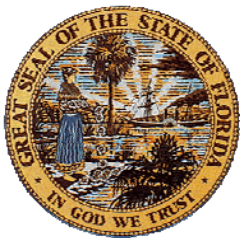
Our audit objectives were to determine whether the Holmes County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- **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. 2010-134.**

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, 2010. 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*.



AUDITOR GENERAL
STATE OF FLORIDA

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AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S
REPORT 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, 2010, 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 16 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, 2010, and the respective changes in financial position and cash flows, where applicable, 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** (pages 3 through 12) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 44 through 47) 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 *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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

David W. Martin, CPA
March 8, 2011

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, 2010. 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 on pages 13 through 42.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- The District's net assets increased by $52,486.98 (or 0.1 percent).
- During the current fiscal year, the General Fund's fund balance increased by $698,709.76, primarily as a result of Federal American Recovery and Reinvestment Act (ARRA) funds. This may be compared to last fiscal year's results when the General Fund's fund balance decreased by $255,867.44. The June 30, 2010, General Fund's fund balance is $1,895,184.80.

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, this report presents certain required supplementary information which includes the MD&A, budgetary comparison schedule, and schedule of funding progress for other postemployment benefits.

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 financial health of the District. 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.

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 – ARRA 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.

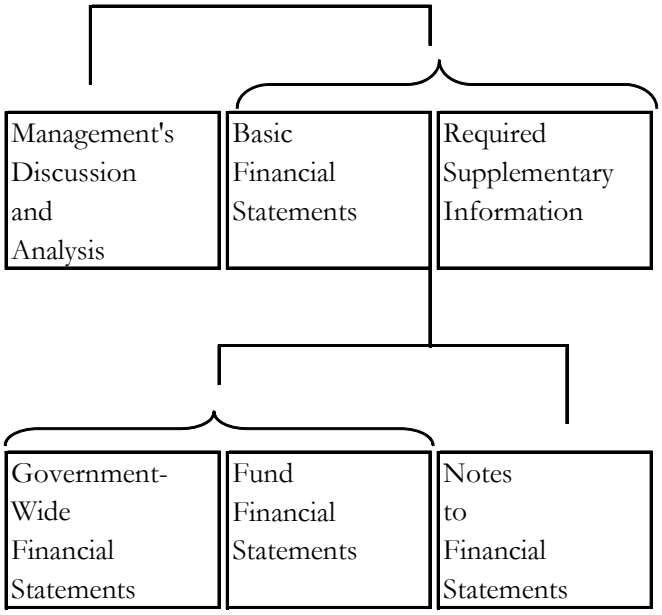
The District uses agency funds to account for resources held for student activities and groups.

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 Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
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, 2010, compared to net assets as of June 30, 2009:

Net Assets, End of Year

	Governmental Activities	
	6-30-10	6-30-09
Current and Other Assets	$ 6,588,313.76	$ 5,920,003.86
Capital Assets	40,637,316.03	41,628,261.77
Total Assets	47,225,629.79	47,548,265.63
Long-Term Liabilities	4,425,683.39	4,638,182.89
Other Liabilities	497,187.80	659,811.12
Total Liabilities	4,922,871.19	5,297,994.01
Net Assets:		
Invested in Capital Assets - Net of Related Debt	39,089,877.68	39,942,395.46
Restricted	1,371,743.32	1,810,359.69
Unrestricted	1,841,137.60	497,516.47
Total Net Assets	$ 42,302,758.60	$ 42,250,271.62

The largest portion of the District's net assets (92.4 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 (3.2 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (4.4 percent) may be used to meet the government'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, 2010, and June 30, 2009, are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	$ 461,211.34	$ 503,783.37
Operating Grants and Contributions	1,836,662.46	2,038,648.23
Capital Grants and Contributions	115,089.40	212,618.04
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,847,370.81	2,603,984.62
Grants and Contributions Not Restricted to Specific Programs	23,538,948.74	22,684,366.00
Unrestricted Investment Earnings	123,876.80	88,986.83
Miscellaneous	445,280.76	361,266.66
Total Revenues	29,368,440.31	28,493,653.75
Functions/Program Expenses:		
Instruction	15,807,449.45	15,438,824.28
Pupil Personnel Services	650,721.83	635,031.63
Instructional Media Services	743,928.97	592,076.86
Instruction and Curriculum Development Services	413,981.83	479,959.66
Instructional Staff Training Services	309,829.74	663,545.90
Instruction Related Technology	162,470.17	251,223.63
School Board	174,011.22	175,279.17
General Administration	307,126.76	264,898.32
School Administration	1,766,025.78	1,980,498.96
Facilities Acquisition and Construction		12.00
Fiscal Services	267,917.46	291,527.34
Food Services	1,583,602.58	1,714,202.41
Central Services	584,750.11	682,708.17
Pupil Transportation Services	1,351,371.76	1,355,288.34
Operation of Plant	2,579,838.03	2,700,623.23
Maintenance of Plant	796,252.53	1,076,761.36
Community Services	42,758.60	39,790.33
Unallocated Interest on Long-Term Debt	74,381.51	79,871.20
Unallocated Depreciation Expense	1,699,535.00	1,743,474.00
Total Functions/Program Expenses	29,315,953.33	30,165,596.79
Increase (Decrease) in Net Assets	$ 52,486.98	$ (1,671,943.04)

The largest revenue source is the State of Florida (64.9 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs increased by $854,582.74, or 3.8 percent. This is primarily due to the receipt of ARRA Federal funds of $2,023,016.00, which were partially offset by a decrease in State funding of $1,572,196.08, or 7.6 percent.

Instruction expenses represent 53.9 percent of total governmental expenses in the 2009-10 fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is $1,891,601.76, while the total fund balance is $1,895,184.80. The unreserved fund balance increased by $702,482.22, while the total fund balance increased by $698,709.76 during the fiscal year. The increase resulted primarily from an increase in ARRA Federal funds provided to the District and a reduction of personnel costs.

The Special Revenue – Other Fund and Special Revenue – ARRA Economic Stimulus Fund each have a zero fund balance 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.

The Debt Service – Other Fund has a total fund balance of $913,474.77, which is available to fund the loan repayment related to the energy savings contract. The fund balance decreased $124,997.28 primarily because of transfers to the Internal Service Fund, which funds a portion of the District's compensated absences liability.

The Capital Projects – Local Capital Improvement Fund has a fund balance of $719,643.90, which is restricted to the acquisition, construction, and maintenance of capital assets. This represents an increase of $8,053.17, resulting from interest earnings.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the 2009-10 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, 2010, and June 30, 2009:

Capital Assets

	Governmental Activities	
	6-30-10	6-30-09
Land	$ 450,583.66	$ 450,583.66
Improvements Other Than Buildings	313,074.27	367,193.27
Buildings and Fixed Equipment	37,899,066.63	39,040,482.63
Furniture, Fixtures, and Equipment	865,627.79	871,549.43
Motor Vehicles	1,108,963.68	898,452.78
Total Capital Assets	$ 40,637,316.03	$ 41,628,261.77

Long-Term Debt

The following table discloses the 2009-10 fiscal year debt principal payments and outstanding debt as June 30, 2010:

Long-Term Debt

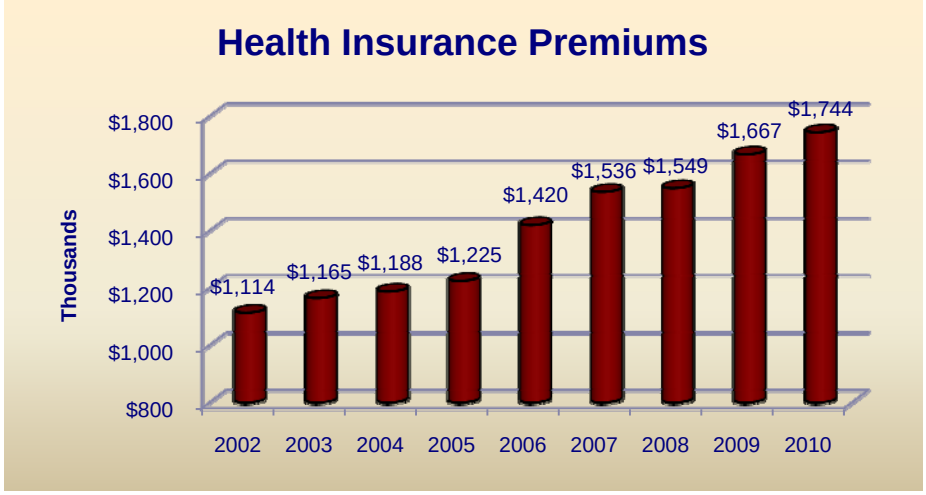
	2009-10 Debt Payments	6-30-10 Debt Outstanding
State School Bonds	$ 45,000.00	$ 780,000.00
Note Payable	93,427.96	767,438.35
Total	$ 138,427.96	$ 1,547,438.35

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

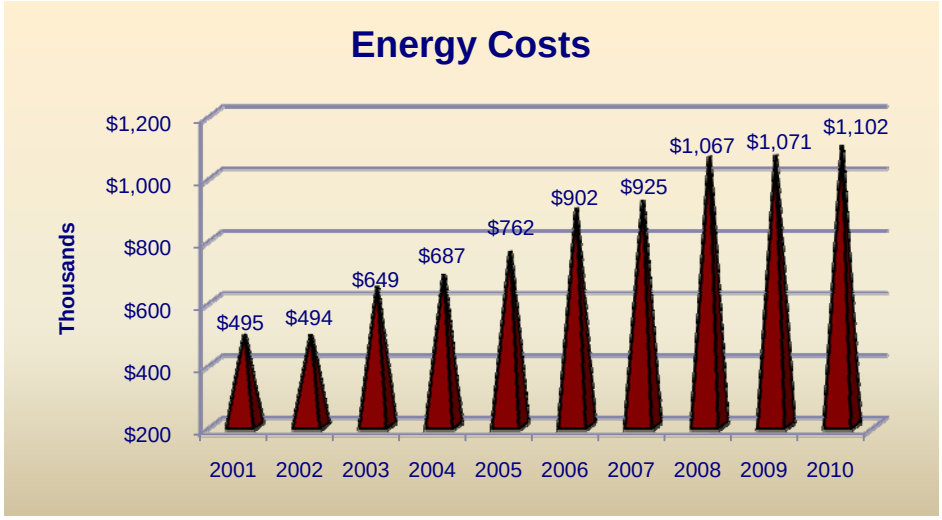
Insurance Premiums

The insurance industry has presented a challenge for consumers for the past few years. The current provider of health insurance has a contractual provision whereby the District is to pay at least 75 percent of the premium cost for employee health coverage. The District's total cost of health insurance benefits for the last nine years is reflected in the following chart:



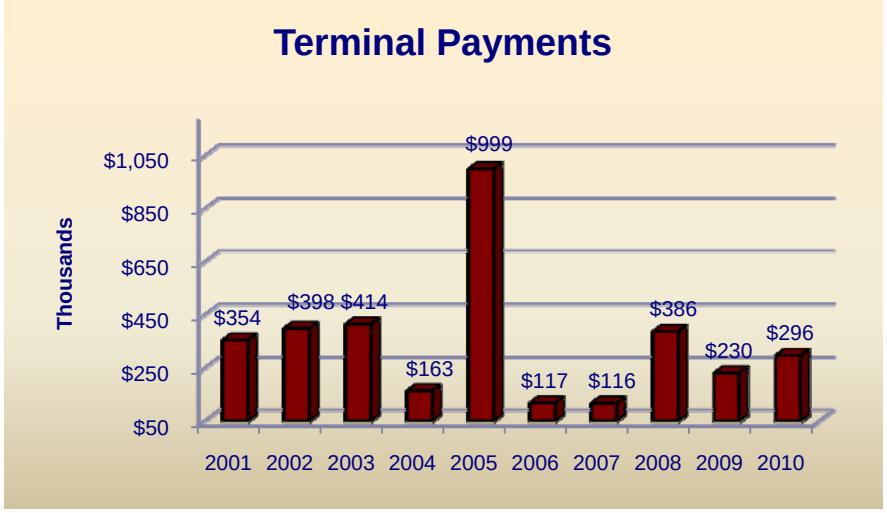
Energy Costs

Energy costs for the operation of plant have impacted the District's cost containment ability. These energy costs over the last ten years are reflected in the following chart:



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 (DROP), 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 total cost of terminal pay costs and terminal pay liability for the last ten years is reflected in the following charts.



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, 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, 2010

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 5,605,749.25
Investments	180,507.67
Accounts Receivable	62,376.08
Due from Other Agencies	629,747.83
Inventories	109,932.93
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	40,186,732.37
TOTAL ASSETS	$ 47,225,629.79
LIABILITIES	
Payroll Deductions and Withholdings	$ 380,998.86
Accounts Payable	116,188.94
Long-Term Liabilities:	
Portion Due Within One Year	454,652.08
Portion Due After One Year	3,971,031.31
Total Liabilities	4,922,871.19
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	39,089,877.68
Restricted for:	
State Required Carryover Programs	3,583.04
Debt Service	18,995.14
Capital Projects	1,349,165.14
Unrestricted	1,841,137.60
Total Net Assets	42,302,758.60
TOTAL LIABILITIES AND NET ASSETS	$ 47,225,629.79

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, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$ 15,807,449.45	$ 66,312.56	$	$	$ (15,741,136.89)
Pupil Personnel Services	650,721.83				(650,721.83)
Instructional Media Services	743,928.97				(743,928.97)
Instruction and Curriculum Development Services	413,981.83				(413,981.83)
Instructional Staff Training Services	309,829.74				(309,829.74)
Instruction Related Technology	162,470.17				(162,470.17)
School Board	174,011.22				(174,011.22)
General Administration	307,126.76				(307,126.76)
School Administration	1,766,025.78				(1,766,025.78)
Facilities Acquisition and Construction				31,068.92	31,068.92
Fiscal Services	267,917.46				(267,917.46)
Food Services	1,583,602.58	361,920.73	1,147,337.46		(74,344.39)
Central Services	584,750.11				(584,750.11)
Pupil Transportation Services	1,351,371.76	32,978.05	618,601.00		(699,792.71)
Operation of Plant	2,579,838.03				(2,579,838.03)
Maintenance of Plant	796,252.53		70,724.00		(725,528.53)
Community Services	42,758.60				(42,758.60)
Unallocated Interest on Long-Term Debt	74,381.51			84,020.48	9,638.97
Unallocated Depreciation Expense	1,699,535.00				(1,699,535.00)
Total Governmental Activities	$ 29,315,953.33	$ 461,211.34	$ 1,836,662.46	$ 115,089.40	(26,902,990.13)

General Revenues:	
Taxes:	
Property Taxes, Levied for Operational Purposes	2,847,370.81
Grants and Contributions Not Restricted to Specific Programs	23,538,948.74
Unrestricted Investment Earnings	123,876.80
Miscellaneous	445,280.76
Total General Revenues	26,955,477.11
Change in Net Assets	52,486.98
Net Assets - Beginning	42,250,271.62
Net Assets - Ending	$ 42,302,758.60

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, 2010

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	$ 1,621,992.08	$ 134,902.54	$	$ 913,474.77
Investments				
Accounts Receivable	62,308.18			
Due from Other Funds	505,802.53			
Due from Other Agencies	51,561.81	309,340.19	117,343.65	
Inventories	79,787.68			
TOTAL ASSETS	$ 2,321,452.28	$ 444,242.73	$ 117,343.65	$ 913,474.77
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	$ 347,746.22	$ 2,126.51	$ 26,970.31	$
Accounts Payable	78,521.26	26,402.03	285.00	
Due to Other Funds		415,714.19	90,088.34	
Total Liabilities	426,267.48	444,242.73	117,343.65	
Fund Balances:				
Reserved for State Required Carryover Programs	3,583.04			
Reserved for Debt Service				
Unreserved, Reported in:				
General Fund	1,891,601.76			
Debt Service Funds				913,474.77
Special Revenue Funds				
Capital Projects Funds				
Total Fund Balances	1,895,184.80			913,474.77
TOTAL LIABILITIES AND FUND BALANCES	$ 2,321,452.28	$ 444,242.73	$ 117,343.65	$ 913,474.77

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
$ 719,643.90	$ 716,804.59	$ 4,106,817.88
	80,241.31	80,241.31
	67.90	62,376.08
		505,802.53
	151,502.18	629,747.83
	30,145.25	109,932.93
$ 719,643.90	$ 978,761.23	$ 5,494,918.56
$	$ 4,155.82	$ 380,998.86
	10,980.65	116,188.94
		505,802.53
	15,136.47	1,002,990.33
		3,583.04
	18,995.14	18,995.14
		1,891,601.76
		913,474.77
	315,108.38	315,108.38
719,643.90	629,521.24	1,349,165.14
719,643.90	963,624.76	4,491,928.23
$ 719,643.90	$ 978,761.23	$ 5,494,918.56

HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total Fund Balances - Governmental Funds		$ 4,491,928.23
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.		40,637,316.03
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Note Payable	$ 767,438.35	
Bonds Payable	780,000.00	
Compensated Absences Payable (net of $1,599,197.73 set aside in the Internal Service Fund to fund a portion of the liability)	1,176,498.31	
Other Postemployment Benefits Payable	102,549.00	(2,826,485.66)
Total Net Assets - Governmental Activities		$ 42,302,758.60

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, 2010

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 54,464.34	$ 188,362.74	$	$
Federal Through State and Local	80,768.48	2,827,590.07	2,023,016.00	
State	18,640,933.52			209,250.00
Local:				
Property Taxes	2,847,370.81			
Charges for Services - Food Service				
Miscellaneous	566,246.22			18,615.33
Total Revenues	22,189,783.37	3,015,952.81	2,023,016.00	227,865.33
Expenditures				
Current - Education:				
Instruction	12,055,420.15	1,978,005.36	1,731,139.80	
Pupil Personnel Services	537,208.80	104,642.01		
Instructional Media Services	589,402.63	144,010.91	19,303.90	
Instruction and Curriculum Development Services	175,891.39	214,054.37	17,012.48	
Instructional Staff Training Services	192,747.86	107,858.45	2,058.00	
Instruction Related Technology	133,096.00	20,583.06	6,367.60	
School Board	174,901.22			
General Administration	169,760.93	116,481.28	19,815.29	
School Administration	1,765,196.44			
Fiscal Services	272,220.76			
Food Services			650.00	
Central Services	632,125.22	1,079.68		
Pupil Transportation Services	1,309,385.98	49,763.51		
Operation of Plant	2,499,301.18		83,082.05	
Maintenance of Plant	798,988.67		24,826.79	
Community Services	6,758.60	36,000.00		
Fixed Capital Outlay:				
Other Capital Outlay	394,862.78	243,474.18	118,760.09	
Debt Service:				
Principal				93,427.96
Interest and Fiscal Charges				34,434.65
Total Expenditures	21,707,268.61	3,015,952.81	2,023,016.00	127,862.61
Excess (Deficiency) of Revenues Over Expenditures	482,514.76			100,002.72
Other Financing Sources (Uses)				
Transfers In	731,195.00			
Transfers Out	(515,000.00)			(225,000.00)
Total Other Financing Sources (Uses)	216,195.00			(225,000.00)
Net Change in Fund Balances	698,709.76			(124,997.28)
Fund Balances, Beginning	1,196,475.04			1,038,472.05
Fund Balances, Ending	$ 1,895,184.80	$ 0.00	$ 0.00	$ 913,474.77

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
$	$	$ 242,827.08
	1,258,888.54	6,190,263.09
	207,426.91	19,057,610.43
		2,847,370.81
	361,920.73	361,920.73
8,053.17	63,148.45	656,063.17
8,053.17	1,891,384.63	29,356,055.31
		15,764,565.31
		641,850.81
		752,717.44
		406,958.24
		302,664.31
		160,046.66
		174,901.22
		306,057.50
		1,765,196.44
		272,220.76
	1,578,460.20	1,579,110.20
		633,204.90
		1,359,149.49
		2,582,383.23
		823,815.46
		42,758.60
		757,097.05
	45,000.00	138,427.96
	39,946.86	74,381.51
	1,663,407.06	28,537,507.09
8,053.17	227,977.57	818,548.22
	65,000.00	796,195.00
	(731,195.00)	(1,471,195.00)
	(666,195.00)	(675,000.00)
8,053.17	(438,217.43)	143,548.22
711,590.73	1,401,842.19	4,348,380.01
$ 719,643.90	$ 963,624.76	$ 4,491,928.23

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, 2010

Net Change in Fund Balances - Governmental Funds		$	143,548.22
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 period.			(917,822.18)
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 year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.			(73,123.56)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of assets. This is the amount of long-term debt that was repaid in the current year.			
Note Payable	$ 93,427.96		
Bonds Payable	45,000.00		138,427.96
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount used in the current period.			(8,171.46)
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the other postemployment benefits liability for the current fiscal year.			82,243.00
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.			687,385.00
Change in Net Assets - Governmental Activities		$	52,486.98

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, 2010

		Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,498,931.37
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		100,266.36
TOTAL ASSETS	$	1,599,197.73
LIABILITIES		
Noncurrent Liabilities:		
Compensated Absences Payable	$	1,599,197.73
NET ASSETS		
Unrestricted		
TOTAL LIABILITIES AND NET ASSETS	$	1,599,197.73

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, 2010

	Governmental Activities - Internal Service Fund
OPERATING EXPENSES	
Compensated Absences Expense	$ 687,385.00
Operating Loss	(687,385.00)
NONOPERATING REVENUES (EXPENSES)	
Interest	12,385.00
Loss Before Transfers	(675,000.00)
Transfers In	675,000.00
Change in Net Assets	
Total Net Assets - Beginning	
Total 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, 2010

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	$ 675,000.00
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	29,004.21
Interest Income	12,385.00
Net Cash Provided by Investing Activities	41,389.21
Net Increase in Cash and Cash Equivalents	716,389.21
Cash and Cash Equivalents, Beginning	782,542.16
Cash and Cash Equivalents, Ending	$ 1,498,931.37

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

Operating Loss	$ (687,385.00)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities:	
Increase in Compensated Absences Payable	687,385.00
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, 2010

	Agency Funds
ASSETS	
Cash	$ 300,124.00
LIABILITIES	
Internal Accounts Payable	$ 300,124.00

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Reporting Entity**

The District School 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 Holmes County District School Board (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 reporting entity of the District.

- **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 primary government.

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, 2010

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 – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- 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 and 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.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

The Proprietary Fund accounts for proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds 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.

- **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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 SBA Debt Service accounts for investment of debt service moneys and amounts placed with 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. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by 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.

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

- **Inventories**

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- **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 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:

Description	Estimated Lives
Improvements Other than Buildings	20 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 10 years
Motor Vehicles	5 - 10 years

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

- **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 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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

reporting 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 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. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

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

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 2009 tax levy on September 15, 2009. 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.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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 School Board meeting prior to the due date for the annual financial report.
- 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, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	$ 10,033.42
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	161,512.53
Debt Service Accounts	6 Months	18,995.14
Total Investments, Reporting Entity		$ 190,541.09

Note (1): Investments considered cash equivalents for financial statement reporting purposes.

Interest Rate Risk

- 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 46 days at June 30, 2010. 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. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

- The District's investments in 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 SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

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	4,739,619.43	374,715.92	451,107.56	4,663,227.79
Motor Vehicles	3,032,706.78	406,996.90		3,439,703.68
Total Capital Assets Being Depreciated	63,526,546.11	781,712.82	451,107.56	63,857,151.37
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,355,964.00	54,119.00		1,410,083.00
Buildings and Fixed Equipment	14,990,580.00	1,141,416.00		16,131,996.00
Furniture, Fixtures, and Equipment	3,868,070.00	307,514.00	377,984.00	3,797,600.00
Motor Vehicles	2,134,254.00	196,486.00		2,330,740.00
Total Accumulated Depreciation	22,348,868.00	1,699,535.00	377,984.00	23,670,419.00
Total Capital Assets Being Depreciated, Net	41,177,678.11	(917,822.18)	73,123.56	40,186,732.37
Governmental Activities Capital Assets, Net	$ 41,628,261.77	$ (917,822.18)	$ 73,123.56	$ 40,637,316.03

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

5. NOTE PAYABLE

Note payable is comprised of the following:

Wachovia Bank	Balance at 6-30-10
$1,200,000, Borrowed 6-30-05, Under Provisions of Section 1013.23, Florida Statutes. Repayment to be Made Over a 12-Year Period. Interest Rate of 4 Percent.	$ 767,438.35

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
2011	$ 127,862.61	$ 97,165.08	$ 30,697.53
2012	127,862.61	101,051.68	26,810.93
2013	127,862.61	105,093.75	22,768.86
2014	127,862.61	109,297.50	18,565.11
2015	127,862.61	113,669.40	14,193.21
2016-2017	255,725.17	241,160.94	14,564.23
Total	$ 895,038.22	$ 767,438.35	$ 127,599.87

6. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2001A	$ 780,000.00	4.375 - 5.00	2021

The bonds were issued by the State Board of Education 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, 2010

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	$ 87,975.00	$ 50,000.00	$ 37,975.00
2012	90,787.50	55,000.00	35,787.50
2013	88,312.50	55,000.00	33,312.50
2014	90,768.75	60,000.00	30,768.75
2015	92,918.75	65,000.00	27,918.75
2016-2020	486,250.00	400,000.00	86,250.00
2021	99,750.00	95,000.00	4,750.00
Total State School Bonds	$ 1,036,762.50	$ 780,000.00	$ 256,762.50

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					
Note Payable	$ 860,866.31	$	$ 93,427.96	$ 767,438.35	$ 97,165.08
Bonds Payable	825,000.00		45,000.00	780,000.00	50,000.00
Compensated Absences Payable	2,767,524.58	303,745.70	295,574.24	2,775,696.04	307,487.00
Other Postemployment Benefits Payable	184,792.00	470,062.00	552,305.00	102,549.00	
Total Governmental Activities	$ 4,638,182.89	$ 773,807.70	$ 986,307.20	$ 4,425,683.39	$ 454,652.08

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

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	Interfund Payables
Major:		
General	$ 505,802.53	$
Special Revenue:		
Other		415,714.19
ARRA Economic Stimulus		90,088.34
Total	$ 505,802.53	$ 505,802.53

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

The above interfund receivables and payables represent loans to finance expenditures paid by the General Fund on behalf of Special Revenue – Other and Special Revenue – ARRA 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	$ 731,195.00	$ 515,000.00
Debt Service:		
Other		225,000.00
Nonmajor Governmental	65,000.00	731,195.00
Internal Service	675,000.00	
Total	$ 1,471,195.00	$ 1,471,195.00

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

9. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010. There were no outstanding purchase orders at June 30, 2010.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Florida Education Finance Program	$15,154,590.00
Categorical Educational Program - Class Size Reduction	3,179,330.00
School Recognition	128,047.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	85,726.97
Gross Receipts Tax (Public Education Capital Outlay)	70,724.00
Food Service Supplement	23,320.00
Mobile Home License Tax	10,094.56
Discretionary Lottery Funds	8,186.00
Miscellaneous	397,591.90
Total	$ 19,057,610.43

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, 2010

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

GENERAL FUND	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	5.288	$2,462,419.87
Basic Discretionary Local Effort	0.748	348,315.07
Critical Operating Needs	0.250	116,415.46
Total	6.286	$2,927,150.40

12. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida 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 Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military 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, and 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 PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
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 0.05 percent for administrative costs of PEORP.
(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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $1,643,147.05, $1,605,689.46, and $1,520,474.09, respectively, which were equal to the required contributions for each fiscal year. There were 32 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled $114,186.32.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on 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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

employee must be eligible to retire under the Florida Retirement System. In addition to payments for accrued leave and regular termination benefits, the District reported expenditures, totaling $47,392.10, during the 2009-10 fiscal year for 11 employees that received special termination benefits.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the 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 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 Plan does not issue a stand-alone report and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and 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 other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 106 retirees received other postemployment benefits. The District provided required contributions of $552,305 toward the annual OPEB cost, net of retiree contributions totaling $417,251, which represents 3.8 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). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB 45 for employers in plans with fewer than 100 total plan members, even though the District has 322 plan members. The District has elected to use this method in lieu of obtaining the required actuarial valuation. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Description	Amount
Normal Cost (service cost for one year)	$ 178,410
Amortization of Unfunded Actuarial Accrued Liability	265,955
Interest on Normal Cost and Amortization	21,552
Annual Required Contribution	465,917
Interest on Net OPEB Obligation	4,145
Annual OPEB Cost (Expense)	470,062
Contribution Toward the OPEB Cost	(552,305)
Decrease in Net OPEB Obligation	(82,243)
Net OPEB Obligation, Beginning of Year	184,792
Net OPEB Obligation, End of Year	$ 102,549

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010 and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	$ 0	0.0%	$ 0
2008-09	462,447	60.0%	184,792
2009-10	470,062	117.5%	102,549

Funded Status and Funding Progress. As of June 30, 2009, the most recent valuation date, the actuarial accrued liability for benefits was $4,360,952, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was $10,874,083, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.1 percent.

The projection of future benefit payments for an ongoing 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 Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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 following simplifying assumptions were made:

Retirement age for active employees – Active plan members are assumed to accept retiree medical benefits upon retiring at the earlier of 30 years of service or age 62 with at least 6 years of service. Twenty-five percent of participants retiring on an unreduced basis are assumed to elect to enter the Deferred Retirement Option Program for a period of three years. Thirty-three percent of eligible members are assumed to elect coverage upon retirement. Members are assumed to elect Medicare coverage as soon as they are eligible.

Marital status – Spouses are ineligible for coverage upon death of the active member. Active members that have spousal coverage are assumed to elect coverage at retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The *2003 United States Life Table* for males and females was used to estimate average years of life remaining for Plan participants.

Turnover – Non-group-specific age-based turnover data from GASB 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working life-time asumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – Future healthcare cost trends were based on projected national healthcare expenditure increases for state and local public entities as published by the Centers for Medicare & Medicaid Services, Office of the Actuary, in its report titled *National Health Expenditure Projections 2008-2018*. An annual rate of 6.6 percent initially beginning June 30, 2010, increasing to an ultimate rate of 7.6 percent beginning June 30, 2018, was used.

Health insurance premiums – The 2010 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Other economic assumptions – An expected long-term inflation rate assumption of 3.3 percent was used, which was based upon projected future changes in the Consumer Price Index in *The 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* with growth estimated to be intermediate. The payroll growth rate is assumed to equal this long-term inflation assumption.

The District's OPEB valuation as of June 30, 2009, used a simplified version of the unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the assumptions included a

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

4.85 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The unfunded actuarial accrued liability is being amortized using a level dollar amount on a closed basis. The remaining amortization period at June 30, 2010, was 28 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, money and securities, employee fidelity and faithful performance, boiler and machinery, 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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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, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 139,511.00	$ 139,511.00	$ 54,464.34	$ (85,046.66)
Federal Through State and Local			80,768.48	80,768.48
State	19,136,562.00	18,605,562.00	18,640,933.52	35,371.52
Local:				
Property Taxes	2,789,000.00	2,789,000.00	2,847,370.81	58,370.81
Miscellaneous	376,199.00	376,199.00	566,246.22	190,047.22
Total Revenues	22,441,272.00	21,910,272.00	22,189,783.37	279,511.37
Expenditures				
Current - Education:				
Instruction	11,883,659.00	12,056,619.92	12,055,420.15	1,199.77
Pupil Personnel Services	542,524.00	538,409.00	537,208.80	1,200.20
Instructional Media Services	599,740.00	591,893.06	589,402.63	2,490.43
Instruction and Curriculum Development Services	275,376.00	177,091.00	175,891.39	1,199.61
Instructional Staff Training Services	337,941.00	193,948.00	192,747.86	1,200.14
Instruction Related Technology	176,175.00	133,590.00	133,096.00	494.00
School Board	188,042.00	176,101.00	174,901.22	1,199.78
General Administration	177,556.00	170,961.00	169,760.93	1,200.07
School Administration	1,891,566.00	1,766,396.02	1,765,196.44	1,199.58
Fiscal Services	331,453.00	273,421.14	272,220.76	1,200.38
Food Services				
Central Services	678,006.00	633,325.00	632,125.22	1,199.78
Pupil Transportation Services	1,475,366.00	1,310,586.08	1,309,385.98	1,200.10
Operation of Plant	2,803,666.00	2,500,501.00	2,499,301.18	1,199.82
Maintenance of Plant	831,538.00	800,189.00	798,988.67	1,200.33
Community Services		7,959.00	6,758.60	1,200.40
Fixed Capital Outlay:				
Other Capital Outlay		394,862.78	394,862.78	
Total Expenditures	22,192,608.00	21,725,853.00	21,707,268.61	18,584.39
Excess of Revenues Over Expenditures	248,664.00	184,419.00	482,514.76	298,095.76
Other Financing Sources (Uses)				
Transfers In	510,000.00	510,000.00	731,195.00	221,195.00
Transfers Out	(258,000.00)	(516,200.00)	(515,000.00)	1,200.00
Total Other Financing Sources (Uses)	252,000.00	(6,200.00)	216,195.00	222,395.00
Net Change in Fund Balances	500,664.00	178,219.00	698,709.76	520,490.76
Fund Balances, Beginning	1,196,475.00	1,196,475.04	1,196,475.04	
Fund Balances, Ending	$ 1,697,139.00	$ 1,374,694.04	$ 1,895,184.80	$ 520,490.76

Special Revenue - Other Fund				Special Revenue - ARRA 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)
$	$	$ 188,362.74	$ 188,362.74	$	$	$	$
2,091,088.00	3,032,915.00	2,827,590.07	(205,324.93)	1,025,213.00	2,039,213.00	2,023,016.00	(16,197.00)
2,091,088.00	3,032,915.00	3,015,952.81	(16,962.19)	1,025,213.00	2,039,213.00	2,023,016.00	(16,197.00)
1,557,707.00	1,979,205.17	1,978,005.36	1,199.81	1,025,213.00	1,733,539.91	1,731,139.80	2,400.11
76,229.00	105,842.00	104,642.01	1,199.99				
	146,104.66	144,010.91	2,093.75		20,504.00	19,303.90	1,200.10
211,653.00	215,253.99	214,054.37	1,199.62		18,212.00	17,012.48	1,199.52
112,814.00	109,058.00	107,858.45	1,199.55		3,258.00	2,058.00	1,200.00
9,900.00	24,889.00	20,583.06	4,305.94		8,768.00	6,367.60	2,400.40
83,759.00	117,681.00	116,481.28	1,199.72		21,015.00	19,815.29	1,199.71
					1,850.00	650.00	1,200.00
3,253.00	2,280.00	1,079.68	1,200.32				
35,773.00	50,964.00	49,763.51	1,200.49		1,200.00		1,200.00
					84,282.00	83,082.05	1,199.95
					26,027.00	24,826.79	1,200.21
	37,200.00	36,000.00	1,200.00				
	243,474.18	243,474.18			118,760.09	118,760.09	
2,091,088.00	3,031,952.00	3,015,952.81	15,999.19	1,025,213.00	2,037,416.00	2,023,016.00	14,400.00
	963.00		(963.00)		1,797.00		(1,797.00)
	963.00		(963.00)		1,797.00		(1,797.00)
$ 0.00	$ 963.00	$ 0.00	$ (963.00)	$ 0.00	$ 1,797.00	$ 0.00	$ (1,797.00)

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(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%

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

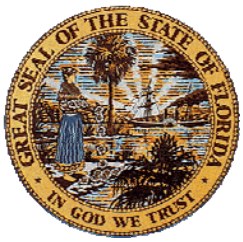
HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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	$ 221,425.32	$
National School Lunch Program	10.555	300, 350	849,180.48	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	55,293.80	
Total Child Nutrition Cluster			1,125,899.60	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	33,000.00	
Total United States Department of Agriculture			1,158,899.60	
United States Department of Labor:				
Indirect:				
Chipola Regional Workforce Development Board, Inc.:				
WIA Youth Activities	17.259	0910-02	78,861.00	
United States Department of Education:				
Direct:				
Improving Literacy Through School Libraries	84.364	N/A	188,362.74	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	618,600.85	
Special Education - Preschool Grants	84.173	267	27,945.54	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	372,149.51	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	6,065.42	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	1,532.48	
Total Special Education Cluster			1,026,293.80	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,291,849.48	38,591.46
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	435,445.13	25,885.70
Total Title I, Part A Cluster			1,727,294.61	64,477.16
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	7,973.50	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	19,303.90	
Total Educational Technology State Grants Cluster			27,277.40	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	964,996.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	74,752.12	
Total State Fiscal Stabilization Fund Cluster			1,039,748.12	
Florida Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	161	89,251.04	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	07-143	36,000.00	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	16,054.26	
Twenty-First Century Community Learning Centers	84.287	244	418,694.48	
Rural Education	84.358	110	74,065.39	
Improving Teacher Quality State Grants	84.367	224	235,039.00	
School Improvement Grants	84.377	126	12,116.53	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	9,395.08	
Total Indirect			4,711,229.71	64,477.16
Total United States Department of Education			4,899,592.45	64,477.16
United States Department of Health and Human Services:				
Indirect:				
Chipola Regional Workforce Development Board, Inc.:				
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	2010-41	107,908.84	

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

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 Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 (3)	05-PA-G-02-40-03-507	118,446.21	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	54,464.34	
Total Expenditures of Federal Awards			$ 6,418,172.44	$ 64,477.16

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 - Represents the amount of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(3) Disaster Grants - Public Assistance (Presidentially Declared Disasters). The amount disclosed as expenditures represents hurricane loss recoveries for the 2009-10 fiscal year as follows: $113,449.86 for the large project in which the District is required to make an accounting of eligible costs for the approved project; and $4,996.35 for allowable administrative costs.



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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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, 2010, 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 was modified to include 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

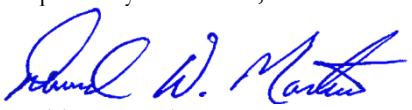
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

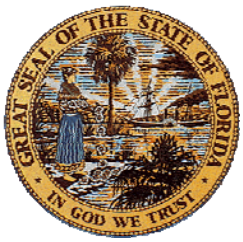
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report 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
March 8, 2011



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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 United States Office of Management and Budget (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, 2010. 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*. 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.

As described in Federal Awards Finding Nos. 1 through 3 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with the requirements regarding Allowable Costs/Cost Principles; Eligibility; and Period of Availability that are applicable to its Title I, Part A Cluster program. We consider these instances of noncompliance, in combination, to represent material noncompliance. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2010. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 4 through 6.

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 control 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 over compliance 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 through 6 to be significant deficiencies. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the response.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report 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
March 8, 2011

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
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, 2010

ADDITIONAL MATTERS

Finding No. 1: Actuarial Valuation

The District, in preparing its financial statements, is required to comply with Governmental Accounting Standards Board Statement No. 45 (statement), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits (OPEB) the District provides to retired employees. The statement requires the District to report a liability for its coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. The statement further requires that the District obtain an actuarial valuation of its OPEB plan at least biennially since, at June 30, 2010, its plan had 322 plan members, exceeding the minimum 100-member plan requirement for the actuarial study. The statement also provides that certain Actuarial Standards of Practice (ASOPs) guide preparation of the actuarial study. For example, Section 3.1.5 of the *Introduction to the Actuarial Standards of Practice, October 2008*, provides, in part, that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon the ASOPs. However, contrary to these requirements, District personnel did not obtain an actuarial valuation, but elected to calculate the liability and related information using the alternative measurement method permitted by the statement for employers in plans with fewer than 100 plan members. A similar finding was noted in our report No. 2010-134.

District personnel indicated that they elected to forego the services of a certified actuary and performed their own valuation as a cost savings measure. While the unreported OPEB expense and liability amounts were not quantitatively significant and our audit tests disclosed that reported amounts were materially correct and properly classified, due to the cumulative nature of this expense and related liability, there is an increased need for the District to obtain an actuarially-prepared study as OPEB amounts rise in future years.

Recommendation: The District should take action to contract with a qualified actuary to assist with performing the required actuarial valuation of its OPEB expense, liability, and related note disclosures.

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other

professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional personnel and school administrators based on student performance. However, District records did not sufficiently evidence a correlation between student performance and the employee performance assessments nor that such assessments were based primarily on student performance. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional and school administrator personnel are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Finding No. 3: 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)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, section 1012(1)(c)4., Florida Statutes, requires the District to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

Board Policy 6.914 provides for salary supplements for instructional personnel based on performance; however, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, Board Policy 6.91 requires that salary schedules include provisions for differentiated pay in accordance with Florida Statutes; however, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, level of education, and other factors. However, the District's procedures for documenting its use of the differentiated pay factors as prescribed in Section 1012.22(1)(c)4., Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. Board Policy 6.914 provides that instructional personnel who demonstrate outstanding performance in accordance with Florida Statutes will receive a supplement based on 5 percent of their salary; however, District personnel indicated that no supplements were paid during the 2009-10 fiscal year. As such, contrary to Section 1012.22(1)(c)2. Florida Statutes, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

  The instructional personnel salary schedule and union contract provided supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic coaches, band and choral directors, and club sponsors. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators**. School principals and one assistant principal were the only school-based administrators listed on the salary schedule, and the assistant principal received supplements for additional responsibilities; however, the compensation of the principals was based solely on years' experience. As such, the salary schedule did not evidence consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties, contrary to Section 1012.22(1)(c)4., 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. Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 4: Tangible Personal Property

Chapter 274, Florida Statutes, and Department of Financial Services (DFS) Rule 69I-73, Florida Administrative Code, require that the District maintain adequate records of tangible personal property in its custody and annually inventory such property. In addition, the DFS Rule requires that the District permanently mark items with a property number to identify District ownership of the items.

The District reported tangible personal property (furniture, fixtures, and equipment and motor vehicles), net of accumulated depreciation, totaling approximately $2 million at June 30, 2010. Our review of District controls over tangible personal property disclosed the following:

- The District acquired 188 furniture, fixtures, and equipment (equipment) items totaling $344,689.29 during the 2009-10 fiscal year. However, the items were not tagged or marked as District property and were not included in the annual physical inventory of tangible personal property, contrary to the above requirements. District personnel indicated that this occurred because the former employee who identified new property for tagging retired early in the 2009-10 fiscal year, and no one was informed to continue these procedures. In December 2010, the District located and tagged all equipment items purchased in the 2009-10 fiscal year, or 6 to 17 months after the acquisition dates.

- The District purchased two vehicles totaling $44,737 during the 2009-10 fiscal year that were properly tagged and marked; however, these vehicles were not listed in the District's property records as of December 2010.

The failure to tag or mark property, physically inventory property, or to timely update the property records for items acquired limits the District's ability to provide for accountability and safeguarding of its property.

Recommendation: The District should strengthen controls over tangible personal property to ensure that property is tagged or marked to identify District ownership of the item, included in the annual physical inventory, and timely recorded in the property records.

Finding No. 5: Transportation Department

The Transportation Department (Department) consisted of 45 employees, including a transportation administrator, 40 bus drivers, 3 mechanics, and an administrative secretary to provide safe and efficient transportation services at the lowest possible cost. The District maintained a transportation fleet of 60 buses and 34 other vehicles, such as service trucks, vans, and small passenger vehicles for use by District personnel, and Board policies limit motor vehicle use to school business. During the 2009-10 fiscal year, the District purchased various parts, supplies, and fuel to operate and maintain the District's transportation fleet, and Department nonsalary expenditures totaled approximately $695,000. However, controls over the Department's activities could be enhanced, as follows:

- **Procedures Manual**. The Department lacked complete, well-documented policies and procedures to describe the scope of the function and its activities. Such policies and procedures could provide a consistent and documented basis for controlling access to, and use of, Department resources. For example, the Department could develop a work order system to process and effectively respond to vehicle maintenance needs including the anticipated time and date to commence vehicle maintenance work, cost information (i.e., parts, vendor name, warrant number, etc.), and date for completion of necessary maintenance and repairs. Also, District procedures could be established for ensuring vehicles are used only for school purposes by persons with valid driving licenses. In addition, policies and procedures could document the process for controlling access to fuel inventories, tracking warranties of District vehicles, and timely training Department personnel.

  Establishing a comprehensive policies and procedures manual would provide guidance to ensure appropriate training of new staff as well as to provide an aid in bridging the transition in the event of a loss of key Department personnel; would serve to document the duties of key personnel, such as the responsibilities for maintaining vehicle maintenance and warranty information; and serve to communicate management's commitment to and support of a strong system of internal control.

- **Open Purchase Orders**. Purchase orders should generally be explicit as to the particular goods or services authorized to be purchased, although recurring needs for small purchases of relatively low-cost items are sometimes authorized through the use of continuing or "open" purchase orders. For the continuing purchase of parts, supplies, and fuel during the fiscal year, the transportation administrator issued open purchase orders to most vendors.

  Our tests of 52 Department expenditures, totaling approximately $431,000, disclosed 45 expenditures, totaling approximately $27,000, supported by open purchase orders that did not limit amounts to be expended or restrict authorization to incur expenditures on behalf of the District. These expenditures were for windshield wipers, tires, vehicle batteries, and other vehicle parts and supplies. Although the majority of the dollar amounts tested related to bus and fuel purchases, without established spending limits and authorized purchasers for open purchase orders, there is an increased risk that unauthorized expenditures could be made and not be detected in a timely manner.

- **Gas and Diesel Fuel**. The District had gas and diesel fuel expenditures of approximately $182,000 and a 2,000-gallon diesel fuel tank located at each of the following locations: the transportation yard, Ponce de Leon Elementary School, Bethlehem School, and Poplar Springs School. The District also had a 2,000-gallon gas tank at the Department's central location and a 1,000-gallon gas tank at Ponce de Leon Elementary School. Fuel tanks are fenced in, except at Bethlehem School, and fuel is dispensed using pumps that are reset after dispensing. However, we noted the following control deficiencies and noncompliance relating to District fuel:

- While access to fuel tanks was generally restricted during weekends and holidays, fuel tank areas were accessible and pumps were on during workdays for bus drivers and other District employees to dispense fuel into their assigned District vehicle. A vehicle petroleum products log (log) was generally maintained in each District vehicle, including buses, documenting the amount of fuel pumped, date pumped, vehicle odometer reading, and the employee's signature who obtained the fuel. Our review disclosed that bus logs generally contained the appropriate information to determine the reasonableness of the fuel dispensed, but other vehicle logs did not always contain necessary information, such as the odometer readings. In addition, District employees submitted the logs to the transportation administrator; however, no one reconciled the logs to other records, such as the odometer readings, pump readings, stick measurements of fuel inventories, or fuel delivery tickets to monitor fuel consumption. As such, there was an increased risk of errors or fraud related to fuel use.

- District personnel who temporarily used District vehicles were responsible for fueling vehicles, as needed, and recording the fuel on a miscellaneous log maintained at the Department; however, District personnel indicated that this information was not always recorded, increasing the risk of unauthorized fuel use.

- Section 206.874, Florida Statutes and Section 12B-5.090, Florida Administrative Code, authorize the District, under certain conditions, to purchase untaxed dyed diesel fuel for use in buses to transport students and District employees. To qualify for such use, the District must register with the Department of Revenue (DOR) as a local government user of diesel fuel. In addition, the District is required to file an accounting return for diesel fuel acquisitions, inventory, and use, and monthly remit applicable taxes required by Section 206.87(1), Florida Statutes, to DOR. Based on fuel invoices, the District purchased and used dyed diesel; however, District personnel indicated that the District had not registered with DOR as a local government user of diesel fuel, nor did the District file the required accounting return for diesel fuel acquisitions, inventory, and use, and remit the taxes. As such, the District may be liable to DOR for taxes for highway use of untaxed diesel fuels. Subsequent to our inquiries, District personnel indicated that they had taken actions to register with DOR.

Recommendation: The District should enhance the effectiveness of the Transportation Department by developing a comprehensive policies and procedures manual that establishes the duties and responsibilities of personnel; safeguards Department resources by establishing amounts to be expended using open purchase orders and restricting authorization to incur such expenditures on behalf of the District; and implements appropriate controls over gasoline and diesel fuel use. In addition, the District should continue its efforts to register with, and pay applicable taxes to, DOR for the purchase of untaxed dyed diesel fuel use.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

THE COMBINATION OF FEDERAL AWARDS FINDING NOS. 1 THROUGH 3 REPRESENTS MATERIAL NONCOMPLIANCE

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA No. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $100,388.79

Allowable Costs/Cost Principles. United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1, provides in part that, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and conform to any limitations

or exclusions set forth in the Federal laws and terms and conditions of the Federal award. Also, OMB *Circular A-87*, Attachment B, Section 15.b.(1), provides that capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. The Florida Department of Education (FDOE) publication, *Project Application and Amendment Procedures for Federal and State Programs (Green Book)*, requires that the District provide descriptions in the project application of the type of items and equipment to be purchased with program funds.

OMB *Circular A-87*, Attachment A, Section F., provides principles for indirect costs that may be allocated to a Federal program. Indirect costs are costs incurred for a common or joint purpose and are not readily assignable to a specific cost objective. These costs are normally charged to a Federal program by use of an approved indirect cost rate. Additionally, FDOE's *Green Book* provides, in part, that prior approval in writing is required for changes to goals and objectives of the award.

The District reported Title I program expenditures, totaling approximately $1.7 million, and we initially tested expenditures totaling approximately $1 million, to determine whether the charges were appropriate; however, we noted certain expenditures that were not consistent with the grant application and budget. We extended our audit procedures to compare a summary of all Title I program expenditures, by project and object, to the applicable grant budgets, and the results of our tests are as follows:

- **Capital Outlay**. Although the District's approved project application for the Title I Basic and Title I Annual Yearly Progress (AYP) Corrective Action awards excluded any budgeted amounts for equipment and software, the District used these funds to purchase certain computer equipment and software, costing $77,351.10 and $6,315.88, respectively, installed at various Title I schools. In addition, District personnel indicated that no approval was obtained from the grantor (FDOE) for these purchases. District personnel indicated that approximately $74,000 of these expenditures were originally charged to the Title I School Improvement Initiative - ARRA and non-ARRA grants that were approved to purchase capital outlay items, but the expenditures were incurred before the grant period. Journal entries were made to move these expenditures to the Title I Basic grant to meet the budget period requirements; however, due to oversight, no amendment was submitted requesting approval for these expenditures. Consequently, these expenditures totaling $83,666.98 are unallowable and represent questioned costs.
- **Terminal Leave Payments**. Terminal leave payments of $16,721.81 charged to the Title I Basic program were not specifically authorized by the grant budget. District personnel believed the terms of the grant authorized terminal leave payments because they are similar to social security and retirement benefits; however, absent grantor approval, the terminal leave payment of $16,721.81 is unallowable and represents questioned costs subject to disallowance by the grantor.
- **Indirect Costs**. Since the District did not achieve adequate yearly progress to increase student test scores in required areas, FDOE imposed sanctions on the District to redirect Title I Basic resources from indirect costs to particular instructional areas that needed improvement. Although the sanctions required the District to reduce the allowable indirect cost rate and amount of indirect costs that could be charged to the Title I Basic program, the District did not comply and inadvertently applied the original indirect cost rate to its expenditures. As a result of these oversights, the District had indirect cost overcharges, totaling $13,926.90, to the program. FDOE detected the error in September 2010, when reviewing the District's final report, manually corrected the report, and notified the District of the correction.

District personnel indicated that the 2009-10 fiscal year budgets for the various Title I projects were not entered into the accounting system, making it difficult to monitor expenditures. When project budget amounts are not entered into the accounting system, the District has limited assurance that program funds are appropriately expended for approved program activities. District personnel also indicated that a Federal budgets management meeting was held in January 2011, and agenda items included preparing budgets by each school site for submission to the finance department, and ensuring amendments are completed according to the *Green Book*.

Recommendation: The District should enhance procedures to ensure that Title I program expenditures are consistent with the original grant award or approved in advance by the grantor, and budget amounts are recorded in the accounting records. Additionally, the District should document to FDOE the allowability of the questioned costs, totaling $100,388.79, or the moneys should be restored to the program.

District Contact Person: Carmen Bush, Federal Programs Administrator

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $80,087.67

Eligibility. Title 34, Section 200.78, Code of Federal Regulations, requires the District to allocate Title I schoolwide program funds to schools identified as eligible and selected to participate, in rank order, on the basis of the total number of children from low-income families in each school. The District is not required to allocate the same per-pupil amount to each participating school attendance area or school provided that it allocates higher per-pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty.

The District's original public school eligibility survey in the District's grant application disclosed that the District had erroneously reported Title I allocations in the ARRA allocation column and omitted the actual ARRA allocations. Subsequent to our inquiries, the District submitted an amended survey that reflected allocations for both Title I and ARRA funds in proper rank order; however, District records did not sufficiently evidence that the schools were apprised of the amended allocations or that the allocations were entered into the school-level budgetary records to properly account for these allocations. In addition, the budget amounts were not entered at the project level. Our review further disclosed that the rank order of low-income students by school was not consistent with the rank order of Title I program per pupil expenditures by school as follows:

School	Number of Low-Income Students (A)	Percentage of Low-Income Students	Ranking Based on Percentage of Low-Income Students	Title I Per Pupil Expenditures	Ranking Based on Per Pupil Expenditures	Per Pupil Expenditures Above #1 Ranked School (B)	Questioned Costs (A) X (B)
Ponce De Leon Elementary	241	69.65%	1	$ 409.32	5		
Bonifay Elementary	472	62.85%	2	475.56	3	$ 66.24	$ 31,265.28
Bonifay Middle	296	60.66%	3	431.60	4	22.28	6,594.88
Poplar Springs	195	60.56%	4	512.08	1	102.76	20,038.20
Ponce De Leon High	247	57.85%	5	269.53	7		
Bethlehem	263	51.17%	6	493.69	2	84.37	22,189.31
Holmes County High	190	42.04%	7	350.58	6		
Total Questioned Costs							$ 80,087.67

Without properly establishing Title I schoolwide program budgets by school, the risk increases that resources will not be allocated to the schools with the greatest need. As such, it is not apparent that resources were allocated to the schools in rank order of need, and amounts totaling $80,087.67, represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure Title I schoolwide program resources are properly allocated to schools. The District should also document to the grantor (Florida Department of Education) the allowability of the questioned costs and how Title I schoolwide program resources were used at the schools with the greatest needs, or restore $80,087.67 to the program.

District Contact Person: Carmen Bush, Federal Programs Administrator

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $27,674.12 (CFDA No. 84.010) and $7,801.63 (CFDA No. 84.389-ARRA)

Period of Availability. Title 34, Section 80.23, Code of Federal Regulations, provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period. To assist the District in providing services to eligible Title I schoolwide schools, the District received a Title I Basic grant of $795,707.25 for the 2009-10 fiscal year, and Title I School Improvement Initiative - non-ARRA and ARRA grants of $288,645 and $215,855, respectively, for grant periods from September 23, 2009, to September 30, 2010. We initially tested 10 items totaling $119,779.33 from these awards to determine whether obligations were incurred during the funding periods, and noted 4 expenditures, totaling $55,005.56, for computer equipment and software that were not within the period of availability of the Title I School Improvement Initiative - non-ARRA and ARRA grant awards.

We expanded our testing to include 34 additional expenditures, totaling $146,669.67, and noted expenditures from the Title I School Improvement Initiative – non-ARRA and ARRA, and Title I Basic grant awards that were incurred before the period of availability totaling $98,614.93, $11,231.63, and $2,008.80, respectively. To remedy these exceptions, as noted in Federal Awards Finding No. 1, the District made journal entries to certain expenditures from the Title I School Improvement Initiative grants to the Title I Basic grant to meet the period of availability requirements. However, due to oversight, Title I School Improvement Initiative – non-ARRA and ARRA expenditures, totaling $25,665.32 and $7,801.63, respectively, for materials and computer equipment, incurred from July 21, 2009, to September 14, 2009; and Title I Basic grant expenditures, totaling $2,008.80, for middle school homework planners, incurred on June 5, 2009; were before each grants' period of availability. While these Title I program expenditures are generally allowable charges, they were incurred before the period of availability, and represent questioned costs, totaling $35,475.75, subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that Federal awards are only charged for costs resulting from obligations incurred within the grant period. Additionally, the District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $35,475.75, or restore these moneys to the program.

District Contact Person: Carmen Bush, Federal Programs Administrator

Federal Awards Finding No. 4:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee.

For the 2009-10 fiscal year, the District reported Child Nutrition Cluster program expenditures totaling approximately $635,000 for salaries and benefits. Our tests of these expenditures for 10 employees, totaling $247,542.45, disclosed one employee who was funded approximately 35 percent or $18,710.81 from the Child Nutrition Cluster program. However, because of oversight, the District did not maintain the required personnel activity reports for this employee documenting the actual time spent working on program and nonprogram activities. Upon our request, the employee documented his duties and responsibilities, which confirmed that the salary charges to the program were correct. When personnel activity reports or other evidence to delineate the job responsibilities and work activities are not properly maintained, there is an increased risk that salary and benefits costs could be inappropriately charged to a Federal program. A similar finding was noted in our report No. 2010-134.

Recommendation: The District should enhance its procedures to ensure that personnel activity reports or equivalent documentation is maintained for employees who work on multiple activities or cost objectives.

District Contact Persons: Gil Anderson, Transportation, Food, and Vocational Services Administrator

Federal Awards Finding No. 5:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Eligibility and Special Tests and Provisions – Verifications. Title 7, Section 245.6, Code of Federal Regulations, provides application and other documentation requirements for a child to qualify for meals served free or at a reduced-price under the School Breakfast and National School Lunch programs. Further, Public Law 108-265 provides, in part, that the District must verify the household income of the lesser of 3,000 or 3 percent of the free and reduced-price applications approved as of October 1 of the school year. Before performing the verification process, someone other than the individual making the initial eligibility determination must review the application for accuracy. A United States Department of Agriculture memorandum dated November 19, 2004, provides that the basic sample must generally be drawn from error-prone applications defined as within $1,200 of the annual or $100 of the monthly income limit for free or reduced-price meal eligibility, and the District selected this sampling method.

We reviewed District records for Bonifay Elementary School (BES), Bethlehem High School (BHS), and Holmes County High School (HCHS), and made inquiries to determine whether the District designed and implemented procedures to effectively monitor and verify the eligibility of students receiving free and reduced-price meals. As similarly noted in our report No. 2010-134, our review disclosed control deficiencies and Federal program noncompliance, as follows:

- Although procedures were in place to perform a verification of free and reduced-price meal applications, no one other than the individual making the initial eligibility determination reviewed the applications for accuracy, contrary to Federal requirements. An independent review of the applications may help the District in determining the meal status of students and ensuring that schools provide free and reduced-price meals only to those eligible.
- District personnel directly certified students eligible for free meals who received food stamp assistance; however, the free and reduced-price meal applications of those students were mistakenly included in the sample population of those verified. Personnel at BES, BHS, and HCHS selected 3 percent of the approved applications at the respective schools based on reported income and 0.5 percent of all applications on file that were approved based on a food stamp assistance case number, although the Federal regulations require that the sample be selected from only error-prone applications. The flaws in the verification process occurred because District personnel continued to rely on outdated guidance. As a result, the District's sample selection was incorrect, potentially decreasing the chances of selecting applications containing errors. In our test of 13 free and reduced-price meal applications chosen for verification by the District, we noted 3 applications (1 from BES and 2 from HCHS) that were not error-prone.
- BHS and HCHS personnel did not maintain all records of the free and reduced-price meal verification process. While summary documentation indicated that there were three "non-responses" (two at BHS and one at HCHS), District personnel did not maintain copies of selection notification letters and change in benefit/termination letters sent to households who provided no response. Without such, there is an increased risk that the verifications were not properly performed.

Recommendation: The District should enhance its procedures to independently review the accuracy of meal applications, perform meal application verifications pursuant to Federal requirements, and maintain records of the verification process.

District Contact Person: Gil Anderson, Transportation, Food, and Vocational Services Administrator

Federal Awards Finding No. 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027, 84.391 - ARRA, and 84.392 - ARRA); and State Fiscal Stabilization Fund (SFSF) Cluster (CFDA Nos. 84.389 – ARRA and 84.397 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Equipment Management. Additional Matter Finding No. 4 addresses various deficiencies in controls over tangible personal property. We also noted that 162 of the 188 items purchased during the 2009-10 fiscal year were purchased with Federal funds, totaling $266,783.27, or 77 percent of the purchases, and the items were not initially tagged, marked, or subjected to the District's annual physical inventory procedures. These control weaknesses in accountability for Federal funding and related property impact the administration of the Federally-funded Title I, Special Education, and State Fiscal Stabilization Fund programs.

Recommendation: The District should implement procedures necessary to provide adequate control over tangible personal property used in Federal programs.

District Contact Person: Larry Hawkins, Finance Officer

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. 2010-134.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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
2009-143 (1)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Matching	The District had not developed procedures to properly document matching requirements for the Twenty-First Century program, resulting in questioned costs of $95,200, which could be subject to disallowance by the grantor.	Corrected.	Finding sustained by the Florida Department of Education. No questioned costs were required to be repaid.
2010-134 (1)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Special Education - Preschool Grants (CFDA No. 84.173); and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles - Documentation of Time and Effort	The District needed to enhance controls to ensure salary and benefit costs are appropriately charged to Federal programs. The Special Education-Preschool Grant program was overcharged $19,008.53 which represents questioned costs.	Partially corrected.	Florida Department of Education accepted the District's corrective action plan for the Child Nutrition Cluster. A District-level administrator has been assigned to collect and verify all PAR's; however, a similar finding was noted in the 2009-10 fiscal year.
2010-134 (2)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Eligibility and Special Tests and Provisions - Verifications	Improvements are needed in the District's methodology for verifying free and reduced price meal applications.	Uncorrected.	Florida Department of Education accepted the District's corrective action plan, which the District implemented in the 2009-10 fiscal year; however, a similar finding was noted in the 2009-10 fiscal year.
2010-134 (3)	Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389) - Cash Management	Improvements were needed in the District's procedures for forecasting Federal cash needs.	Corrected.	Cash advance requests were based on actual expenditures in the 2009-10 fiscal year.

EXHIBIT A

MANAGEMENT'S RESPONSE

Holmes District School Board
701 East Pennsylvania Avenue
Bonifay, FL 32425

SUPERINTENDENT
Gary Galloway

TEL (850) 547-9341
FAX (850)547-0381

BOARD MEMBERS
Jason Motley, Chairman
Anthony Register, Vice-Chair
Rusty Williams
Sid Johnson
Gary Scott

March 7, 2011

Mr. David Martin, CPA
Auditor General's Office
G74 Claude Pepper Blvd.
1111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Holmes County's response to the Preliminary and Tentative Audit Findings is attached. We have placed the response into a District Corrective Action Report.

It has been a pleasure to work with your staff. Your staff provided unbiased, timely, and relevant information that the school system management team can use to promote accountability and improve operations.

If you have questions or need further information, please contact my office.

Sincerely,

Gary Galloway
Superintendent of Schools

The Holmes County School Board is an Equal Education/Employment Institution

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

HOLMES COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION REPORT

Name of Agency: **Holmes District School Board**				
Name of Superintendent: **Gary Galloway**				
Email: **gallowayg@hdsb.org** Phone: **850-547-9341**				
Date of Development: **February 24, 2011** Completion Date:				
ADDITIONAL MATTERS				
Areas in Need of Improvement	**Actions that were PREVIOUSLY used to address issue**	**NEW Actions to be used to address issue**	**Implementation Date**	**Assessment Date**
Finding No. 1: The district did not obtain an actuarial valuation supporting the amount of the reported liability for other postemployment benefits provided by the District.	District staff performed their own valuation as a cost savings measure.	The District will obtain an actuarial-prepared study by contracting the services of a certified actuary.	March, 2011	June, 2011
Comments: The valuation will be provided by contracted staff.				
Finding No. 2: District records did not sufficiently evidence that performance assessments of instructional personnel and administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (FS)	A District Teacher/Principal Advisory Team has been appointed and is working with the FLDOE to align the Performance Assessment systems with Section 1012.34(3), Florida Statutes (FS). A draft has been sent to Instructional Personnel and Administrators for their input.	The District under the leadership of the District Evaluation Advisory Team will continue to follow the lead of FLDOE and Learning Sciences International to meet the requirements of Section 1012.34(3), Florida Statutes (FS).	March, 2011	June, 2011
Comments: The Teacher Evaluation System, including percentages that base the assessment primarily on student performance, will be implemented according to the timelines outlined in the Race to the Top Grant.				
Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)4., FS.	A committee of teachers (union and non-union members) and administrators has been formed to develop a draft teacher compensation system that ties the most significant gains in salary to effectiveness demonstrated by annual evaluations. The compensation system will include differentiated pay as required by Section 1012.22(1)(c)4., FS.	The District will work with the Holmes County Teachers Association (HCTA) to negotiate a teacher compensation system and an implementation timeline that includes base pay, performance pay, supplements, and differentiated pay. The state's "value added model" will be used.	March, 2011	June, 2012

Page **1** of **4**

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Comments: The District is working with FLDOE on a **Race To The Top Grant** to establish policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)4., FS.				
Finding No. 4: The District could improve controls over tangible personal property.	Limitations due to health issues and personnel turnover have been addressed to ensure that tangible personal property records will be completed in a timely manner. The Superintendent has appointed an administrator and a director to update procedures to include the timely and accurate reporting, tagging or marking, and disposal of all tangible personal property.	These written procedures will be given to the Property Records clerk for accurate tagging or marking and inventory purposes. All personnel will be trained and monitored on the implementation of the procedures.	February, 2011	June, 2011
Comments: More stringent controls over tangible personal property have been established.				
Finding No. 5: The District lacked comprehensive written Transportation Department policies and procedures to establish personnel duties and responsibilities, and safeguard Department resources.	The district has evaluated current transportation procedures and practices. Temporary personnel have been added to assist current personnel with a review and evaluation. We are creating new or modifying old documents with clear responsibilities documented.	The Superintendent will oversee the development and implementation of the district's transportation policies and procedures to ensure that all personnel understand their duties and responsibilities.	February, 2011	June, 2011
Comments: The transportation department has feedback from audits from the auditor general staff and FTE Transportation State staff to direct activities.				
FEDERAL AWARDS FINDINGS				
FA Finding No. 1: Controls over the administration and use of Federal Title I program resources were not sufficient, resulting in $100,399.79 of questioned costs.	District staff has look at procedures to ensure that Federal guidelines are being met.	To address the overall issue of the control over the administration and use of Federal Title I funds, district personnel has trained on the procedures for submitting program budgets and budget amendments to the finance officer. This will help with adherence to overall funding availability timelines and oversight.	February, 2011	June, 2011
Comments: District staff will document to FDOE the allowability of the questioned cost.				

Page **2** of **4**

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

FA Finding No. 2: District procedures did not ensure that Title I school wide program resources were properly allocated to, and used at, schools with the greatest need, resulting in $80,087.67 of questioned costs.	The district allocates the same per pupil amount for each school and multiplies the amount by the number of children from low income families at each school site to calculate the total school allocation. This is the requirement of Title 34, Section 200.78, Code of Federal Regulations. LEAs must allocate in rank order, however there is no requirement to expend in rank order.	Budgets will be entered into the district financial records to ensure compliance with the adherence and oversight of the federal budgets and expenditures.	February, 2011	July, 2011
Comments: This is the requirement of Title 34, Section 200.78, Code of Federal Regulations. LEAs must allocate in rank order; however, there is no requirement to expend in rank order. Budgets were sent to principals in memo form but due to changes in personnel, no budgets were entered into finance.				
FA Finding No. 3: The District charged expenditures to the Title I program for obligations that were not incurred within the grant period, resulting in $35,475.75 of questioned costs.	The district procedure is to pay invoices upon receipt or within 30 days of receipt. The invoices for the questioned costs were received after the budget period ended.	We will be adding a clause to our contracts for any contracted services that states the timely submission of invoices for services rendered. So the program obligations can be paid during the approved budget period. Monitoring of these expenditures will be conducted at least bi annually.	February, 2011	June, 2011
Comments: The transition between the previous and the new Federal Projects Administrator was not a smooth process.				
FA Finding No. 4: Required documentation to support personnel charges totaling $18,710.81 for the Child Nutrition Cluster program was not maintained, contrary to Federal regulations.	Each supervisor/director who is responsible for personnel requiring a project activity form is required to ensure these forms are completed in a timely manner.	The District has put in place more stringent guidelines to ensure all personnel performing more than one project activity will complete the monthly Personnel Activity form. The Federal Projects secretary will keep a log with a checklist of the date PAR's are submitted. Follow up will be provided by project directors.	February, 2011	June, 2011
Comments: The District will develop a monitoring system to ensure that all personnel activity sheets will be completed accurately and in a timely manner.				
FA Finding No. 5: Improvements were needed in controls over the free and reduced-price meal verification process.	None	Control deficiencies will be document and a plan developed to correct the areas of concern.	March, 2011	June, 2011
Comments: Food Service personnel continue to experience problems implementing procedures related to verification and documentation.				

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EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

FA Finding No. 6: The District had not implemented adequate controls to ensure the accountability and safeguarding of the District's tangible personal property, which impact the major Federal programs.	Limitations due to health issues and personnel turnover have been addressed to ensure that tangible personal property records will be completed in a timely manner. The Superintendent has appointed an administrator and a director to update procedures to include the timely and accurate reporting, tagging or marking, and disposal of all tangible personal property. The Title I administrator is currently working to ensure more stringent controls over the District's tangible personal property purchased through Federal programs.	These written procedures will be given to the Property Records clerk for accurate tagging or marking and inventory purposes. All personnel will be trained and monitored on the implementation of the procedures. The Federal Programs administrator will develop a procedure for setting up adequate controls to ensure the accountability and safeguarding of the District's tangible personal property purchased through Federal programs.	February, 2011	June, 2011
Comments: More stringent controls have been implemented to ensure the accountability and safeguarding of the District's tangible personal property which impact the major Federal programs.				

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