REPORT NO. 2012-141
MARCH 2012

HOLMES COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	District No.
Rickey D. Callahan to 11-15-10, Chair	1
Rusty Williams from 11-16-10	1
Gary Scott, Vice Chair to 11-15-10	2
Jason Motley, Chair from 11-16-10	3
Anthony Register, Vice Chair from 11-16-10	4
Vernon Lewis, Jr. to 11-15-10	5
Sid Johnson from 11-16-10	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 Jason R. Law, and the audit was supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: District records did not sufficiently evidence that performance assessments of instructional personnel were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 2: 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 (2010), 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 (2010).

Finding No. 3: Controls over electronic funds transfers could be enhanced.

Finding No. 4: The District assigned approximately $211,000 of unrestricted resources in a capital projects fund; however, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended use of the funds.

Finding No. 5: The District did not have a written information technology (IT) security incident response plan.

Finding No. 6: The District's IT security controls related to data loss prevention, access controls, and user authentication needed improvement.

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; State Fiscal Stabilization Fund Cluster; and ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Procedures over State and local resources allocated and expended for Special Education programs could be enhanced to ensure compliance with Federal maintenance of effort requirements.

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. 2011-147.**

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, 2011. 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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111 West Madison Street
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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, 2011, 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 11 percent of the assets and 14 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget 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 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
February 24, 2012

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, 2011. 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 43.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- The District's net assets decreased by $633,160.95, or 1.5 percent. The decrease is in contrast with the previous fiscal year's increase of $52,486.98.
- During the current fiscal year, the General Fund's fund balance increased by $667,634.47, primarily as a result of Federal American Recovery and Reinvestment Act (ARRA) funds being used to pay for expenditures formerly paid from the General Fund. This may be compared to last fiscal year's results when the General Fund's fund balance increased by $698,709.76. The June 30, 2011, General Fund fund balance is $2,562,819.27.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

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

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

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

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

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

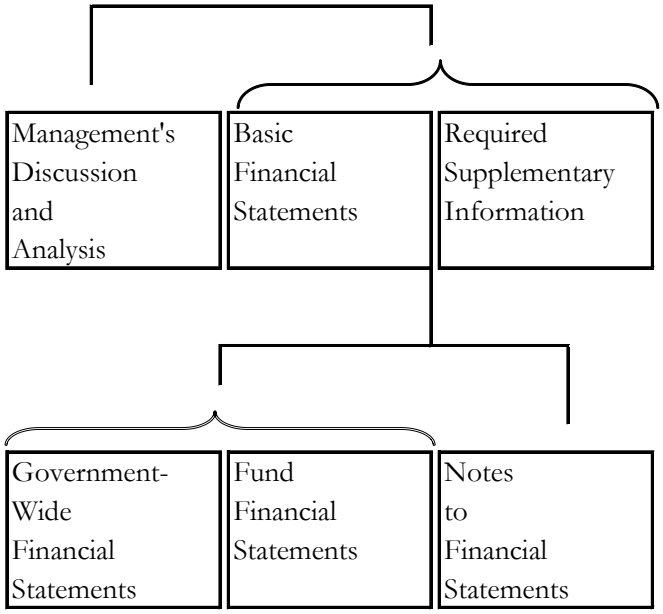
The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

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

Components of the Annual Financial Report



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

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	Instances in which the District is trustee or agent for someone else's resources
Required financial statements	Statement of net assets 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, 2011, compared to net assets as of June 30, 2010:

Net Assets, End of Year

	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	$ 7,254,852	$ 6,588,314
Capital Assets	39,284,860	40,637,316
Total Assets	46,539,712	47,225,630
Long-Term Liabilities	4,310,893	4,425,683
Other Liabilities	559,221	497,188
Total Liabilities	4,870,114	4,922,871
Net Assets:		
Invested in Capital Assets - Net of Related Debt	37,964,860	39,089,878
Restricted	1,041,349	1,371,743
Unrestricted	2,663,389	1,841,138
Total Net Assets	$ 41,669,598	$ 42,302,759

The largest portion of the District's net assets (91.1 percent) reflects its investment in capital assets (e.g., land; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (2.5 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (6.4 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, 2011, and June 30, 2010, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	$ 451,932	$ 461,211
Operating Grants and Contributions	2,118,553	1,836,662
Capital Grants and Contributions	113,388	115,089
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,959,486	2,847,371
Grants and Contributions Not Restricted to Specific Programs	23,307,534	23,538,949
Unrestricted Investment Earnings	50,598	123,877
Miscellaneous	394,187	445,281
Total Revenues	29,395,678	29,368,440
Functions/Program Expenses:		
Instruction	15,899,671	15,807,449
Pupil Personnel Services	633,711	650,722
Instructional Media Services	629,492	743,929
Instruction and Curriculum Development Services	302,406	413,982
Instructional Staff Training Services	342,730	309,830
Instruction Related Technology	248,707	162,470
School Board	183,255	174,011
General Administration	265,511	307,127
School Administration	1,863,745	1,766,026
Fiscal Services	319,025	267,917
Food Services	1,629,387	1,583,602
Central Services	606,044	584,750
Pupil Transportation Services	1,400,478	1,351,372
Operation of Plant	2,907,563	2,579,838
Maintenance of Plant	1,075,276	796,253
Administrative Technology Services	480	
Community Services		42,759
Unallocated Interest on Long-Term Debt	64,975	74,381
Unallocated Depreciation Expense	1,656,383	1,699,535
Total Functions/Program Expenses	30,028,839	29,315,953
Increase (Decrease) in Net Assets	$ (633,161)	$ 52,487

The largest revenue source is the State of Florida (65.4 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Instruction expenses represent 52.9 percent of total governmental expenses in the 2010-11 fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The fund balance of the General Fund increased by $667,634.47 to a total of $2,562,819.27. The increase resulted primarily from receipt of ARRA funds provided to the District and a reduction in personnel costs.

The Special Revenue – Other Fund and Special Revenue – Federal 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 $753,622.46, which is available to fund the loan repayment related to the energy savings contract. The fund balance decreased $159,852.31 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 $725,903.10, which is restricted to the acquisition, construction, and maintenance of capital assets. This represents an increase of $6,259.20, resulting from interest earnings.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the 2010-11 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, 2011, and June 30, 2010:

Capital Assets

	Governmental Activities	
	6-30-11	6-30-10
Land	$ 450,584	$ 450,584
Improvements Other Than Buildings	260,402	313,074
Buildings and Fixed Equipment	36,761,249	37,899,066
Furniture, Fixtures, and Equipment	721,375	865,628
Motor Vehicles	1,091,250	1,108,964
Total Capital Assets	$ 39,284,860	$ 40,637,316

Long-Term Debt

The following table discloses the 2010-11 fiscal year debt principal payments and outstanding debt as of June 30, 2011:

Outstanding Debt

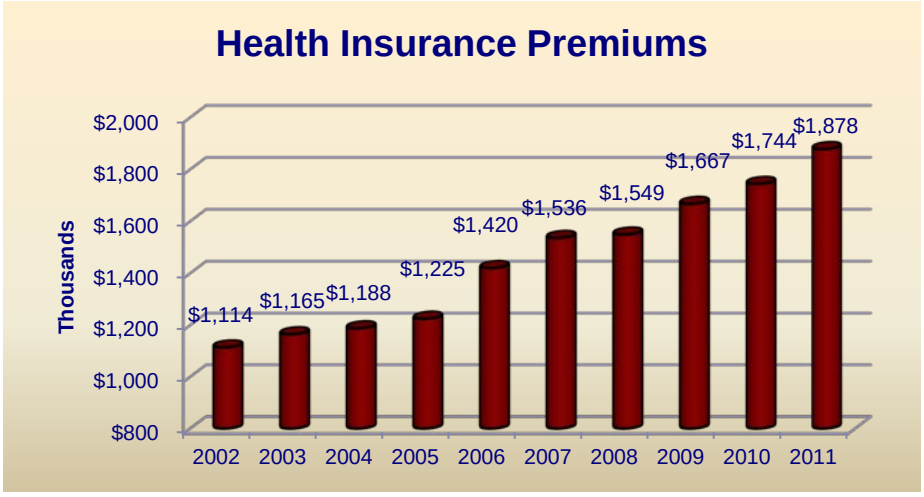
	Total Payments	Debt Outstanding
2011	$ 817,428	$ 1,320,000

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

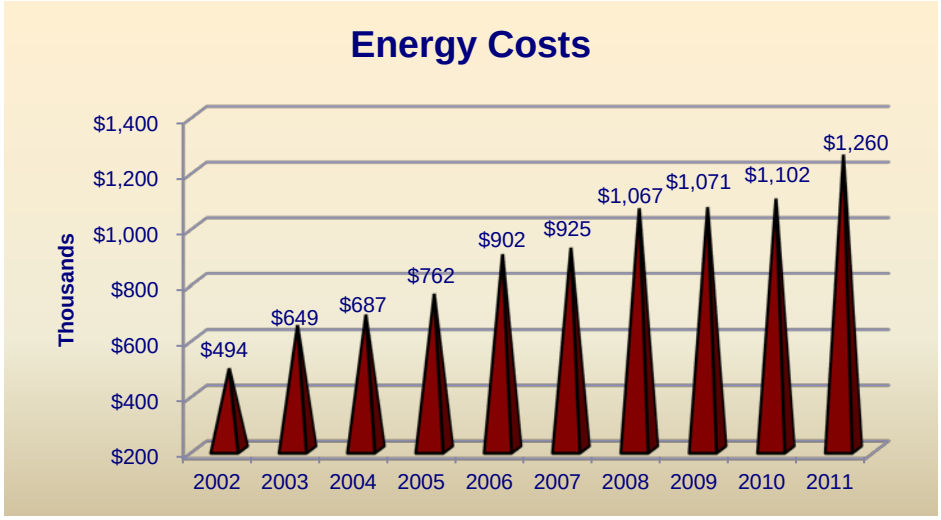
Insurance Premiums

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 is reflected in the chart below for the June 30 fiscal year ends as indicated:



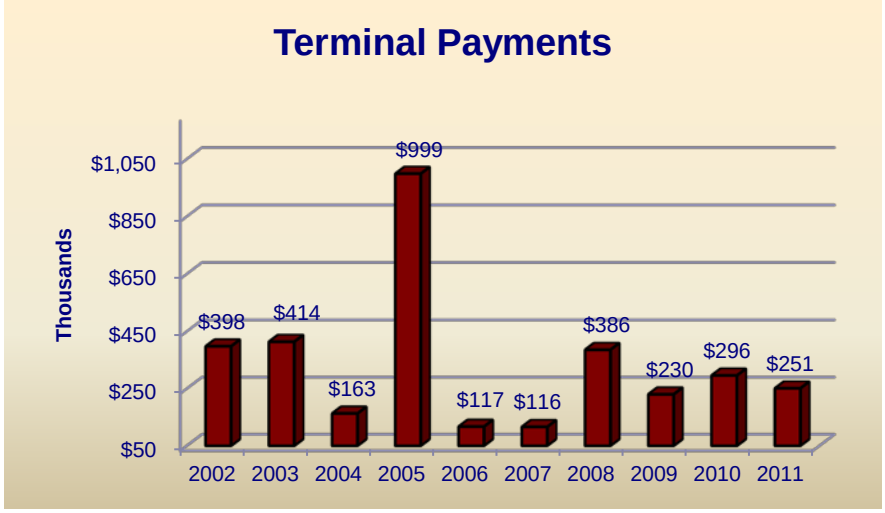
Energy Costs

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



Terminal Pay Benefits

Terminal pay benefits are a significant annual cost and liability for the District. The District purchases leave from employees when they participate in the Deferred Retirement Option Program (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 following reflects the total cost of terminal costs and terminal liability for the June 30 fiscal year ends as indicated:



REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 5,190,060.60
Investments	1,665,844.25
Accounts Receivable	301.00
Due from Other Agencies	259,867.44
Inventories	138,778.30
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	38,834,276.60
TOTAL ASSETS	$ 46,539,711.85
LIABILITIES	
Payroll Deductions and Withholdings	$ 420,741.79
Accounts Payable	138,479.77
Long-Term Liabilities:	
Portion Due Within One Year	519,587.98
Portion Due After One Year	3,791,304.66
Total Liabilities	4,870,114.20
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	37,964,860.26
Restricted for:	
State Required Carryover Programs	556.58
Debt Service	15,601.23
Capital Projects	1,000,083.77
Food Service	25,106.34
Unrestricted	2,663,389.47
Total Net Assets	41,669,597.65
TOTAL LIABILITIES AND NET ASSETS	$ 46,539,711.85

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, 2011

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	$ 15,899,671.00	$ 47,876.43	$	$	$ (15,851,794.57)
Pupil Personnel Services	633,711.04				(633,711.04)
Instructional Media Services	629,491.77				(629,491.77)
Instruction and Curriculum Development Services	302,406.45				(302,406.45)
Instructional Staff Training Services	342,730.36				(342,730.36)
Instruction Related Technology	248,707.29				(248,707.29)
School Board	183,254.98				(183,254.98)
General Administration	265,510.49				(265,510.49)
School Administration	1,863,744.78				(1,863,744.78)
Facilities Acquisition and Construction				31,019.57	31,019.57
Fiscal Services	319,024.97				(319,024.97)
Food Services	1,629,386.74	368,898.43	1,201,987.46		(58,500.85)
Central Services	606,043.56				(606,043.56)
Pupil Transportation Services	1,400,478.40	35,157.60	707,021.00		(658,299.80)
Operation of Plant	2,907,563.04				(2,907,563.04)
Maintenance of Plant	1,075,276.24		209,544.00		(865,732.24)
Administrative Technology Services	480.00				(480.00)
Unallocated Interest on Long-Term Debt	64,975.01			82,368.76	17,393.75
Unallocated Depreciation Expense	1,656,383.00				(1,656,383.00)
Total Governmental Activities	$ 30,028,839.12	$ 451,932.46	$ 2,118,552.46	$ 113,388.33	(27,344,965.87)

General Revenues:	
Property Taxes, Levied for Operational Purposes	2,959,486.25
Grants and Contributions Not Restricted to Specific Programs	23,307,534.00
Unrestricted Investment Earnings	50,597.59
Miscellaneous	394,187.08
Total General Revenues	26,711,804.92
Change in Net Assets	(633,160.95)
Net Assets - Beginning	42,302,758.60
Net Assets - Ending	$ 41,669,597.65

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, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	$ 2,762,572.58	$	$ 457.48	$ 753,622.46
Investments				
Accounts Receivable		301.00		
Due from Other Funds	187,052.75			
Due from Other Agencies	40,387.55	131,305.28	70,337.37	
Inventories	113,671.96			
TOTAL ASSETS	$ 3,103,684.84	$ 131,606.28	$ 70,794.85	$ 753,622.46
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	$ 420,741.79	$	$	$
Accounts Payable	120,123.78	15,348.38		
Due to Other Funds		116,257.90	70,794.85	
Total Liabilities	540,865.57	131,606.28	70,794.85	
Fund Balances:				
Nonspendable:				
Inventory	113,671.96			
Restricted for:				
State Required Carryover Programs	556.58			
Debt Service				
Capital Projects				
Total Restricted Fund Balance	556.58			
Assigned to:				
Debt Service				753,622.46
Capital Projects				
Food Service				
Total Assigned Fund Balance				753,622.46
Unassigned Fund Balance	2,448,590.73			
Total Fund Balances	2,562,819.27			753,622.46
TOTAL LIABILITIES AND FUND BALANCES	$ 3,103,684.84	$ 131,606.28	$ 70,794.85	$ 753,622.46

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
$ 725,903.10	$ 677,578.32	$ 4,920,133.94
	64,022.76	64,022.76
		301.00
		187,052.75
	17,837.24	259,867.44
	25,106.34	138,778.30
$ 725,903.10	$ 784,544.66	$ 5,570,156.19
$	$	$ 420,741.79
	3,007.61	138,479.77
		187,052.75
	3,007.61	746,274.31
	25,106.34	138,778.30
		556.58
	15,601.23	15,601.23
725,903.10	274,180.67	1,000,083.77
725,903.10	289,781.90	1,016,241.58
		753,622.46
	211,237.63	211,237.63
	255,411.18	255,411.18
	466,648.81	1,220,271.27
		2,448,590.73
725,903.10	781,537.05	4,823,881.88
$ 725,903.10	$ 784,544.66	$ 5,570,156.19

HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		$ 4,823,881.88
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.		39,284,860.26
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Note Payable	$ 670,000.00	
Bonds Payable	650,000.00	
Compensated Absences Payable (net of $1,871,748.15 set aside in the Internal Service Fund to fund a portion of the liability)	760,602.49	
Other Postemployment Benefits Payable	358,542.00	(2,439,144.49)
Total Net Assets - Governmental Activities		$ 41,669,597.65

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, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 57,711.82	$	$	$
Federal Through State and Local	79,206.35	3,056,948.63	1,945,402.41	
State	18,678,141.97			209,250.00
Local:				
Property Taxes	2,959,486.25			
Charges for Services - Food Service				
Miscellaneous	361,198.18			10,294.23
Total Revenues	22,135,744.57	3,056,948.63	1,945,402.41	219,544.23
Expenditures				
Current - Education:				
Instruction	12,048,022.41	2,284,710.32	1,553,280.89	
Pupil Personnel Services	529,324.38	96,931.91		
Instructional Media Services	601,331.31	15,871.65		
Instruction and Curriculum Development Services	122,930.49	166,169.94	6,007.00	
Instructional Staff Training Services	198,246.23	112,131.89	24,844.87	
Instruction Related Technology	114,562.13	101,311.56	31,779.28	
School Board	180,484.98			
General Administration	177,161.29	82,115.64	12,746.59	
School Administration	1,847,661.18			
Fiscal Services	345,291.22			
Food Services				
Central Services	636,200.85	1,471.74		
Pupil Transportation Services	1,324,786.14	55,801.73		
Operation of Plant	2,747,241.70	27,474.89	116,559.39	
Maintenance of Plant	981,406.27	9,809.85	78,575.33	
Administrative Technology Services			480.00	
Fixed Capital Outlay:				
Other Capital Outlay	27,725.53	103,147.51	121,129.06	
Debt Service:				
Principal				767,427.96
Interest and Fiscal Charges				31,968.58
Total Expenditures	21,882,376.11	3,056,948.63	1,945,402.41	799,396.54
Excess (Deficiency) of Revenues Over Expenditures	253,368.46			(579,852.31)
Other Financing Sources (Uses)				
Transfers In	388,321.97			
Proceeds of Note Refinancing				670,000.00
Proceeds of Refunding Bonds				
Premiums on Sale of Refunding Bonds				
Payments to Bond Escrow Agent				
Insurance Loss Recoveries	25,944.04			
Transfers Out				(250,000.00)
Total Other Financing Sources (Uses)	414,266.01			420,000.00
Net Change in Fund Balances	667,634.47			(159,852.31)
Fund Balances, Beginning	1,895,184.80			913,474.77
Fund Balances, Ending	$ 2,562,819.27	$ 0.00	$ 0.00	$ 753,622.46

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
$	$	$ 57,711.82
	1,179,625.46	6,261,182.85
	345,795.33	19,233,187.30
		2,959,486.25
	368,898.43	368,898.43
6,259.20	11,711.30	389,462.91
6,259.20	1,906,030.52	29,269,929.56
		15,886,013.62
		626,256.29
		617,202.96
		295,107.43
		335,222.99
		247,652.97
		180,484.98
		272,023.52
		1,847,661.18
		345,291.22
	1,614,033.59	1,614,033.59
		637,672.59
		1,380,587.87
		2,891,275.98
		1,069,791.45
		480.00
		252,002.10
	50,000.00	817,427.96
	33,016.82	64,985.40
	1,697,050.41	29,381,174.10
6,259.20	208,980.11	(111,244.54)
		388,321.97
		670,000.00
	650,000.00	650,000.00
	98,444.90	98,444.90
	(751,190.75)	(751,190.75)
		25,944.04
	(388,321.97)	(638,321.97)
	(391,067.82)	443,198.19
6,259.20	(182,087.71)	331,953.65
719,643.90	963,624.76	4,491,928.23
$ 725,903.10	$ 781,537.05	$ 4,823,881.88

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, 2011

Net Change in Fund Balances - Governmental Funds			$ 331,953.65
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.			(1,326,955.90)
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.			(25,499.87)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of assets. This is the amount by which repayments exceed proceeds in the current year.			
Note Refinancing Proceeds	$	(670,000.00)	
Bond Refunding Proceeds		(650,000.00)	
Note Payable Repaid		767,438.35	
Bonds Payable Repaid		780,000.00	227,438.35
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 used in excess of the amount earned in the current fiscal year.			143,345.40
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.			(255,993.00)
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.			272,550.42
Change in Net Assets - Governmental Activities			$ (633,160.95)

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, 2011

		Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	269,926.66
Investments		1,522,550.42
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		79,271.07
TOTAL ASSETS	$	1,871,748.15
LIABILITIES		
Noncurrent Liabilities:		
Compensated Absences Payable	$	1,871,748.15
NET ASSETS		
Unrestricted		
TOTAL LIABILITIES AND NET ASSETS	$	1,871,748.15

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, 2011

	Governmental Activities - Internal Service Fund
OPERATING EXPENSES	
Compensated Absences Expense	$ 272,550.42
Operating Loss	(272,550.42)
NONOPERATING REVENUES	
Interest Revenue	22,550.42
Loss Before Transfers	(250,000.00)
Transfers In	250,000.00
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, 2011

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer In	$ 250,000.00
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments, Net	(1,501,555.13)
Interest Income	22,550.42
Net Cash Used by Investing Activities	(1,479,004.71)
Net Decrease in Cash and Cash Equivalents	(1,229,004.71)
Cash and Cash Equivalents, Beginning	1,498,931.37
Cash and Cash Equivalents, Ending	$ 269,926.66

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

Operating Loss	$ (272,550.42)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Compensated Absences Payable	272,550.42
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, 2011

	Agency Funds
ASSETS	
Cash	$ 314,386.00
LIABILITIES	
Internal Accounts Payable	$ 314,386.00

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Reporting Entity**

The Holmes County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Holmes County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Holmes County.

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

- **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense not readily associated with a particular function is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

The District reports the following major governmental funds:

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

Proprietary funds are accounted for as 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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

- **Deposits and Investments**

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, 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, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, 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 0.78965331 at June 30, 2011. 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.

Investments made locally consist of a certificate of deposit, which is reported at cost. Types and amounts of investments held at fiscal year-end are described in a subsequent note 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, 2011

- **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. Bonds payable are reported net of applicable premiums.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

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 reporting FTE and related data.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the 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 2010 tax levy on September 7, 2010. 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, 2011

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 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, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	$ 10,001.98
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	127,692.60
Debt Service Accounts	6 Months	15,601.23
Certificate of Deposit	September 2011	1,522,550.42
Total Investments, Reporting Entity		$ 1,675,846.23

Notes: (1) Investment reported as a cash equivalent for financial statement reporting purposes.

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, 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 Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's Investment Policy limits investments to bids from qualified depositories, financial deposit instruments insured by the Federal Deposit Insurance Corporation, time deposits, securities of the United States Government, State managed cooperative investment plans, and other forms of investments as authorized by Section 218.415, Florida Statutes, as well as Florida PRIME.
- The District's investments in 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, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in a certificate of deposit is in a qualified public depository.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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	4,663,227.79	165,541.10	487,019.87	4,341,749.02
Motor Vehicles	3,439,703.68	163,886.00	18,603.00	3,584,986.68
Total Capital Assets Being Depreciated	63,857,151.37	329,427.10	505,622.87	63,680,955.60
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,410,083.00	52,672.00		1,462,755.00
Buildings and Fixed Equipment	16,131,996.00	1,137,817.00		17,269,813.00
Furniture, Fixtures, and Equipment	3,797,600.00	286,511.00	463,737.00	3,620,374.00
Motor Vehicles	2,330,740.00	179,383.00	16,386.00	2,493,737.00
Total Accumulated Depreciation	23,670,419.00	1,656,383.00	480,123.00	24,846,679.00
Total Capital Assets Being Depreciated, Net	40,186,732.37	(1,326,955.90)	25,499.87	38,834,276.60
Governmental Activities Capital Assets, Net	$ 40,637,316.03	$ (1,326,955.90)	$ 25,499.87	$ 39,284,860.26

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

5. NOTES PAYABLE

Notes payable are comprised of the following:

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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
2012	$ 146,701.51	$ 125,953.98	$ 20,747.53
2013	146,701.51	129,854.33	16,847.18
2014	146,701.51	133,875.46	12,826.05
2015	146,701.51	138,021.11	8,680.40
2016	146,701.51	142,295.12	4,406.39
Total	$ 733,507.55	$ 670,000.00	$ 63,507.55

6. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2010A, Refunding	$ 650,000	4.000 - 5.00	2021

These bonds are issued by the State Board of Education on behalf of the District to finance capital outlay projects of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration. This bond series refunded State School Bonds, Series 2001A. The refunding was effectuated to achieve debt service savings due to lower interest rates. Proceeds of the Series 2010A, Refunding Bonds was used to refund all or a portion of the outstanding Series 2001A and to pay costs of issuance.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	$ 81,250.00	$ 50,000.00	$ 31,250.00
2013	79,250.00	50,000.00	29,250.00
2014	81,750.00	55,000.00	26,750.00
2015	84,000.00	60,000.00	24,000.00
2016	81,000.00	60,000.00	21,000.00
2017-2021	431,500.00	375,000.00	56,500.00
Total State School Bonds	$ 838,750.00	$ 650,000.00	$ 188,750.00

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	$ 767,438.35	$ 670,000.00	$ 767,438.35	$ 670,000.00	$ 125,953.98
Bonds Payable	780,000.00	650,000.00	780,000.00	650,000.00	50,000.00
Compensated Absences Payable	2,775,696.04	107,381.58	250,726.98	2,632,350.64	343,634.00
Other Postemployment Benefits Payable	102,549.00	538,989.00	282,996.00	358,542.00	
Total Governmental Activities	$ 4,425,683.39	$ 1,966,370.58	$ 2,081,161.33	$ 4,310,892.64	$ 519,587.98

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	$ 187,052.75	$
Special Revenue:		
Other		116,257.90
Federal Economic Stimulus		70,794.85
Total	$ 187,052.75	$ 187,052.75

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 388,321.97	$
Debt Service:		
Other		250,000.00
Nonmajor Governmental		388,321.97
Internal Service	250,000.00	
Total	$ 638,321.97	$638,321.97

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

9. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

- **Nonspendable**

  The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories as nonspendable.

- **Restricted**

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

- **Committed**

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

- **Assigned**

  The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes.

- **Unassigned**

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

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2010-11 fiscal year:

Source	Amount
Florida Education Finance Program	$ 15,150,498.00
Categorical Educational Program - Class Size Reduction	3,262,038.00
Gross Receipts Tax (Public Education Capital Outlay)	209,544.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	83,445.25
School Recognition	59,043.00
Discretionary Lottery Funds	11,104.00
Mobile Home License Tax	11,080.25
Miscellaneous	446,434.80
Total	$ 19,233,187.30

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

GENERAL FUND	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	5.487	$ 2,566,117.90
Basic Discretionary Local Effort	0.748	349,818.89
Critical Operating Needs	0.250	116,918.07
Total	6.485	$ 3,032,854.86

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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, 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 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.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of 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, 2009, June 30, 2010, and June 30, 2011, totaled $1,605,689.46, $1,520,474.09, and $1,681,208.72, respectively, which were equal to the required contributions for each fiscal year. There were 32 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled $116,628.16.

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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

13. SPECIAL TERMINATION BENEFITS

Board policy provides for the payment of special termination benefits to all employees who qualify under one of two plans. Under Plan I, qualifying employees receive up to $16,000 if the employee retires with an effective date at the end of the school year in which they first reach 30 or 33 years of experience. Under Plan II, qualifying employees receive 10 percent of their annual salary if the employee is retiring with 33 years or less experience and is not eligible under Plan I. In order to receive either of these benefits, the employee must be eligible to retire under the Florida Retirement System. In addition to payments for accrued leave and regular termination benefits, the District reported expenditures, totaling $38,303.08, during the 2010-11 fiscal year for five employees that received special termination benefits.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 and prescription drug 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 2010-11 fiscal year, 101 retirees received other postemployment benefits. The District provided required contributions of $282,996 toward the annual OPEB cost, net of retiree contributions totaling $534,602, which represents 4.9 percent of covered payroll.

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Description	Amount
Normal Cost (service cost for one year)	$ 231,539
Amortization of Unfunded Actuarial Accrued Liability	301,300
Interest on Normal Cost and Amortization	5,574
Annual Required Contribution	538,413
Interest on Net OPEB Obligation	4,358
Adjustment to Annual Required Contribution	(3,782)
Annual OPEB Cost (Expense)	538,989
Contribution Toward the OPEB Cost	(282,996)
Increase in Net OPEB Obligation	255,993
Net OPEB Obligation, Beginning of Year	102,549
Net OPEB Obligation, End of Year	$ 358,542

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, 2011, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	$ 462,447	60.0%	$ 184,792
2009-10	470,062	117.5%	102,549
2010-11	538,989	52.5%	358,542

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

Actuarial valuations of an ongoing 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 multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Actuarial 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 of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the District's 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend of 9 percent beginning October 1, 2010, reduced to an ultimate rate of 5 percent after 8 years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, 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, employee dishonesty, 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.

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

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 95,000.00	$ 95,000.00	$ 57,711.82	$ (37,288.18)
Federal Through State and Local			79,206.35	79,206.35
State	18,711,972.00	18,711,972.00	18,678,141.97	(33,830.03)
Local:				
Property Taxes	2,931,525.00	2,931,525.00	2,959,486.25	27,961.25
Miscellaneous	435,906.00	435,906.00	361,198.18	(74,707.82)
Total Revenues	22,174,403.00	22,174,403.00	22,135,744.57	(38,658.43)
Expenditures				
Current - Education:				
Instruction	12,399,516.00	12,049,522.45	12,048,022.41	1,500.04
Pupil Personnel Services	555,131.00	530,824.00	529,324.38	1,499.62
Instructional Media Services	617,680.00	602,831.28	601,331.31	1,499.97
Instruction and Curriculum Development Services	204,083.00	124,430.00	122,930.49	1,499.51
Instructional Staff Training Services	214,005.00	199,746.00	198,246.23	1,499.77
Instruction Related Technology	119,091.00	116,062.10	114,562.13	1,499.97
School Board	186,852.00	181,985.00	180,484.98	1,500.02
General Administration	180,355.00	177,585.00	177,161.29	423.71
School Administration	1,746,492.00	1,849,161.03	1,847,661.18	1,499.85
Fiscal Services	306,180.00	346,791.00	345,291.22	1,499.78
Central Services	636,539.00	637,700.42	636,200.85	1,499.57
Pupil Transportation Services	1,402,140.00	1,326,286.56	1,324,786.14	1,500.42
Operation of Plant	2,643,930.00	2,748,741.63	2,747,241.70	1,499.93
Maintenance of Plant	830,978.00	982,606.00	981,406.27	1,199.73
Administrative Technology Services		1,800.00		1,800.00
Fixed Capital Outlay:				
Other Capital Outlay		27,725.53	27,725.53	
Total Expenditures	22,042,972.00	21,903,798.00	21,882,376.11	21,421.89
Excess of Revenues Over Expenditures	131,431.00	270,605.00	253,368.46	(17,236.54)
Other Financing Sources (Uses)				
Transfers In	300,000.00	300,000.00	388,321.97	88,321.97
Insurance Loss Recoveries			25,944.04	25,944.04
Transfers Out	(135,000.00)	(5,000.00)		5,000.00
Total Other Financing Sources	165,000.00	295,000.00	414,266.01	119,266.01
Net Change in Fund Balances	296,431.00	565,605.00	667,634.47	102,029.47
Fund Balances, Beginning	1,895,185.00	1,895,184.80	1,895,184.80	
Fund Balances, Ending	$ 2,191,616.00	$ 2,460,789.80	$ 2,562,819.27	$ 102,029.47

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 3,645,295.00	$ 3,727,601.00	$ 3,056,948.63	$ (670,652.37)	$ 960,241.00	$ 2,009,856.00	$ 1,945,402.41	$ (64,453.59)
3,645,295.00	3,727,601.00	3,056,948.63	(670,652.37)	960,241.00	2,009,856.00	1,945,402.41	(64,453.59)
2,788,525.00	2,443,522.77	2,284,710.32	158,812.45	960,241.00	1,561,787.04	1,553,280.89	8,506.15
96,991.00	103,365.00	96,931.91	6,433.09				
39,366.00	18,567.00	15,871.65	2,695.35		9,000.00		9,000.00
244,449.00	173,649.67	166,169.94	7,479.73		6,007.00	6,007.00	
117,479.00	117,734.00	112,131.89	5,602.11		29,000.00	24,844.87	4,155.13
44,170.00	167,674.05	101,311.56	66,362.49		36,311.90	31,779.28	4,532.62
113,551.00	84,678.00	82,115.64	2,562.36		17,720.00	12,746.59	4,973.41
6,959.00	76,327.00	1,471.74	74,855.26				
85,557.00	59,557.00	55,801.73	3,755.27		13,653.00		13,653.00
83,082.00	30,082.00	27,474.89	2,607.11		117,000.00	116,559.39	440.61
25,166.00	10,166.00	9,809.85	356.15		80,000.00	78,575.33	1,424.67
					2,000.00	480.00	1,520.00
	103,147.51	103,147.51			121,129.06	121,129.06	
3,645,295.00	3,388,470.00	3,056,948.63	331,521.37	960,241.00	1,993,608.00	1,945,402.41	48,205.59
	339,131.00		(339,131.00)		16,248.00		(16,248.00)
	339,131.00		(339,131.00)		16,248.00		(16,248.00)
$ 0.00	$ 339,131.00	$ 0.00	$ (339,131.00)	$ 0.00	$ 16,248.00	$ 0.00	$ (16,248.00)

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%
October 1, 2010	0	8,000,621	8,000,621	0.0%	10,961,786	73.0%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

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	$ 224,630.78	$
National School Lunch Program	10.555	300, 350	885,451.52	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	74,745.93	
Total United States Department of Agriculture			1,184,828.23	
United States Department of Labor:				
Indirect:				
Chipola Regional Workforce Development Board, Inc.:				
WIA Youth Activities	17.259	1011-02	63,198.49	
United States Department of Education:				
Direct:				
Improving Literacy Through School Libraries	84.364	N/A	8,824.02	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	716,519.97	
Special Education - Preschool Grants	84.173	267	27,957.49	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	399,475.49	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	18,349.58	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	16,007.86	
Total Special Education Cluster			1,178,310.39	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,327,538.25	37,154.60
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	290,953.87	
Total Title I, Part A Cluster			1,618,492.12	37,154.60
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	944,894.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	18,865.00	
Total State Fiscal Stabilization Fund Cluster			963,759.00	
Florida Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	161	80,422.46	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	1,350.27	
Twenty-First Century Community Learning Centers	84.287	244	520,120.00	
Rural Education	84.358	110	77,850.28	
Improving Teacher Quality State Grants	84.367	224	260,891.00	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	264.67	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	77,465.08	
Washington County District School Board:				
ARRA - Education Technology State Grants, Recovery Act	84.386 (2)(B)	None	74,233.92	
Total Indirect			4,853,159.19	37,154.60
Total United States Department of Education			4,861,983.21	37,154.60
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	195,134.72	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	35,474.89	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	57,711.82	
Total Expenditures of Federal Awards			$ 6,398,331.36	$ 37,154.60

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:

(A) 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.

(B) ARRA - Education Technology State Grants, Recovery Act - Represents the amount of equipment received during the fiscal year.

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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, 2011, 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
February 24, 2012

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 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, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. 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 finding 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
February 24, 2012

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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
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); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA); and Emergency Contingency Fund for Temporary Assistance for Needy Families State Program (CFDA No. 93.714 – 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, 2011

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),[1] required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that District records did not sufficiently evidence that instructional personnel and school administrators were evaluated based primarily on student performance. Although student performance was a consideration in completing instructional personnel and school administrator evaluation forms, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. 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.

District personnel indicated that the District used evaluation forms designed before enactment of the statutorily-required process, and revisions to performance assessments were delayed until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education (FDOE) for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-147.

[1] Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Recommendation: The District should continue its efforts to document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

Finding No. 2: 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 (2010),[2] provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, section 1012.22(1)(c)4., Florida Statutes (2010), required the Board 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 was required to provide 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.

Although Board policy provides for salary supplements for instructional personnel based on performance, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, although Board policy requires that salary schedules include provisions for differentiated pay in accordance with Florida Statutes, 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 (2010). 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 2010-11 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 compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel**. Board policy provides that instructional personnel who demonstrate outstanding performance in accordance with Florida Statutes will receive a supplement based on 5 percent of their salary. District records indicated that eight teachers were paid supplements during the 2010-11 fiscal year for receiving an exemplary performance assessment and meeting the requirements to qualify as a National Board Certified Teacher. However, as the District employed approximately 300 instructional personnel during the 2010-11 fiscal year, 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 work 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

[2] Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

- **School-based Administrators**. The salary schedule provided for one school-based administrator (an assistant principal) to receive supplements for additional responsibilities and for other school-based administrators (principals) to be compensated based solely on years of experience. As such, the salary schedule did not evidence consideration of additional pay for most school-based administrators or 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 (2010).

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 correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-147.

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. 3: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

The Board established agreements with four banks to provide various services, including EFTs, and the agreements contained the signatures of the Board chair and superintendent. The agreements identified the finance officer or finance officer-approved designee as authorized to initiate transfers, and electronic or other on-line activities. While the District does not use EFTs to make vendor payments, the District regularly makes electronic disbursements for payroll related activity such as direct deposit of employee pay and remittance of Federal taxes and other payroll withholdings, and to transfer funds between different bank and investment accounts. While the District used informal processes including oral instructions and other reviews to monitor and control electronic transmission of funds, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. Further, the bank and investment agreements did not contain the signature of the employees authorized to initiate and authorize EFTs, nor did employees execute signed confirmations to authenticate the EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as management review of EFT transactions, to compensate, in part, for the lack of formal policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 4: Fund Balance Reporting

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the preparation of the annual financial report (AFR) for the fiscal year ended June 30, 2011. GASB Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds, clarifies definitions for governmental fund types, and establishes criteria for classifying fund balances into specifically defined classifications. One of the classifications, assigned fund balance, represents amounts that are constrained by the intent of the governing body (Board), or a Board-authorized body or official, to be used for specific purposes. In addition, capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

On the District's 2010-11 fiscal year AFR, as presented for audit, certain unrestricted resources totaling $211,237.63, were reported as assigned fund balance in a capital projects fund. These resources consisted of General Fund transfers, Federal Emergency Management Act reimbursements, and other unrestricted moneys placed in the capital projects fund in previous years. However, as of January 2012, contrary to the provisions of GASB Statement No. 54, the Board had not officially designated a body or official the authority to assign fund balances and express the intent of the specific purposes for such assignments. Further, neither the District's five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which these resources were assigned. Without official action to identify those responsible for establishing assigned fund balances, and District records evidencing the specific intended uses of those balances, financial statement users may misunderstand the Board's intent regarding assigned fund balances.

Recommendation: The Board should adopt a policy that identifies and authorizes the body or employee responsible for assigning fund balances and specifying the intended uses of assigned fund balances. Also, the intended use of the unrestricted resources of $211,237.63 in the capital projects funds should be disclosed in the District's records, and if the intended use is not for capital outlay purposes, the District should transfer $211,237.63 to the General Fund.

Finding No. 5: Information Technology – Security Incident Response Plan

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

The District's *Computer Use Policy* requires employees to notify the District's Information Technology (IT) department if a security problem is identified; however, the District did not have a comprehensive written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

Finding No. 6: Information Technology – Security Controls – Data Loss Prevention, Access Controls, and User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention, access controls, and user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to data loss prevention, access controls, and user authentication, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, 84.392 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $43,092

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as the departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

Pursuant to Section 1010.20, Florida Statutes, the District is responsible for preparation of an annual cost report to account, in part, for expenditures of all State, local, and Federal funds on an aggregate basis for each funded program. The cost report expenditures included direct and indirect program costs based on an index of relative costs per full-time equivalent (FTE) enrollment. District personnel indicated that the cost report was used to demonstrate

compliance with the Special Education program maintenance of effort requirement as disclosed in the following schedule:

Source	Fiscal Years 2009-10	Fiscal Years 2010-11	Difference
General Fund Special Education Expenditures Per Cost Report	$ 4,101,807	$ 4,079,285	$ 22,522
FTE Enrollment in Special Education	512	476	36
Expenditures per FTE	$ 8,011	$ 8,570	$ (559)

However, the expenditures included in the cost report differ from the general ledger in that the cost report includes indirect costs, such as general administration, fiscal and central services, and operation and maintenance of plant expenditures, whereas indirect costs are not included in the expenditure amounts summarized from the general ledger. As District records did not evidence that the grantor (FDOE) had approved use of the cost report to demonstrate compliance with the maintenance of effort requirement, we prepared an analysis of Special Education expenditures from the District's general ledger. In our analysis, the State and local expenditures, in total and average per FTE, decreased from the 2009-10 fiscal year to the 2010-11 fiscal year, as shown below:

Source	Fiscal Years 2009-10	Fiscal Years 2010-11	Difference
General Fund Special Education Expenditures Per General Ledger	$ 1,485,184	$ 1,301,463	$ 183,721
Add: State Fiscal Stabilization Fund Special Education Expenditures	30,452		30,452
Less: General Fund Special Education Capital Outlay Expenditures		(1,000)	1,000
Less: State Fiscal Stabilization Fund Special Education Capital Outlay Expenditures	(7,802)		(7,802)
Subtotal Expenditures (Deficiency in Total Expenditures)	$ 1,507,834	$ 1,300,463	$ 207,371
FTE Enrollment in Special Education	512	476	
Expenditures per FTE	$ 2,945	$ 2,732	
Part B Entitlement Flow-Through Funds		$ 855,368	
Less: Prior Year Entitlement		738,850	
Reduction of Maintenance of Effort (MOE)		$ 116,518	
Allowance for MOE Flexibility (Reduction of MOE times 50 percent)			(58,259)
Allowance for Decrease in FTE (36 FTE Decrease times $2,945 Average Expended for 2009-10 Fiscal Year)			(106,020)
Deficiency in Expenditures of State and Local Resources			$ 43,092

In addition, District records did not evidence that the District met a qualified exemption from the maintenance of effort requirement. Consequently, the deficiency in maintenance of effort from State and local funds totaling $43,092 represents questioned costs subject to disallowance by FDOE. Without adequate procedures to demonstrate compliance with the maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Recommendation: The District should enhance procedures over State and local resources allocated and expended for Special Education programs to ensure compliance with the Federal maintenance of effort requirement. Such procedures should include consultation with, and approval by, the grantor (FDOE) to ensure calculations are appropriate to demonstrate compliance. In addition, the District should document to FDOE its compliance with the maintenance of effort requirement or restore $43,092 to the Special Education programs.

District Contact Person: Donnita Butorac, Exceptional Education & Related Services Administrator

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. 2011-147.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

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
2010-134 (1) 2011-147 (4)	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. In the 2008-09 fiscal year, the Special Education-Preschool Grant program was overcharged $19,008.53, which represents questioned costs.	Corrected	Questioned costs were restored to the program.
2010-134 (2) 2011-147 (5)	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.	Corrected	
2011-147 (1)	Title I, Part A Cluster (CFDA No. 84.010) - Allowable Costs/Cost Principles	Controls over the administration and use of Title I program resources were not sufficient, resulting in $100,388.79 of questioned costs.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2011-147 (2)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) - Eligibility	District procedures did not ensure that Title I schoolwide program resources were properly allocated to, and used at, schools with the greatest need, resulting in questioned costs of $80,087.67.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2011-147 (3)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) - Period of Availability	The District charged expenditures to the Title I program for obligations not incurred during the grant period, resulting in $35,475.75 of questioned costs.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2011-147 (6)	Title I, Part A Cluster (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027, 84.391, and 84.392); and State Fiscal Stabilization Fund (SFSF) Cluster (CFDA Nos. 84.394 and 84.397) - Equipment	The District had not implemented adequate controls to ensure the accountability and safeguarding of the District's tangible personal property, which may impact Federal programs.	Corrected	The District has implemented procedures to ensure adequate control over tangible property purchased with Federal grants.

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

February 24, 2012

Mr. David W. 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 **7, 2012**				
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: 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 worked with the FLDOE to align the Performance Assessment systems with Section 1012.34(3), Florida Statutes (FS). The system has been approved by FLDOE and the teacher's association and will be implemented during the 2011/2012 school year.	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). The state approved teacher evaluation system will be used with all instructional personnel during the 2011/2012 school year. A draft of the principal evaluation will be submitted to FLDOE in May, 2012.	June, 2011	June, 2012
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 (RTTT) Grant.				
Finding No. 2: 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. Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22 (1)4., Florida Statutes (2010)	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. The district will follow the timeline outlined in the RTTT Grant.	July, 2012	June, 2014

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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. 3: Controls over electronic funds transfers could be enhanced.		The District intends to comply with the statutory and administrative rule requirements regarding EFT's. Procedures will be implemented to determine the appropriate person to authorize and approve the transfer.	May, 2012	June, 2012
Comments: Written policies will be adopted to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.				
Finding No. 4: The District assigned approximately $211,000 of unrestricted resources in a capital projects fund; however, the Board had not officially designated who had the authority to express the intended use of these funds and District records did not evidence the specific intended use of the funds.		Official recognition of the designee for classification of accounting records and statements will be made.	May, 2012	June, 2012
Comments: The Board will adopt a policy that provides for the identification of the responsible person and the appropriate accounting of unrestricted resources.				
Finding No. 5: The District did not have a written information technology (IT) incident response plan.	Computer security incidents that have been discovered by or reported to the District's Information Technology (IT) department have been logged and addressed by IT Staff.	The District will create a written security response plan which will detail responsibilities and procedures for identifying, logging, reporting, and notifying affected parties of computer security violations.	June 2012	September 2012

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EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Comments: The written security incident response plan will provide reasonable assurance that the District will respond in a timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.				
Finding No. 6: The District's IT security controls related to data loss prevention, access controls, and user authentication needed improvement.		The district will continue to implement controls over information technology security. Specific information will not be disclosed in this report.	August 2012	December 2012
Comments: The district shall improve security controls related to data loss prevention, access controls, and user authentication to ensure the continued confidentiality, integrity, and availability of District data and IT resources.				
Federal Finding No. 1: Procedures over State and local resources allocated and expended for Special Education programs could be enhanced to ensure compliance with Federal maintenance of effort requirements.		The district will enhance procedures over State and local resources allocated and expended for Special Education programs to ensure compliance with the Federal maintenance of effort requirement.	March, 2012	July, 2012
Comments: Efforts will be made by the District to document to FDOE its compliance with the maintenance of effort requirement.				

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