REPORT NO. 2014-141
MARCH 2014

HOLMES COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Board members and the Superintendents who served during the 2012-13 fiscal year are listed below:

	District No.
Rusty Williams, Chair from 11-20-12	1
Gary Scott to 11-19-12	2
Debbie Kolmetz from 11-20-12	2
Jason Motley, Chair to 11-19-12, Vice Chair from 11-20-12	3
Anthony Register to 11-19-12, Vice Chair	4
Shirley Owens from 11-20-12	4
Sid Johnson	5

Gary Galloway, Superintendent to 11-19-12
Eddie Dixon, Superintendent from 11-20-12

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 Shelly G. Curti, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

HOLMES COUNTY DISTRICT SCHOOL BOARD
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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

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, the significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that account balances and transactions are properly reported on the financial statements.

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. 2: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 4: The Board assigned $210,805 of unrestricted resources in a capital projects fund; however, District records did not evidence the specific intended future use of the resources.

Finding No. 5: The District requested Special Facilities Construction funding from the Florida Department of Education, without accurately identifying the District's capital outlay funding resources.

Finding No. 6: Controls over monitoring school bus drivers could be enhanced.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Twenty-First Century, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Improvements were needed to ensure that indirect costs are properly calculated for the Child Nutrition Cluster programs.

Federal Awards Finding No. 2: Improvements were needed in procedures used to perform free and reduced-price meal application verifications.

Federal Awards Finding No. 3: The District had not implemented adequate controls over tangible property used in the Race-to-the-Top program.

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. 2013-132.**

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, 2013. 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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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County District School Board, as of and for the fiscal year ended June 30, 2013, and the notes to the related financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 11 percent of the assets and 15 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 solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments,

the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, 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.

Supplementary Information

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 14, 2014

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, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- The District's net position decreased by $2,368,882.38, or 5.9 percent. Net assets decreased in the previous fiscal year by 4.4 percent.
- During the current fiscal year, the General Fund's fund balance decreased by $265,134.05. This may be compared to last fiscal year's results when the General Fund's fund balance decreased by $534,227.95. The June 30, 2013, General Fund fund balance is $1,763,457.27.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

Over a period of time, changes in the District's net position are an indication of improving and deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including it 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 evaluation 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 balance sheet and the governmental fund 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, 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 part 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.

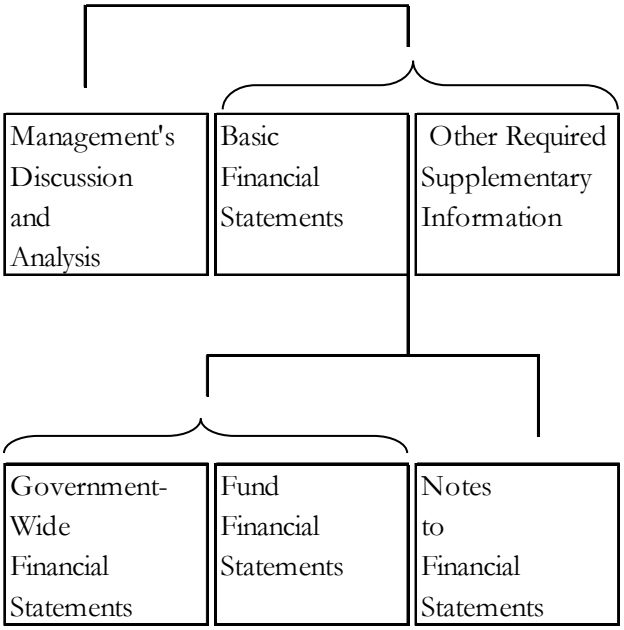
The District uses agency funds to account for resources held for student activities and groups.

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

		Fund Statements		
	Government-Wide 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 position Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows	Statement of fiduciary net position
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 position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2013, compared to net position as of June 30, 2012:

Net Position, End of Year

	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	$ 6,266,634	$ 6,911,964
Capital Assets	36,428,770	37,907,926
Total Assets	42,695,404	44,819,890
Long-Term Liabilities	4,385,152	4,331,283
Other Liabilities	836,126	645,599
Total Liabilities	5,221,278	4,976,882
Net Position:		
Net Investment in Capital Assets	35,464,509	36,763,880
Restricted	946,657	1,038,770
Unrestricted	1,062,960	2,040,358
Total Net Position	$ 37,474,126	$ 39,843,008

The largest portion of the District's net position (94.6 percent) is 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 position (2.5 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (2.9 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-13	6-30-12
Program Revenues:		
Charges for Services	$ 403,063	$ 419,777
Operating Grants and Contributions	1,975,122	1,931,101
Capital Grants and Contributions	113,625	80,306
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,771,189	2,809,930
Grants and Contributions Not Restricted to Specific Programs	20,749,992	20,830,335
Unrestricted Investment Earnings	10,094	24,283
Miscellaneous	198,031	215,718
Total Revenues	26,221,116	26,311,450
Functions/Program Expenses:		
Instruction	15,288,779	15,190,122
Pupil Personnel Services	667,079	591,407
Instructional Media Services	515,383	545,759
Instruction and Curriculum Development Services	285,797	268,196
Instructional Staff Training Services	339,115	379,829
Instruction Related Technology	203,607	176,934
School Board	178,448	175,716
General Administration	259,958	218,794
School Administration	1,868,074	1,768,544
Fiscal Services	288,889	292,534
Food Services	1,717,948	1,652,218
Central Services	689,591	674,127
Pupil Transportation Services	1,317,769	1,324,118
Operation of Plant	2,496,389	2,402,505
Maintenance of Plant	889,728	863,247
Administrative Technology Services	424	
Community Services		321
Unallocated Interest on Long-Term Debt	46,284	52,099
Unallocated Depreciation Expense	1,536,736	1,561,569
Total Functions/Program Expenses	28,589,998	28,138,039
Change in Net Position	(2,368,882)	(1,826,589)
Net Position - Beginning	39,843,008	41,669,597
Net Position - Ending	$ 37,474,126	$ 39,843,008

The largest revenue source is the State of Florida (69.9 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Instruction expenses represent 53.5 percent of total governmental expenses in the 2012-13 fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by $575,415.65 during the fiscal year to $3,313,908.11 at June 30, 2013. Approximately 49.9 percent of this amount is unassigned fund balance ($1,656,164.27), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form ($135,470.05), 2) restricted for particular purposes ($918,479.13), or 3) assigned for particular purposes ($603,794.66).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $1,656,164.27, while the total fund balance is $1,763,457.27. Total fund balance decreased by $265,134.05 during the fiscal year. The key factor impacting the change in fund balance is an increase in total expenditures of $813,545.92, or 3.8 percent, mainly due to increases in Instruction, School Administration, and Operation of Plant functions.

The Special Revenue – Other Fund and the Special Revenue – Federal Economic Stimulus Fund each have zero fund balances at the end of the current fiscal year. The District uses these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance. In the Special Revenue – Federal Economic Stimulus Fund, revenues and expenditures each declined from $843,653.75 in the prior fiscal year to $201,049.47 in the current fiscal year due to the ongoing expiration of stimulus grants.

The Capital Projects – Local Capital Improvement Fund has a fund balance of $731,289.74, which is restricted to acquisition, construction, and maintenance of capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the 2012-13 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 I.F.4 and II.C to the financial statements. The following table reflects the District's net investment in capital assets at June 30, 2013, and June 30, 2012:

Capital Assets

	Governmental Activities	
	6-30-13	6-30-12
Land	$ 450,584	$ 450,584
Improvements Other Than Buildings	206,905	223,801
Buildings and Fixed Equipment	34,487,848	35,624,053
Furniture, Fixtures, and Equipment	514,211	666,819
Motor Vehicles	769,222	942,669
Total Capital Assets	$ 36,428,770	$ 37,907,926

Long-Term Debt

The following table discloses the 2012-13 fiscal year debt principal payments and outstanding debt as of June 30, 2013:

Outstanding Debt

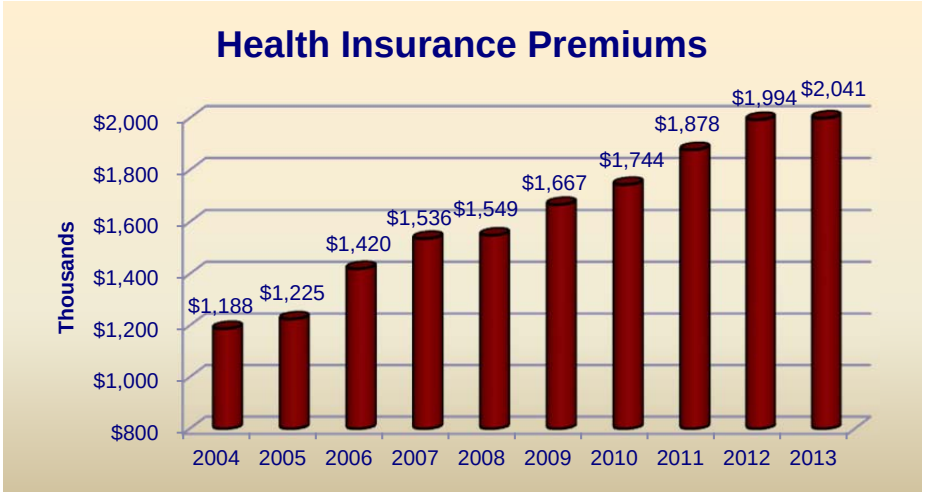
	Total Payments	Debt Outstanding
June 30, 2013	$ 179,785	$ 964,261

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

OTHER MATTERS OF SIGNIFICANCE

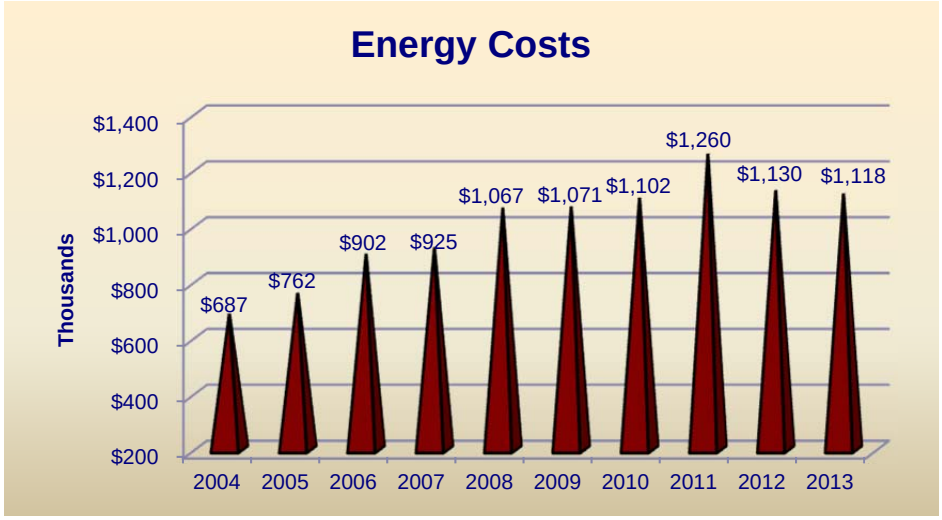
Insurance Premiums

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



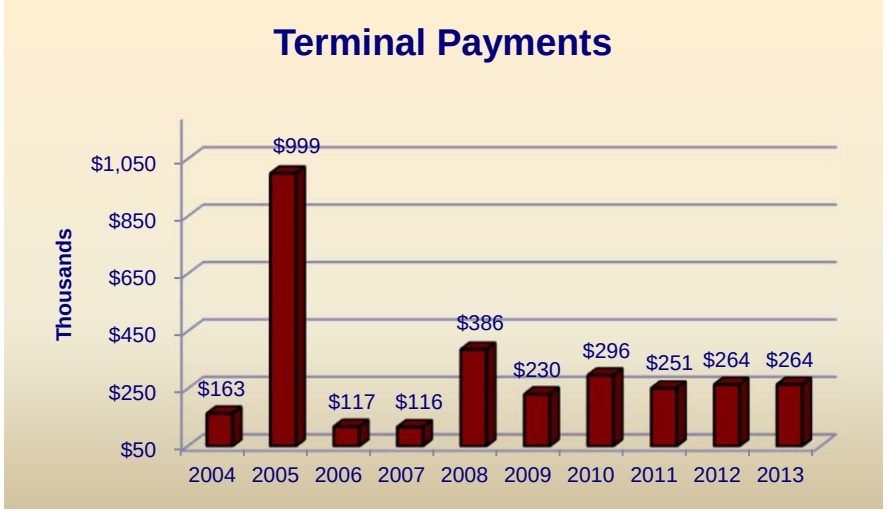
Energy Costs

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



Terminal Pay Benefits

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



REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
ASSETS	
Cash	$ 4,129,441.34
Investments	1,628,390.13
Accounts Receivable	2,906.42
Due from Other Agencies	370,425.95
Inventories	135,470.05
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	35,978,186.52
TOTAL ASSETS	42,695,404.07
LIABILITIES	
Salaries and Benefits Payable	143,279.47
Payroll Deductions and Withholdings	507,702.26
Accounts Payable	185,144.80
Long-Term Liabilities:	
Portion Due Within One Year	474,573.07
Portion Due After One Year	3,910,578.72
TOTAL LIABILITIES	5,221,278.32
NET POSITION	
Net Investment in Capital Assets	35,464,509.26
Restricted for:	
Debt Service	13,566.21
Capital Projects	731,289.74
Food Service	201,800.23
Unrestricted	1,062,960.31
TOTAL NET POSITION	$ 37,474,125.75

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, 2013

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 Position: Governmental Activities
Governmental Activities:					
Instruction	$ 15,288,779.25	$ 58,068.98	$	$	$ (15,230,710.27)
Pupil Personnel Services	667,078.86				(667,078.86)
Instructional Media Services	515,383.47				(515,383.47)
Instruction and Curriculum Development Services	285,797.02				(285,797.02)
Instructional Staff Training Services	339,114.76				(339,114.76)
Instruction Related Technology	203,606.56				(203,606.56)
School Board	178,448.11				(178,448.11)
General Administration	259,958.00				(259,958.00)
School Administration	1,868,074.26				(1,868,074.26)
Facilities Acquisition and Construction				35,352.81	35,352.81
Fiscal Services	288,888.58				(288,888.58)
Food Services	1,717,947.68	316,753.08	1,324,340.25		(76,854.35)
Central Services	689,590.83				(689,590.83)
Pupil Transportation Services	1,317,769.33	28,241.00	650,782.00		(638,746.33)
Operation of Plant	2,496,388.95				(2,496,388.95)
Maintenance of Plant	889,728.22				(889,728.22)
Administrative Technology Services	423.79				(423.79)
Unallocated Interest on Long-Term Debt	46,284.15			78,271.81	31,987.66
Unallocated Depreciation Expense	1,536,736.00				(1,536,736.00)
Total Governmental Activities	$ 28,589,997.82	$ 403,063.06	$ 1,975,122.25	$ 113,624.62	(26,098,187.89)

General Revenues:	
Property Taxes, Levied for Operational Purposes	2,771,189.15
Grants and Contributions Not Restricted to Specific Programs	20,749,992.00
Unrestricted Investment Earnings	10,093.31
Miscellaneous	198,031.05
Total General Revenues	23,729,305.51
Change in Net Position	(2,368,882.38)
Net Position - Beginning	39,843,008.13
Net Position - Ending	$ 37,474,125.75

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, 2013

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash	$ 2,130,121.04	$	$
Investments	5,000.87		
Accounts Receivable	2,816.28		
Due from Other Funds	185,533.22		
Due from Other Agencies	12,071.20	321,586.79	15,889.53
Inventories	107,293.00		
TOTAL ASSETS	$ 2,442,835.61	$ 321,586.79	$ 15,889.53
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$	$ 129,401.38	$ 13,878.09
Payroll Deductions and Withholdings	507,702.26		
Accounts Payable	171,676.08	8,663.63	
Due to Other Funds		183,521.78	2,011.44
Total Liabilities	679,378.34	321,586.79	15,889.53
Fund Balances:			
Nonspendable:			
Inventories	107,293.00		
Restricted for:			
Food Service			
Debt Service			
Capital Projects			
Total Restricted Fund Balance			
Assigned for:			
Debt Service			
Capital Projects			
Total Assigned Fund Balance			
Unassigned Fund Balance	1,656,164.27		
Total Fund Balances	1,763,457.27		
TOTAL LIABILITIES AND FUND BALANCES	$ 2,442,835.61	$ 321,586.79	$ 15,889.53

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
$ 731,289.74	$ 737,100.69	$ 3,598,511.47
	37,719.88	42,720.75
	90.14	2,906.42
		185,533.22
	20,878.43	370,425.95
	28,177.05	135,470.05
$ 731,289.74	$ 823,966.19	$ 4,335,567.86
$	$	$ 143,279.47
		507,702.26
	4,805.09	185,144.80
		185,533.22
	4,805.09	1,021,659.75
	28,177.05	135,470.05
	173,623.18	173,623.18
	13,566.21	13,566.21
731,289.74		731,289.74
731,289.74	187,189.39	918,479.13
	392,989.52	392,989.52
	210,805.14	210,805.14
	603,794.66	603,794.66
		1,656,164.27
731,289.74	819,161.10	3,313,908.11
$ 731,289.74	$ 823,966.19	$ 4,335,567.86

HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds		$ 3,313,908.11
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		36,428,770.18
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Notes Payable	$ 414,260.92	
Bonds Payable	550,000.00	
Compensated Absences Payable (net of $2,116,599.25 set aside in the Internal Service Fund to fund a portion of the liability)	424,561.62	
Other Postemployment Benefits Payable	879,730.00	(2,268,552.54)
Net Position - Governmental Activities		$ 37,474,125.75

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, 2013

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 59,506.27	$	$
Federal Through State and Local	2,467.62	2,893,083.70	201,049.47
State	17,973,641.28		
Local:			
Property Taxes	2,771,189.15		
Charges for Services - Food Service			
Miscellaneous	331,797.05		
Total Local Revenues	3,102,986.20		
Total Revenues	21,138,601.37	2,893,083.70	201,049.47
Expenditures			
Current - Education:			
Instruction	12,598,084.23	2,342,600.45	91,430.85
Pupil Personnel Services	578,456.45	75,914.19	
Instructional Media Services	505,365.47		
Instruction and Curriculum Development Services	93,658.19	188,194.31	
Instructional Staff Training Services	191,045.06	110,250.03	32,569.82
Instruction Related Technology	107,937.79	22,858.25	68,479.13
School Board	175,397.11		
General Administration	178,324.51	80,709.41	5,473.44
School Administration	1,869,720.47		
Fiscal Services	291,790.01		
Food Services			
Central Services	715,642.25	47.24	
Pupil Transportation Services	1,279,652.25	37,295.86	
Operation of Plant	2,478,635.11		
Maintenance of Plant	887,700.93		
Administrative Technology Services	423.79		
Fixed Capital Outlay:			
Other Capital Outlay	78,411.65	35,213.96	3,096.23
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	22,030,245.27	2,893,083.70	201,049.47
Excess (Deficiency) of Revenues Over Expenditures	(891,643.90)		
Other Financing Sources (Uses)			
Transfers In	626,509.85		
Transfers Out			
Total Other Financing Sources (Uses)	626,509.85		
Net Change in Fund Balances	(265,134.05)		
Fund Balances, Beginning	2,028,591.32		
Fund Balances, Ending	$ 1,763,457.27	$ 0.00	$ 0.00

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
$	$	$ 59,506.27
	1,300,232.25	4,396,833.04
	348,316.62	18,321,957.90
		2,771,189.15
	316,753.08	316,753.08
1,996.97	6,399.32	340,193.34
1,996.97	323,152.40	3,428,135.57
1,996.97	1,971,701.27	26,206,432.78
		15,032,115.53
		654,370.64
		505,365.47
		281,852.50
		333,864.91
		199,275.17
		175,397.11
		264,507.36
		1,869,720.47
		291,790.01
	1,694,310.53	1,694,310.53
		715,689.49
		1,316,948.11
		2,478,635.11
		887,700.93
		423.79
	12,215.21	128,937.05
	179,785.10	179,785.10
	46,284.15	46,284.15
	1,932,594.99	27,056,973.43
1,996.97	39,106.28	(850,540.65)
		626,509.85
	(351,384.85)	(351,384.85)
	(351,384.85)	275,125.00
1,996.97	(312,278.57)	(575,415.65)
729,292.77	1,131,439.67	3,889,323.76
$ 731,289.74	$ 819,161.10	$ 3,313,908.11

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, 2013

Net Change in Fund Balances - Governmental Funds		$ (575,415.65)
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 fiscal year.		(1,405,298.95)
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 position differs from the change in fund balance by the undepreciated cost of the disposed assets.		(73,856.73)
Repayment of long-term debt is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayments in the current fiscal year.		
Notes Payable	$ 129,785.10	
Bonds Payable	50,000.00	179,785.10
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.		53,765.19
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.		(287,419.00)
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 decrease in the internal service fund assets set aside for this purpose.		(260,442.34)
Change in Net Position - Governmental Activities		$ (2,368,882.38)

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

HOLMES COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET POSITION - PROPRIETARY FUND June 30, 2013

		Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash	$	530,929.87
Investments		1,554,314.28
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		31,355.10
TOTAL ASSETS	$	2,116,599.25
LIABILITIES		
Noncurrent Liabilities:		
Compensated Absences Payable	$	2,116,599.25
NET POSITION		
Unrestricted		
TOTAL LIABILITIES AND NET POSITION	$	2,116,599.25

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 NET POSITION - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Decrease in Compensated Absences Payable	$ 260,442.34
Operating Income	260,442.34
NONOPERATING REVENUES	
Interest Revenue	14,682.66
Income Before Transfers	275,125.00
Transfers Out	(275,125.00)
Change in Net Position	
Total Net Position - Beginning	
Total Net Position - Ending	$ 0.00

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	$	(275,125.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments		21,983.27
Interest Income		14,682.66
Net Cash Provided by Investing Activities		36,665.93
Net Decrease in Cash		(238,459.07)
Cash, Beginning		769,388.94
Cash, Ending	$	530,929.87

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

Operating Income	$	260,442.34
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Compensated Absences Payable		(260,442.34)
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, 2013

	Agency Funds
ASSETS	
Cash	$ 368,220.00
LIABILITIES	
Internal Accounts Payable	$ 368,220.00

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Holmes County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

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

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

C. Basis of Presentation: Government-wide Financial Statements

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

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

D. Basis of Presentation: Fund Financial Statements

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

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).
- 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.

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

E. Basis of Accounting

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 45 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

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.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME 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. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

3. Inventories

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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.

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds, and to the extent funded in accordance with Board Policy in the Internal Service Fund, are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2013.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board approves the assignment of the fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the 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

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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. 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.

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

3. District Property Taxes

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

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

The Board adopted the 2012 tax levy on September 18, 2012. 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.

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4. Federal Revenue Sources

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

5. Compensated Absences

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

6. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance on average daily balances.

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B. Investments

As of June 30, 2013, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME	40 Day Average	$ 10,001.72
Fund B	3.98 Year Average	50,507.92
Debt Service Accounts	6 Months	13,566.21
Certificate of Deposit	September 2013	1,554,314.28
Total Investments		$ 1,628,390.13

- 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 40 days at June 30, 2013. 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 cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

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

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The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

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

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

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 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	3,977,561.32	128,937.05	237,252.73	3,869,245.64
Motor Vehicles	3,574,533.98	2,500.00		3,577,033.98
Total Capital Assets Being Depreciated	63,306,315.20	131,437.05	237,252.73	63,200,499.52
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,499,356.00	16,896.00		1,516,252.00
Buildings and Fixed Equipment	18,407,010.00	1,136,204.00		19,543,214.00
Furniture, Fixtures, and Equipment	3,310,742.00	207,689.00	163,396.00	3,355,035.00
Motor Vehicles	2,631,865.00	175,947.00		2,807,812.00
Total Accumulated Depreciation	25,848,973.00	1,536,736.00	163,396.00	27,222,313.00
Total Capital Assets Being Depreciated, Net	37,457,342.20	(1,405,298.95)	73,856.73	35,978,186.52
Governmental Activities Capital Assets, Net	$ 37,907,925.86	$ (1,405,298.95)	$ 73,856.73	$ 36,428,770.18

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

D. Florida Retirement System

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

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Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to Members from All of the Above Classes	0.00	5.44
FRS, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled $1,681,208.72, $1,135,666.42, and $1,208,360.53, respectively, which were equal to the required contributions for each fiscal year.

There were 27 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $71,331.80, which was equal to the required contribution for the 2012-13 fiscal year.

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

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 104 retirees received other postemployment benefits. The District provided required contributions of $297,632 toward the annual OPEB cost, net of retiree contributions totaling $549,842, which represents 4.8 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	$ 245,916
Amortization of Unfunded Actuarial Accrued Liability	337,433
Annual Required Contribution	583,349
Interest on Net OPEB Obligation	25,173
Adjustment to Annual Required Contribution	(23,471)
Annual OPEB Cost (Expense)	585,051
Contribution Toward the OPEB Cost	(297,632)
Change in Net OPEB Obligation	287,419
Net OPEB Obligation, Beginning of Year	592,311
Net OPEB Obligation, End of Year	$ 879,730

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 538,989	52.5%	$ 358,542
2011-12	546,431	57.2%	592,311
2012-13	585,051	50.9%	879,730

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was $8,339,851, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $8,339,851, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $11,365,424, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 73.4 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.25 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, projected salary increases of 3 to 7.25 percent, and an annual healthcare cost trend rate of 8.5 percent beginning October 2012 plan year, reduced to an ultimate rate of 5.49 percent beginning October 2028. The investment rate of return and projected salary increase rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage

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of projected payroll on a closed basis over a 30 year period. The remaining amortization period at June 30, 2013, was 26 years.

F. 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 $47,944.15, during the 2012-13 fiscal year for nine employees that received special termination benefits.

G. Risk Management Programs

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

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

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

H. Long-Term Liabilities

1. Notes Payable

Notes payable are comprised of the following:

Regions Bank	Balance at June 30
$670,000, Borrowed on 4-18-11, Under Provisions of Section 1013.23, Florida Statutes. Repayment to be Made Over a 5-Year Period. Interest Rate of 3 percent.	$ 414,260.92

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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
2014	$ 146,701.51	$ 134,101.07	$ 12,600.44
2015	146,701.51	138,179.98	8,521.53
2016	146,701.51	141,979.87	4,721.64
Total	$ 440,104.53	$ 414,260.92	$ 25,843.61

2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2010A, Refunding	$ 550,000	4.0 - 5.0	2021

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	$ 81,750	$ 55,000	$ 26,750
2015	84,000	60,000	24,000
2016	81,000	60,000	21,000
2017	83,000	65,000	18,000
2018	84,750	70,000	14,750
2019-2021	263,750	240,000	23,750
Total State School Bonds	$ 678,250	$ 550,000	$ 128,250

HOLMES COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Notes Payable	$ 544,046.02	$	$ 129,785.10	$ 414,260.92	$ 134,101.07
Bonds Payable	600,000.00		50,000.00	550,000.00	55,000.00
Compensated Absences Payable	2,594,926.06	210,461.78	264,226.97	2,541,160.87	285,472.00
Other Postemployment Benefits Payable	592,311.00	585,051.00	297,632.00	879,730.00	
Total Governmental Activities	$ 4,331,283.08	$ 795,512.78	$ 741,644.07	$ 4,385,151.79	$ 474,573.07

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

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

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

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 185,533.22	$
Special Revenue:		
Other		183,521.78
Federal Economic Stimulus		2,011.44
Total	$ 185,533.22	$ 185,533.22

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.

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2012-13 fiscal year:

Source	Amount
Florida Education Finance Program	$ 14,428,317.00
Categorical Educational Program - Class Size Reduction	3,301,810.00
Voluntary Prekindergarten Program	135,338.62
School Recognition	89,505.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	79,978.30
Mobile Home License Tax	9,200.04
Miscellaneous	277,808.94
Total	$ 18,321,957.90

Accounting policies relating to certain State revenue sources are described in note I.G.2.

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JUNE 30, 2013

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

GENERAL FUND	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	5.443	$ 2,500,924.49
Basic Discretionary Local Effort	0.748	343,687.58
Total	6.191	$ 2,844,612.07

L. Interfund Transfers

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 626,509.85	$
Nonmajor Governmental		351,384.85
Internal Service		275,125.00
Total	$ 626,509.85	$626,509.85

The interfund transfers were to reimburse capital outlay, maintenance, and terminal leave expenditures in the General Fund.

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, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 95,000.00	$ 95,000.00	$ 59,506.27	$ (35,493.73)
Federal Through State and Local			2,467.62	2,467.62
State	17,993,462.00	17,993,462.00	17,973,641.28	(19,820.72)
Local:				
Property Taxes	2,737,364.00	2,737,364.00	2,771,189.15	33,825.15
Miscellaneous	392,991.00	392,991.00	331,797.05	(61,193.95)
Total Local Revenues	3,130,355.00	3,130,355.00	3,102,986.20	(27,368.80)
Total Revenues	21,218,817.00	21,218,817.00	21,138,601.37	(80,215.63)
Expenditures				
Current - Education:				
Instruction	12,587,774.00	12,599,584.52	12,598,084.23	1,500.29
Pupil Personnel Services	509,270.00	579,956.00	578,456.45	1,499.55
Instructional Media Services	552,863.00	506,865.82	505,365.47	1,500.35
Instruction and Curriculum Development Services	82,978.00	95,158.00	93,658.19	1,499.81
Instructional Staff Training Services	194,246.00	192,545.00	191,045.06	1,499.94
Instruction Related Technology	110,137.00	109,438.00	107,937.79	1,500.21
School Board	180,634.00	176,897.00	175,397.11	1,499.89
General Administration	185,740.00	179,825.00	178,324.51	1,500.49
School Administration	1,779,773.00	1,871,220.00	1,869,720.47	1,499.53
Fiscal Services	318,377.00	293,290.00	291,790.01	1,499.99
Central Services	668,087.00	716,934.02	715,642.25	1,291.77
Pupil Transportation Services	1,385,390.00	1,281,152.00	1,279,652.25	1,499.75
Operation of Plant	2,597,875.00	2,480,135.00	2,478,635.11	1,499.89
Maintenance of Plant	952,907.00	889,201.00	887,700.93	1,500.07
Administrative Technology Services		1,923.99	423.79	1,500.20
Community Services	2,000.00	1,500.00		1,500.00
Fixed Capital Outlay:				
Other Capital Outlay		78,411.65	78,411.65	
Total Expenditures	22,108,051.00	22,054,037.00	22,030,245.27	23,791.73
Deficiency of Revenues Over Expenditures	(889,234.00)	(835,220.00)	(891,643.90)	(56,423.90)
Other Financing Sources				
Transfers In	115,000.00	115,000.00	626,509.85	511,509.85
Total Other Financing Sources	115,000.00	115,000.00	626,509.85	511,509.85
Net Change in Fund Balances	(774,234.00)	(720,220.00)	(265,134.05)	455,085.95
Fund Balances, Beginning	2,028,591.00	2,028,591.32	2,028,591.32	
Fund Balances, Ending	$ 1,254,357.00	$ 1,308,371.32	$ 1,763,457.27	$ 455,085.95

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 2,981,735.00	$ 2,893,083.70	$ 2,893,083.70	$	$ 204,607.00	$ 201,049.47	$ 201,049.47	$
2,981,735.00	2,893,083.70	2,893,083.70		204,607.00	201,049.47	201,049.47	
2,317,883.00	2,342,600.45	2,342,600.45		29,707.00	91,430.85	91,430.85	
88,258.00	75,914.19	75,914.19					
391.00							
169,509.00	188,194.31	188,194.31					
153,309.00	110,250.03	110,250.03		64,000.00	32,569.82	32,569.82	
	22,858.25	22,858.25		71,639.00	68,479.13	68,479.13	
68,121.00	80,709.41	80,709.41		3,462.00	5,473.44	5,473.44	
146,328.00	47.24	47.24					
37,936.00	37,295.86	37,295.86					
				35,799.00			
	35,213.96	35,213.96			3,096.23	3,096.23	
2,981,735.00	2,893,083.70	2,893,083.70		204,607.00	201,049.47	201,049.47	
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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) - (1) (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, 2009	$ 0	$ 4,360,952	$ 4,360,952	0%	$ 10,874,083	40.1%
October 1, 2010	0	8,000,621	8,000,621	0%	10,961,786	73.0%
October 1, 2012	0	8,339,851	8,339,851	0%	11,365,424	73.4%

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

HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

I. BUDGETARY BASIS OF ACCOUNTING

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	$ 284,650.28
National School Lunch Program	10.555 (2)(A)	300, 350	1,012,865.66
Total United States Department of Agriculture			1,297,515.94
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (3)	263	877,077.36
Special Education - Preschool Grants	84.173	267	28,224.00
Putnam County District School Board:			
Special Education - Grants to States	84.027 (3)	None	2,467.62
Total Special Education Cluster			907,768.98
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,109,762.00
Career and Technical Education - Basic Grants to States	84.048	161	78,704.00
Twenty-First Century Community Learning Centers	84.287	244	530,871.00
Rural Education	84.358	110	66,898.06
Improving Teacher Quality State Grants	84.367	224	201,547.28
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (4)	RL111, RD211, RG311	201,049.47
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (2)(B), (4)	None	31,322.54
Total United States Department of Education			3,127,923.33
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	59,506.27
Total Expenditures of Federal Awards			$ 4,484,945.54

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 - Includes $55,539.20 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act - Includes $29,181.33 of equipment received during the fiscal year.

(3) Special Education - Grants to States. Total CFDA No. 84.027 expenditures: $879,544.98.

(4) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: $232,372.01.

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 14, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, as described in our report on the 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 of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a

reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 14, 2014

AUDITOR GENERAL
STATE OF FLORIDA

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Holmes County District School Board's compliance with the types of compliance requirements described in the *OMB 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, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3 that we consider to be significant deficiencies.

Management's Response

Management's response to the findings identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 14, 2014

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
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:

CFDA Numbers:	Name of Federal Program or Cluster:
10.553 and 10.555	Child Nutrition Cluster
84.287	Twenty-First Century Community Learning Centers
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2012-13 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. For example, District personnel inadvertently did not identify and report salaries and benefits payable for certain employees who performed services in various Federal programs during June 2013, but were paid after fiscal year end. This resulted in understatements of liabilities, expenditures, due from other agencies, and revenues of approximately $129,000 each for the Special Revenue - Other Fund and $14,000 each for the Special Revenue – Federal Economic Stimulus Fund. Misreporting account balances and related transactions such as these may cause financial statement users to incorrectly assess the District's Federal activities.

We extended our audit procedures to determine the adjustments necessary to properly report these account balances and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

ADDITIONAL MATTERS

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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for identifying which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2012-141 and 2013-132.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: Facilities Management

The District's facilities department is responsible for managing outsourced construction, maintenance of schools and ancillary facilities, and ensuring facilities are safe and suitable for their intended use. During the 2012-13 fiscal year, the department employed 11 employees and the department's operating cost was $887,701. The District had no expenditures for capital projects fund construction and renovation projects during the 2012-13 fiscal year. According to the District's Five-Year Facilities Work Plan as approved by the Board on October 1, 2013, the District planned to spend $449,000 on maintenance over the next five fiscal years. In addition, although not included on the Five-Year Facilities Work Plan, the District has applied to the Florida Department of Education (FDOE) for Special Facilities Funding for a new Pre-K-8 school with a planned cost of $43 million to be spent in the next five fiscal years if approved. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land, was $56,204,804 and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average of age of 27 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facilities and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities department employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional bid-build methods and construction manager at risk methods. In addition, maintenance-related jobs, such as plumbing, electrical, and appliance repairs, are routinely performed by facilities department personnel based on safety and suitability priorities, although some jobs are outsourced to vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods and maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each construction project and significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The facilities department had not established goals that identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the facilities department could set goals such as completing construction projects or maintenance-related jobs that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because

a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goals could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities department is operating as cost-effectively and efficiently as possible.

Recommendation: The District should consider developing written policies and procedures requiring periodic evaluations of alternative construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing goals and objectives for the facilities department to identify cost-effectiveness or efficiency outcomes for department personnel.

Finding No. 4: Fund Balance Reporting

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. On the District's 2012-13 fiscal year annual financial report submitted to the FDOE and presented for audit, certain unrestricted resources totaling $210,805 were reported as assigned fund balance in the Capital Projects - Other fund. District records disclosed that these resources consisted of unrestricted transfers from the General Fund, Federal Emergency Management Agency reimbursements, and other unrestricted moneys placed in the Capital Projects - Other Fund from previous fiscal years, which the Board approved for future facilities and maintenance needs. However, 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 properly classified fund balances, financial statement users may misunderstand the Board's intent regarding fund balances reported in the capital projects funds.

Recommendation: The District should enhance its financial reporting procedures to ensure that fund balances are appropriately classified, and disclose in its records the specific intended uses of the unrestricted resources of $210,805 in the capital projects funds.

Finding No. 5: Special Facilities Construction Account Resolution

Pursuant to Section 1013.64(2), Florida Statutes, the Special Facility Construction Account provides construction funds to school districts that have urgent construction needs, lack current sufficient resources, and cannot reasonably anticipate sufficient resources within the next three years for these purposes from currently authorized sources of capital outlay revenue. To be eligible for such funding, Section 1013.64(2)(a)(11), Florida Statutes, requires that the District file a Board-adopted resolution with the FDOE acknowledging the District's three-year commitment of all unencumbered and future capital outlay revenues.

In July 2013, the Board adopted a resolution that was provided to the FDOE and requested funds from the Special Facilities Construction Account for the construction of the New Bonifay Pre-K-8 School with an estimated construction cost of $43 million. The resolution provides that the Board will not have sufficient funds available from all capital outlay sources within the next three years to fund the project and has pledged estimated future capital outlay funding of $2.8 million for the project over the next three years. The resolution also reported no available

unencumbered capital outlay funds as of June 30, 2013; however, the District's June 30, 2013, annual financial report disclosed $210,805 (as discussed in Additional Matters Finding No. 4) and $731,290, or a total of $942,095, of unencumbered funds in the Capital Projects - Other Fund and Capital Projects - Local Capital Improvement Fund, respectively. District personnel indicated that this was an oversight.

Without accurate information to identify the current status of the District's capital outlay funding sources, the State may not appropriately assess the District's capital outlay funding needs.

Recommendation: The District should enhance its procedures to ensure that funding resolutions for the Special Facilities Construction Account identify all required funding sources. In addition, the District should consult with the FDOE to determine whether the Board should adopt an amended resolution, requesting the special facility funding, and resubmit the request to FDOE.

Finding No. 6: Bus Drivers

State Board of Education Rule 6A-3.0141(4) and (9), Florida Administrative Code, require that the District at least annually ensure that personnel, prior to transporting students on school buses, hold valid commercial driver licenses with passenger and school bus endorsements and maintain a valid medical examiner's certificate.

The District employed 81 bus drivers during the 2012-13 fiscal year and monitoring procedures over school bus drivers were generally adequate as District personnel weekly reviewed bus driver history records to confirm that drivers were appropriately licensed. However, our comparison of District records and Florida Department of Highway Safety and Motor Vehicles (FDHSMV) records disclosed one employee (teacher/coach) that drove a school bus for extracurricular activities from September 20, 2012, through August 21, 2013, while the employee's license was suspended for not maintaining a valid medical examiner's certificate. While District personnel were aware that the bus driver lacked the certificate, they were unaware that the employee's license had been suspended. Subsequent to providing the required medical examiner's certificate and license reinstatement fee to the FDHSMV, the FDHSMV restored the employee's license.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that the District ensure that valid FDOE physical examination forms are maintained and timely submitted to ensure the drivers meet the requirements to operate school buses.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Agriculture and Consumer Services
Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles - Indirect Costs. United States Office of Management and Budget (OMB) Circular A-87 provides that costs must be necessary and reasonable for the proper and efficient performance and

administration of Federal awards to be allowable under the program. Also, OMB Circular A-87 provides principles for determining allowable costs, including indirect costs that may be allocated to a Federal program. Indirect costs are costs that are incurred for a common or joint purpose, are not readily assignable to the cost objectives specifically benefited without efforts disproportionate to the results achieved, and are calculated by multiplying allowed costs by an approved indirect cost rate.

The FDOE, in a memorandum issued to all school districts, limits the amount of funds recovered annually for food service indirect costs to the District's approved restricted Federal indirect cost rate, multiplied by the total Special Revenue - Food Service Fund expenditures less cash-in-lieu of donated foods and expenditures for materials and supplies, capital outlay, replacement of equipment, and United States Department of Agriculture donated foods.

District accounting records indicated that the District charged $74,000 to the Child Nutrition Cluster (CNC) programs for indirect costs during the 2012-13 fiscal year. However, using the 2012-13 fiscal year FDOE-approved indirect cost rate of 4.76 percent resulted in an overcharge and questioned costs of $42,313.67 to the CNC programs subject to disallowance by the grantor (Florida Department of Agriculture and Consumer Services).

In response to our inquiries, District personnel provided records that indicated the District had additional expenditures paid by the General Fund for the CNC programs, such as cafeteria electricity, water, and other utility costs, that were not initially charged to the programs. Since these additional expenditures are allowable direct costs of the CNC programs and were more than the initial questioned costs, the questioned costs were eliminated. Without adequate controls to ensure that District records evidence that expenditures of CNC programs are expended for authorized purposes, the risk is increased that the District will violate expenditure restrictions of the CNC programs.

Recommendation: The District should enhance procedures to ensure that expenditures of CNC programs are appropriately documented and recorded, and indirect costs are correctly calculated pursuant to guidance from the FDOE.

District Contact Person and Title: Larry Hawkins, Finance Officer

Federal Awards Finding No. 2:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Agriculture and Consumer Services
Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not applicable

Eligibility and Special Tests and Provisions - Verification. Title 7, Section 245.6, Code of Federal Regulations (CFR), provides application and other documentation requirements for a child to qualify for meals served free or at a reduced price under the School Breakfast and National School Lunch programs. Title 7, Section 245.6a, CFR, provides, in part, that the District must verify the household income of the lesser of 3,000 or 3 percent of the free and reduced price applications approved as of October 1. The sample must be selected from error-prone applications defined as applications that indicate monthly income within $100, or annual income within $1,200, of the applicable income eligibility limit for free or reduced price meals.

Also, Title 7, Section 245.6a(a)(7), CFR, provides, in part, that the sources of verification may include written evidence as the primary source of verification and includes written confirmation of a household's circumstances, such as wage stubs, award letters, and letters from employers. If written evidence is insufficient to confirm income information on

the application or current eligibility, the District may use collateral contacts or verbal confirmation by a person outside of the household.

Our review of Bonifay Elementary School (BES) and Poplar Springs School (PSS) verification procedures disclosed the following control deficiencies:

- The family income listed on five of the eight applications tested was not within the required income guidelines for error-prone applications. BES and PSS personnel selected 3 percent of all approved applications at their respective schools based on reported income and 0.5 percent of all applications on file that were approved based on a food stamp assistance case number, although the above regulations require the sample selection from only error-prone applications. The flaws in the verification process occurred because District personnel were unaware of the current laws and regulations relating to the verification procedures. Consequently, by following the District's approach, the sample selection was incorrect, potentially decreasing the chances of selecting applications containing errors.
- For one application, the District accepted a bank statement as written evidence of household income, although Federal regulations did not identify this as acceptable income evidence. In another application, the household did not respond to the request for verification and the District approved a new application without written evidence of household income, contrary to Federal regulations. Without acceptable evidence of income, and without using collateral contacts or verbal confirmation by a person outside of the household, the District has limited assurance of the student's eligibility for free or reduced price meals.
- For another application, due to District error, the eligibility meal status was not reduced, although the income documentation received during the verification process indicated the eligibility status of the three students in the household should have been changed from free to reduced price meals. As such, the students received meals for which they were not entitled.

Because the District receives Federal reimbursement for the cost of meals served to students, it is important that the meal status of each student be properly supported by records documenting the student's eligibility for free or reduced price meals in accordance with Federal regulations.

Recommendation: The District should enhance its procedures to perform meal application verifications in accordance with Federal requirements.

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

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants (CFDA No. 84.395 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Equipment Management. Federal regulations require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. In addition, OMB Circular A-133 requires that equipment records be maintained, a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records, an appropriate control system be used to safeguard equipment, and equipment be adequately maintained.

In July and August 2012, the District received $13,131 of equipment, funded by the Race-to-the-Top grants and donated from the Panhandle Area Education Consortium; however, as of December 2013, the District had not recorded the equipment in the District's tangible personal property records. Subsequent to our inquiries, in

December 2013, the District recorded the equipment in the tangible personal property records and we observed that the District used the property for grant purposes. Without timely update of tangible personal property records for Federally-donated property, there is an increased risk that the property may not be used for Federally-restricted purposes.

Recommendation: The District should enhance its procedures to ensure that Federally-donated tangible personal property is promptly recorded in the property records.

District Contact Person and Title: Larry Hawkins, Finance Officer

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2013-132, except that current Additional Matters Finding No. 2 was also noted as Additional Matters Finding Nos. 2 and 1 in our report Nos. 2012-141 and 2013-132, respectively.

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, 2013

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2011-147 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Allowable Costs/Cost Principles	Controls over the administration and use of Title I program resources were not sufficient, resulting in $100,388.79 of questioned costs.	No longer warrants further action.	
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.	No longer warrants further action.	
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.	No longer warrants further action.	
2012-141 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, and Earmarking - Maintenance of Effort	The District did not ensure compliance with Federal maintenance of effort requirements, resulting in questioned costs of $43,092.	Corrected.	Correspondence from FDOE on January 25, 2013, indicates that the finding is not sustained by the grantor.

EXHIBIT A
MANAGEMENT'S RESPONSE

Holmes County School Board
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SUPERINTENDENT
Eddie Dixon
BOARD MEMBERS
Rusty Williams, Chair
Jason Motley, Vice-Chair
Debbie Kolmetz
Shirley Owens
Sid Johnson

March 13, 2014

David Martin
G74 Claude Pepper Building
111 West Madison Avenue
Tallahassee, Florida 32399

Dear Mr. Martin:

The District School Board of Holmes County offers the following responses to Florida's Auditor General audit findings the fiscal year ended June 30, 2013.

- Finding No. 1: The district will extend its year end closing procedures to ensure adequate entries are recorded in its accounting records to correctly reflect the appropriate timing of expenditures in the proper fiscal year.

- Finding No. 2: School board negotiators are continuing negotiations with the Holmes County Teachers Association to finalize the district plan for district determined factors and the amounts for differentiated pay.

- Finding No. 3: A consortium of cooperating districts with which the district participates has planned a collaborative effort to prepare a document satisfying practices indicative of cost effectiveness and efficiency.

- Finding No. 4: The specific intended uses of the unrestricted resources will be identified, as applicable, in the future.

- Finding No. 5: We have consulted with the Department of Education in regards to this finding.

- Finding No. 6: The procedures necessary to ensure child safety by transportation employee adherence to laws and regulations will be improved.

- Federal Finding No.1: We will consult with the Florida Department of Agriculture and Consumer Services regarding expenditures charged to the Child Nutrition Cluster (CNC) program.

- Federal Finding No. 2: Additional procedures will be employed to comply with federal regulations in the CNC program.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. Martin
March 13, 2014
Page 2

- Federal Finding No. 3: There will be a greater attentiveness to the communication with state and local governmental entities to enhance procedures to ensure that Federally-donated tangible personal property is promptly recorded in the property records.

If you have questions or concerns, please advise.

Sincerely,

Eddie Dixon
Superintendent of Schools

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